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Post Hearing Information Pack of

Joy Spreader Interactive Technology. Ltd

乐享互动有限公司

(Incorporated in the Cayman Islands with limited liability)

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Joy Spreader Interactive Technology. Ltd 乐享互动有限公司

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under : [REDACTED] Shares (subject to the
the [REDACTED] [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to
adjustment)
Number of [REDACTED] : [REDACTED] Shares (subject to
adjustment and the [REDACTED])
Maximum [REDACTED] : HK\$[REDACTED] per [REDACTED],
plus brokerage of 1.0%, SFC
transaction levy of 0.0027% and
Stock Exchange trading fee of
0.005% (payable in full on
[REDACTED] in Hong Kong Dollars
and subject to refund)
Nominal Value : HK\$0.00001 per Share
[REDACTED] : [REDACTED]

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SUMMARY

OVERVIEW

We are a performance-based we-media (自媒體) marketing service provider in China with a market share of 1.5% in terms of total revenue in 2019, according to Frost & Sullivan, leveraging business intelligence technologies to serve marketers and we-media publishers. The market size of China’s performance-based we-media marketing market, as measured by total revenue, grew at a CAGR of 90.0% from RMB1.3 billion in 2014 to RMB31.8 billion in 2019, according to Frost & Sullivan. Market share of the second to fifth ranked market players in terms of total revenue in 2019 was 1.0%, 0.9%, 0.6% and 0.5%, respectively, according to the same source. We believe that being an industry leader in a fast-growing market with favorable industry trends positions us well for continued and rapid future growth.

We connect marketers and we-media publishers using proprietary technologies and platforms, providing services that address their respective needs. We provide performance-based marketing services to our marketers by analyzing and distributing their products on a high-quality and diverse we-media network, which helps marketers acquire users. For our online products other than online literature and Html 5 games (i.e. apps, online promotion activities and mini-programs), we provide recommended distribution strategies on different we-media platforms for marketers to choose. Our marketers, i.e. our customers, mainly consist of online product providers and merchants that promote their consumer goods through our performance-based marketing services. Our online product providers mainly include marketing agents, app developers, online literature providers, Html 5 game providers and mini-program developers. We cooperated with more than 145 marketers during the Track Record Period. As of March 31, 2020, we provided services to an app portfolio covering more than ten categories such as game, video and utility apps; online literature products we served included over 681 online books across 69 literary genres; and Html 5 game products we served included more than 157 Html 5 games from game genres covering RPG, strategy, action and adventure.

We also offer monetization services to we-media publishers to help match their user-follower network traffic with suitable products leveraging our algorithm-based product recommendation technologies. We do not generate revenue from our monetization services to we-media publishers. The monetization services we provided to we-media publishers contribute to our high-quality and diverse we-media network, which in turn bring us traffic resources for our performance-based marketing services to marketers. We benefit from data collected through our monetization services, which increase the accuracy and efficiency of our algorithms and may in turn bring us more customers and increased income. For online literature and Html 5 games, we present a list of recommended products to we-media publishers that register on our platforms, from which they can choose the product to be marketed at their own discretion. We differentiate our monetization services from those of our competitors by offering a cross-media and cross-platform online product portfolio that mainly consists of apps, online literature, Html 5 games and mini-programs. During the Track Record Period, a majority of the we-media publishers we served and empowered have accounts on some of the largest we-media platforms in China, such as WeChat Official Accounts (微信公眾號). Our we-media publisher base had a cumulative total of approximately 22,960 WeChat Official Accounts we served and approximately 229,610 user traffic entry points, or submenu on WeChat Official

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Account that can be used to drive user traffic to external websites, during the Track Record Period and have developed a we-media network that covers popular genres such as games, novels and humor and with highly active follower bases. On March 31, 2020, the last day of the Track Record Period, the number of WeChat Official Accounts we served was 3,806⁽¹⁾, through which we were able to reach more than 733.0 million followers. We strategically focus on serving small-to mid-sized we-media publishers to which substantially all of the performance-based we-media marketing expenditure in the market goes. It is common in the industry for small- to mid-sized we-media publishers to monetize their user traffic through agents of large we-media platforms, according to Frost & Sullivan.

Our success is built on our ability to optimize the performance of our services and satisfy the needs of marketers and we-media publishers. As an algorithm-based and technology-driven company, we are able to offer a tailored product portfolio to target audiences through we-media publishers. Our we-media publisher base had a cumulative total of approximately 22,960 WeChat Official Accounts we served and approximately 229,610 user traffic entry points during the Track Record Period. On March 31, 2020, the last day of the Track Record Period, the number of WeChat Official Accounts we served was 3,806, through which we were able to reach more than 733.0 million followers. We have accumulated substantial anonymized user behavioral data, including approximately 1.5 billion clicks we accumulated through our services during the Track Record Period, which has enabled us to build a significant and valid data collection, strong data analysis capabilities and powerful technology platforms empowered by our proprietary business intelligence technologies, which include data collection, data tagging, machine-based product analysis and distribution strategy and product recommendation. We believe that by leveraging the proprietary business intelligence technologies applied in our data collection, data analysis and technology platforms, we are able to effectively and efficiently recommend products based on internal performance test results. We further believe that these technologies enable us to accurately simulate the actual performance of marketing campaigns, and, in turn, ensure our profitability. Benefiting from these technologies, we have also been able to enhance our productivity and achieve an industry-leading profit per employee of RMB1.7 million in 2019, compared to the industry average of RMB0.7 million in the we-media marketing market, according to Frost & Sullivan.

We are a first mover in the short-form video we-media monetization market, which has demonstrated strong growth due to its effective monetization capabilities. As a result, it has been in high demand by we-media publishers in recent years and has been a high-growth segment in the overall we-media monetization services market. We have begun to lay our foundation in this segment. Our experience in text-based we-media gives us an advantage over competitors in developing algorithms and technology platforms for short-form video we-media publishers. Leveraging our rich experience in applying business intelligence technologies to text-based we-media monetization services, we are developing Beauty Connector (美接平台), a technology platform that aims to serve marketers and we-media publishers on short-form video platforms. In 2018, we launched a marketing campaign for a well-known 3C digital

(1) This number only represented the number of WeChat Official Accounts we served on that day.

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accessories brand on the largest short-form video platform in China, through which we are able to collect data and optimize our proprietary product recommendation algorithms for short-form video platforms. We also entered into a strategic cooperation agreement with Beijing Yingyi, which we believe will provide us with synergies in developing our own we-media publishers and priority access to premium short-form video production resources and monetization opportunities, as well as enable us to secure monetization opportunities through top-end qualifications held by Beijing Yingyi.

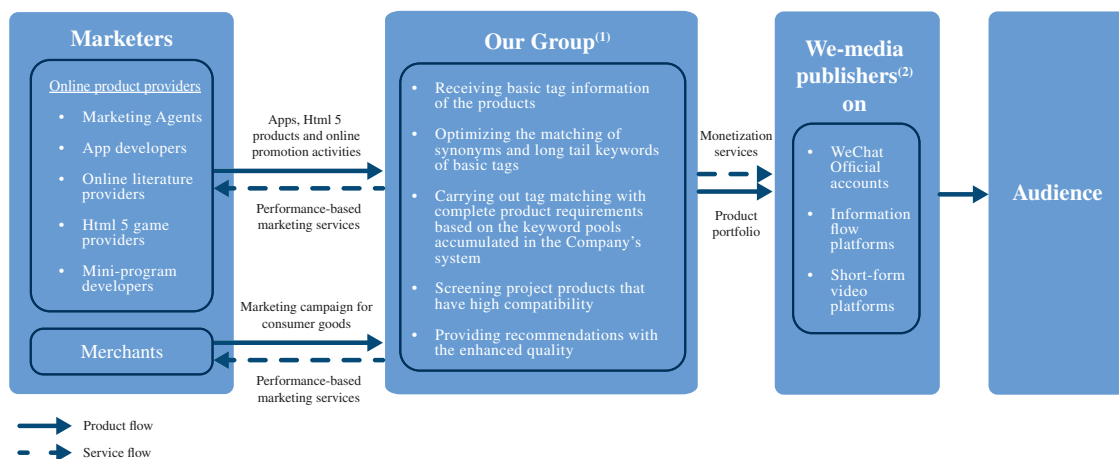
OUR BUSINESS

Our Business Model

We provide performance-based marketing services to marketers by analyzing and distributing their products on a high-quality and diverse network of we-media, which helps marketers acquire users. Through our performance-based marketing services, we provide our marketers with access to a substantial user-follower network traffic accumulated by we-media publishers.

At the same time, we provide one-stop monetization services and a cross-media and cross-platform product portfolio from our marketers to we-media publishers where they can effectively monetize their user traffic. We help match we-media publishers’ user-follower network traffic with suitable products leveraging our algorithm-based product recommendation technologies. We do not charge we-media publishers for our monetization services. The monetization services we provided to we-media publishers contribute to our high-quality and diverse we-media network, which in turn bring us traffic resources for our performance-based marketing services to marketers. We benefit from data collected through our monetization services, which increase the accuracy and efficiency of our algorithms and may in turn bring us more customers and increased income.

The following flowchart illustrates our product and service flows.



SUMMARY

- (1) For details of the business process of our services for each major type of products, see “— Our Services — Online Products.” For more details of our platforms and technologies, see “Business — Our Platforms and Technologies.”
- (2) We generally conduct settlement with we-media publishers through agents, with whom we enter into contracts. According to Frost & Sullivan, such arrangement is consistent with industry practice.

Marketers and We-media Publishers

Marketers we serve consist of online product providers and merchants that promote their consumer goods through our performance-based marketing services. Our online product providers mainly include:

- marketing agents of app developers and brands;
- app developers that launch mobile applications;
- online literature providers, primarily agents of online literature platforms that own a vast library of literary works available for distribution and monetization through paid online reading;
- Html 5 game providers, primarily game developers and game publishers that are licensed to publish, commercialize, market and promote Html 5 games; and
- mini-program developers that develop WeChat mini-programs.

During the Track Record Period, a majority of we-media publishers we served operate accounts on major we-media platforms in China, such as WeChat Official Accounts. We generally conduct settlement with we-media publishers through agents, with whom we enter into contracts. We cumulatively provided services to a total of approximately 22,960 WeChat Official Accounts during the Track Record Period. We-media publishers we serve range from general interest we-media to specific-interest we-media in genres such as games, novels and humor spaces, using media formats ranging from text to short-form videos.

Our Services

During the Track Record Period, our product portfolio primarily included online products and, to a lesser extent, consumer goods. Our online products primarily included apps, Html 5 products (i.e. online literature, games and mini-programs) and online promotion activities. In 2017, we also provided game co-publishing services to game providers, including game developers and game publishers. The following table sets forth a breakdown of our revenue generated from performance-based marketing services by product type for the period indicated.

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	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
<i>(RMB in thousands, except for percentages)</i>										
<i>(Unaudited)</i>										
<i>Online products</i>										
– Apps	69,232	51.2%	132,919	50.7%	329,809	69.6%	72,901	74.8%	134,865	80.6%
– Html 5 products ⁽¹⁾	49,706	36.7	79,774	30.4	36,237	7.7	5,197	5.3	19,336	11.6
– Online promotion activities	13,016	9.6	43,620	16.6	82,629	17.4	11,638	11.9	2,075	1.2
Total revenue from online products	131,954	97.6	256,313	97.7	448,675	94.7	89,736	92.0	156,276	93.4
Consumer goods	–	–	3,774	1.5	23,022	4.9	7,565	7.8	10,481	6.3
Others ⁽²⁾	3,303	2.4	2,168	0.8	1,868	0.4	211	0.2	517	0.3
Total	135,257	100.0%	262,255	100.0%	473,565	100.0%	97,512	100.0%	167,274	100.0%

(1) Html 5 products consist of online literature, games and mini-programs.

(2) Others mainly refer to non-performance-based marketing campaigns we provided to customers.

Our performance-based marketing revenue from game apps was RMB15.8 million, RMB18.3 million, RMB170.6 million and RMB105.4 million for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, respectively, accounting for 11.7%, 7.0%, 36.0% and 63.0% of our total revenue for the same periods, respectively. See “Business — Our Services — Online Products — Apps.” To solidify our leading position in the industry, satisfy the large unmet monetization needs of short-form video we-media publishers and capture monetization opportunities on large short-form video platforms, we plan to extend our portfolio of online products, such as apps, online literature and Html 5 games, from text-based we-media to we-media publishers on short-form video platforms. We also plan to further strengthen our online product offering. See “Business — Business Strategy.”

OUR PLATFORMS AND TECHNOLOGIES

Leveraging our first-mover advantages, we have developed a suite of platforms and technologies empowered by business intelligence applied to multiple inter-related functions, including data collection, data tagging and machine-based product analysis, and distribution strategy and product recommendation, that use our accumulated behavioral data to effectively and efficiently recommend products. We have developed an internal management platform and

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Html 5 product platforms for online products and are developing a technology platform, Beauty Connector, to serve marketers and we-media publishers on short-form video platforms. A summary of our technologies is set out below.

- *Data collection.* We have accumulated substantial anonymized user behavioral data through our services. During the Track Record Period, we accumulated approximately 1.5 billion clicks through our services. The data that we collect from marketers and we-media publishers include click-throughs, geographical locations and types of mobile device. We apply text mining technologies in our data collection, through which we are able to automatically transform unstructured text information published by marketers and we-media publishers into valid data that have been processed into data libraries and can be readily applied in internal performance tests to simulate actual performance.
- *Data tagging and machine-based product analysis.* We conduct extensive analyses and profiling of we-media publishers and products from marketers to build our data library. We categorize we-media publishers by applying tags and create different labels for products from marketers in order to run our algorithms and generate matches of products to we-media accounts.
- *Distribution strategy and product recommendation.* Our algorithm-based product recommendation engine optimizes distribution strategies and recommends suitable products to both marketers and we-media publishers to provide performance-based we-media marketing services with strong conversion rates compared to other we-media marketing services.

COMPETITIVE STRENGTHS AND BUSINESS STRATEGY

We believe that the following competitive strengths will enable us to continue to strengthen our market position and ensure our sustainable growth: (i) we are one of the leading performance-based we-media marketing service provider in China enjoying first-mover advantages and rapid growth; (ii) we have substantial data collection, strong data analysis capabilities and powerful technology platforms empowered by our proprietary business intelligence technologies; (iii) we have a high-quality, cross-media and cross-platform product portfolio; (iv) we possess a high-quality and diverse we-media network; (v) we are a first-mover in the fast growing short-form video monetization services market; and (vi) we have a visionary and experienced management team. See “Business — Competitive Strengths.”

Our business strategy includes: (i) capturing market share as a first-mover in short-form video we-media monetization services; (ii) continuing to enhance our business intelligence technologies and technology platforms; (iii) expanding our we-media resources; and (iv) strategically pursuing acquisition and investment opportunities. See “Business — Business Strategy.”

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OUR CUSTOMERS AND SUPPLIERS

Our customers are primarily marketers to whom we provide performance-based marketing services. Our marketers consist of online product providers and merchants that promote their consumer goods through our performance-based marketing services. Our online product providers mainly include marketing agents, app developers, online literature providers, Html 5 game providers and mini-program developers. Our suppliers mainly include agents of we-media platforms and we-media publishers. Agents of we-media platform and agents of we-media publisher both represent downstream we-media publishers. When we seek to reach we-media publishers through we-media platforms by implementation of our distribution strategy, we will cooperate with agents of we-media platforms. When we seek to distribute through a specific we-media publisher, we will cooperate with agents of we-media publisher. Substantially all of our costs were paid to agents of we-media platforms and we-media publishers, which is common in the industry according to Frost & Sullivan, as most we-media publishers engage agents of we-media platforms to handle their traffic resources. See “Business — Customers and Suppliers.” The following table sets forth a breakdown of our performance-based marketing revenue by types of we-media platform for the period indicated.

	For the year ended December 31,									For the three months ended March 31,		
	2017			2018			2019			2020		
	Number of suppliers	RMB'000	%	Number of suppliers	RMB'000	%	Number of suppliers	RMB'000	%	Number of Suppliers	RMB'000	%
WeChat	3	26,215	19.4	18	158,715	60.5	16	364,121	76.9	5	152,474	91.1
Other text-based information flow platforms ⁽¹⁾	9	77,691	57.4	19	90,311	34.4	12	82,826	17.5	1	4,130	2.5
Short-form video platform	-	-	-	1	8,491	3.2	2	26,618	5.6	1	10,670	6.4
Video platforms	-	-	-	6	4,675	1.9	-	-	-	-	-	-
Others ⁽²⁾	16	31,351	23.2	7	63	0.0	5	-	-	-	-	-
Total		<u>135,257</u>	<u>100.0</u>		<u>262,255</u>	<u>100.0</u>		<u>473,565</u>	<u>100.0</u>		<u>167,274</u>	<u>100.0</u>

(1) Such as an information flow platform operated by a well-known mobile phone producer in China and an information flow platform operated by a leading search engine company in China.

(2) Others refer to revenue from game co-publishing services in 2017 and revenue from internal performance tests.

During the Track Record Period, one of our top five customers, Customer B, and one of our top five suppliers, Supplier F, are within the same group. We provided performance-based marketing services for game apps to Customer B in 2019, and we procured user traffic of we-media publishers on large text-based we-media platforms in 2018 from Supplier F. Instead of simply procuring user traffic from Supplier F directly, Customer B sought our marketing service because we were able to provide value-adding performance-based marketing services by analyzing and distributing Customer B’s game apps on suitable we-media publishers with targeted audiences that were most likely to be interested in its game apps. For details, see “Business — Customers and Suppliers — Overlapping of Customers and Suppliers.” Our Directors confirmed that the terms of these transactions were conducted in the ordinary course of business under normal commercial terms and on an arm’s length basis.

SUMMARY

KEY PERFORMANCE DATA FOR ONLINE PRODUCTS

The following table sets forth key indicators of our performance-based marketing services for online products for the period indicated.

	For the year ended December 31,			For the three months ended March 31,
	2017	2018	2019	2020
<i>Apps</i>				
Number of clicks ⁽¹⁾				
(million)	200.7	255.9	502.5	105.9
– CPC	200.7	252.8	485.9	105.9
– CPA	–	0.4	16.1	–
– CPM	–	2.7	0.5	–
Average price per click (RMB)	0.17	0.47	0.55	1.24
Impressions (million)	N/A	11,829.4	24,657.2	5,022.8
Click-through rate	N/A	2.2%	2.0%	2.1%
<i>Html 5 products</i>				
Number of clicks ⁽¹⁾				
(million)	11.6	99.2	48.6	27.8
– CPC	11.6	99.2	48.6	27.8
– CPA	–	–	–	–
– CPM	–	–	–	–
Average price per click (RMB)	2.26	0.70	0.73	0.70
<i>Online promotion activities</i>				
Number of clicks ⁽¹⁾				
(million)	28.8	35.2	31.4	0.4
– CPC	28.8	34.8	31.3	0.4
– CPA	–	–	–	–
– CPM	–	0.3	0.09	–
Average price per click (RMB)	0.3	0.54	1.84	4.41
Impressions (million)	N/A	891.1	1,865.4	35.3
Click-through rate	N/A	3.9%	1.7%	1.2%

(1) See “Business — Our Services — Key Performance Data for Online Products.”

SUMMARY

SUMMARY OF KEY FINANCIAL INFORMATION

The summary historical data of financial information set forth below has been derived from, and should be read in conjunction with, our audited consolidated financial information, including the accompanying notes, set forth in “Appendix I — Accountants’ Report” to this document, as well as the information set forth in “Financial Information” of this document. Our financial information was prepared in accordance with IFRSs.

Summary Data from Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except for percentages)									
	(Unaudited)									
Revenue	135,257	100.0%	262,255	100.0%	473,565	100.0%	97,512	100.0%	167,274	100.0%
Cost of sales	(89,846)	(66.4)	(196,190)	(74.8)	(356,619)	(75.3)	(74,126)	(76.0)	(124,961)	(74.7)
Gross profit	45,411	33.6	66,065	25.2	116,946	24.7	23,386	24.0	42,313	25.3
Profit before taxation	33,575	24.8	45,940	17.5	70,194	14.8	11,050	11.3	21,847	13.1
Profit for the year	32,063	23.7%	45,451	17.3%	67,361	14.2%	10,684	11.0%	20,506	12.3%

Our gross profit margin was 33.6%, 25.2%, 24.7% and 25.3% for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, respectively. Our gross profit margin in 2018 decreased compared to 2017, primarily due to a decreased gross profit margin from online products, as a result of (i) a decrease in the percentage of revenue from Html 5 products, which had a relatively higher gross profit margin compared to other online products; and (ii) an increase in the percentage of revenue from online promotion activities, which had a decreased profit margin as a customer that provided marketing campaigns with high profit margin no longer sought our services due to a change in its business focus in 2018. Our gross profit margin remain relatively stable in 2018, 2019 and the three months ended March 31, 2020.

We had net impairment losses recognized in respect of trade and other receivables and deposits of RMB0.5 million, RMB5.2 million and RMB11.4 million for the years ended December 31, 2018 and 2019 and the three months ended March 31, 2020, respectively. For the year ended December 31, 2017, we had net impairment losses reversed in respect of trade and other receivables and deposits of RMB0.2 million. We had net impairment losses recognized on trade and other receivables of RMB11.4 million for the three months ended March 31, 2020, which primarily resulted from our further allowance for credit loss of trade receivables from Customer Group F of RMB10.3 million.

For details, see “Financial Information — Period-to-Period Comparison of results of operations.”

SUMMARY

Summary Data from Consolidated Statements of Financial Position

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	(RMB in thousands)			
Non-current assets	12,871	27,025	40,208	42,034
Current assets	125,514	217,150	417,807	455,742
Current liabilities	35,461	26,224	47,761	67,404
Non-current liabilities	–	5,373	7,624	7,236
Net current assets	90,053	190,926	370,046	388,338
Net assets	102,924	212,578	402,630	423,136

Summary Data from Consolidated Cash Flow Statements

	For the years ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019	2020
	(RMB in thousands)				
	(Unaudited)				
Operating cash flows before movements in working capital	36,035	50,904	78,927	12,062	35,166
Increase in trade and other receivables and deposits	(12,489)	(12,930)	(39,143)	(12,386)	(74,290)
Increase in prepayments	(25,752)	(25,209)	(123,391)	(68,267)	(31,226)
Increase/(decrease) in trade and other payables	9,052	594	20,600	(2,297)	20,180
Increase/(decrease) in contract liabilities	–	141	(356)	1,789	–
Cash from/(used in) operations	6,864	13,500	(63,363)	(69,099)	(50,170)
Income tax paid	(1,964)	(1,543)	(981)	(26)	–
Income tax refunded	–	118	–	–	–
Net cash generated from/(used in) operating activities	4,900	12,075	(64,344)	(69,125)	(50,170)
Net cash (used in)/from investing activities	(8,609)	(31,150)	(17,387)	20,810	24,853
Net cash generated from/(used) financing activities	57,874	53,224	114,824	(2,405)	(2,607)
Net increase/(decrease) in cash and cash equivalents	54,165	34,149	33,093	(50,720)	(27,924)
Cash and cash equivalents at the beginning of the year/period	10,082	64,247	98,396	98,396	131,489
Effect of foreign exchange rate changes	–	–	–	–	(12)
Cash and cash equivalents at the end of the year/period, represented by bank balances and cash	64,247	98,396	131,489	47,676	103,553

SUMMARY

For the three months ended March 31, 2020, we recorded net cash used in operating activities of RMB50.2 million, which was primarily attributable to our profit before taxation of RMB21.8 million, as adjusted for non-cash and non-operating items, which primarily included (i) net impairment loss of RMB11.4 million; and (ii) depreciation of right-of-use assets in relation to our leased offices of RMB1.1 million. The amount was further adjusted by negative changes in working capital. Changes in working capital primarily include (i) an increase in trade and other receivables and deposits of RMB74.3 million, reflecting our business expansion; and (ii) an increase in prepayments of RMB31.2 million, primarily reflecting prepayments we paid to large suppliers to secure a favorable price for we-media traffic.

For the three months ended March 31, 2019, we recorded net cash used in operating activities of RMB69.1 million, which was primarily attributable to our profit before taxation of RMB11.1 million and further negative changes in working capital, which primarily include (i) an increase in prepayments of RMB68.3 million, primarily reflecting prepayments we paid to large suppliers to secure a favorable price for we-media traffic; and (ii) an increase in trade and other receivables and deposits of RMB12.4 million, reflecting our business expansion.

For the year ended December 31, 2019, we recorded net cash used in operating activities of RMB64.3 million, which was attributable to our profit before taxation of RMB70.2 million, as adjusted for non-cash and non-operating items, which included (i) net impairment loss of RMB5.2 million; and (ii) depreciation of right-of-use assets in relation to our leased offices of RMB2.7 million. The amount was further adjusted by negative changes in working capital and PRC EIT paid of RMB1.0 million. Changes in working capital primarily include (i) an increase in prepayments of RMB123.4 million, primarily reflecting prepayments we paid to large suppliers to secure a favorable price for we-media traffic; and (ii) an increase in trade and other receivables and deposits of RMB39.1 million, reflecting our business expansion. To achieve sufficient working capital, we intend to improve our cash flow position by (i) controlling our cost by developing self-owned we-media publishers, see “Business — Business Strategy — Capture market share as a first-mover in short-form video we-media monetization services,” (ii) closely monitoring the collection of our trade receivables, and (iii) controlling the proportion of prepayment to total traffic purchases and better utilizing our prepayments paid to large suppliers.

One of the primary reasons that resulted in our negative operating cash flow for the year ended December 31, 2019 and the three months ended March 31, 2019 and 2020 was the increased amount of prepayments paid to suppliers. During the Track Record Period, we paid large amount of prepayments to agents of large we-media platforms in order to (i) secure a favorable time slots at favorable price for we-media traffic to be used for a future period; and (ii) obtain a relatively favorable unit price for we-media traffic from large we-media platform through volume sales. A majority of our prepayments for purchase of traffic we paid went to Supplier B and Supplier Group A during the Track Record Period. We have adopted certain policies and internal control measures to manage and monitor the payment and utilization of our prepayments. For details, see “Financial Information — Discussion of Certain Key Consolidated Balance Sheets Items — Prepayments.” Supplier B and Supplier Group A were

SUMMARY

Independent Third Parties during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period, we provided short-term loans to the holding company of Supplier Group A from time to time, in order to maintain good business relationships with Supplier Group A. For details of our relationship with Supplier B prior to the Track Record Period, see “Business — Customers and Suppliers — Suppliers.” For details of our loans to holding company of Supplier Group A, see “Business — Customers and Suppliers — Loans to Customers and Suppliers and Prepayments to Suppliers.” We are subject to certain risks related to our large prepayments for purchase of traffic. We may be subject to price pressure and may incur more traffic acquisition costs than we expected, if our suppliers change the price or material terms of our traffic purchase arrangement. For detail discussion on relevant risks, see “Risk Factors — Risks relating to our Business and Industry — Our large prepayments to major suppliers may involve significant uncertainty.”

Key Financial Ratios

	As of/for the year ended December 31,			As of/for the period ended March 31,
	2017	2018	2019	2020
Return on equity ⁽¹⁾	51.1%	28.8%	21.9%	19.9%
Return on assets ⁽²⁾	36.2%	23.8%	19.2%	17.2%
Current ratio ⁽³⁾	3.5	8.3	8.7	6.8

- (1) Calculated as profit for the year/period divided by average balance of total equity at the beginning and the end of that year/period, then multiplied by 100%. Return on equity for the three months ended March 31, 2020 is annualized by dividing profit for this period by 90 and multiplied by 360, then divided by average equity.
- (2) Calculated as profit for the year/period divided by average balance of total assets at the beginning and the end of that year/period, then multiplied by 100%. Return on assets for the three months ended March 31, 2020 is annualized by dividing profit for this period by 90 and multiplied by 360, then divided by average assets.
- (3) Calculated as current assets divided by current liabilities as of the same date.

Our return on equity decreased from 51.1% for the year ended December 31, 2017 to 28.8% for the year ended December 31, 2018 primarily because our equity increased at a higher rate than our profit for the year, which was primarily due to the investment that we obtained from certain Pre-[REDACTED] Investors in 2018. Our return on equity decreased from 28.8% for the year ended December 31, 2018 to 21.9% for the year ended December 31, 2019, and further to 19.9% for the three months ended March 31, 2020, primarily because our equity increased at a higher rate than our profit for the period, which was primarily due to the investment that we obtained from certain Pre-[REDACTED] Investors in 2019.

SUMMARY

Our return on assets decreased from 36.2% for the year ended December 31, 2017 to 23.8% for the year ended December 31, 2018 primarily because our total assets increased at a higher rate than our profit for the year. The increase in our total assets was primarily due to the investment that we obtained from certain Pre-[REDACTED] Investors in 2018. Our return on assets decreased from 23.8% for the year ended December 31, 2018 to 19.2% for the year ended December 31, 2019, and further to 17.2% for the three months ended March 31, 2020, primarily because our total assets increased at a higher rate than our profit for the period.

Our current ratio increased from 3.5 as of December 31, 2017 to 8.3 as of December 31, 2018, because our current assets increased while our current liabilities decreased. The decrease in our current liabilities was mainly due to a decrease in our bank borrowings of RMB9.8 million as we fully settled such borrowings in 2018. Our current ratio increased slightly from 8.3 as of December 31, 2018 to 8.7 as of December 31, 2019, primarily because of an increase in current assets from proceeds from certain Pre-[REDACTED] Investors. Our current ratio decreased from 8.7 as of December 31, 2019 to 6.8 as of March 31, 2020, primarily because our current liabilities increased at a higher rate than our current assets. The increase in our current liabilities was mainly due to an increase in our trade and other payables.

LISTING ON AND DE-LISTING FROM THE NEEQ

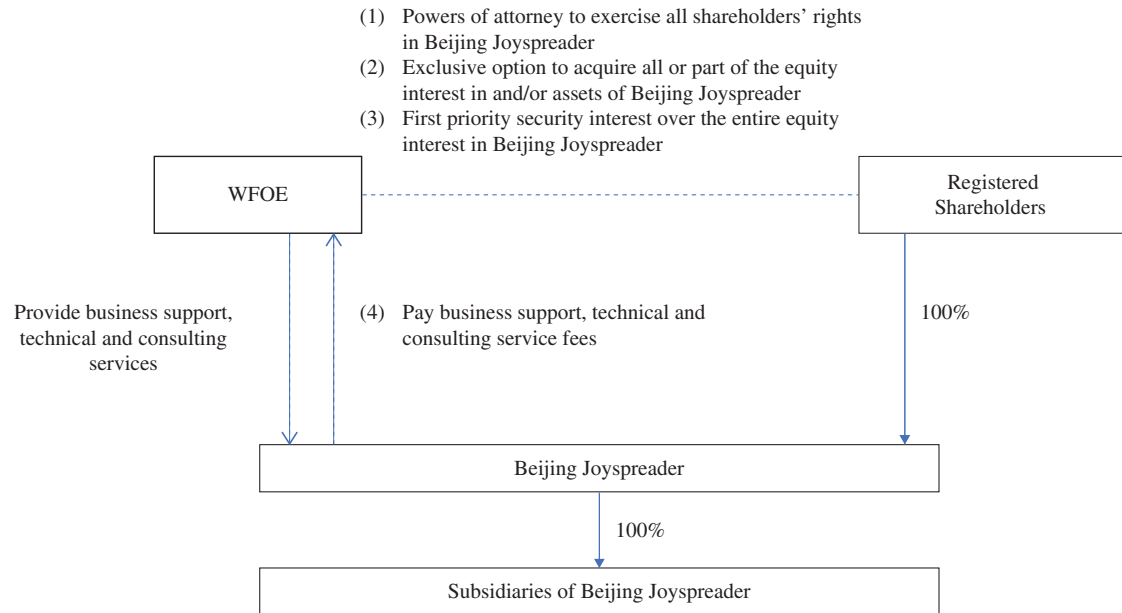
In order to support our business growth as well as to obtain alternative financing, Beijing Joyspreader listed its shares on the NEEQ in October 2016. The proceeds from the NEEQ Subscription (as defined in “History, Reorganization and Corporate Structure”) was primarily used for general working capital of our Group. In November 2018, in anticipation for the [REDACTED], Beijing Joyspreader delisted its shares from the NEEQ. Please see the section headed “History, Reorganization and Corporate Structure — Our Group — Our Principal Subsidiaries and Consolidated Affiliated Entities — Beijing Joyspreader — De-listing from the NEEQ” for details.

Our Controlling Shareholders, Pre-[REDACTED] Investments and Corporate Structure

Pursuant to the Concert Party Agreement, Mr. Zhu and Mr. Zhang have agreed to act in concert by aligning their votes at shareholders’ meetings of the Company and Beijing Joyspreader. As of the Latest Practicable Date, Mr. Zhu (through ZZN. Ltd.) and Mr. Zhang (through ZZD. Ltd.) held 45.81% and 4.09% of the total issued share capital of our Company, respectively, and Laurence mate. Ltd. (owned as to 90% by Mr. Zhu and 10% by Mr. Zhang) held 6.81% of the total issued share capital of our Company. Immediately following the completion of the Share Subdivision and the [REDACTED] (assuming that the [REDACTED] is not exercised), Mr. Zhu and Mr. Zhang will be deemed to be jointly interested in approximately [REDACTED] of the total issued share capital of our Company. Mr. Zhu, Mr. Zhang, ZZN. Ltd., ZZD. Ltd. and Laurence mate. Ltd. will continue to be our Controlling Shareholders upon the [REDACTED]. During the period from January 2016 to May 2019, Beijing Joyspreader underwent certain rounds of financing activities. For more information on the Pre-[REDACTED] Investments, see “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments” in this document.

SUMMARY

Our Company is incorporated in the Cayman Islands and we control our Consolidated Affiliated Entities through a series of contractual arrangements entered into by, among others, WFOE, Beijing Joyspreader and the Registered Shareholders. The following diagram sets forth the structure of our current contractual arrangements:



“” denotes direct legal and beneficial ownership in the equity interest and
 “” denotes contractual relationship.

Note: Please refer to the “Contractual Arrangements” in this document for details.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Starting in January 2020, in response to the COVID-19 outbreak in China, the PRC government has introduced a series of measures, such as extending the Chinese New Year holiday and encouraging residents to work from home, in efforts to contain the outbreak. Business activities in China have also been temporarily disrupted. The impact of the COVID-19 outbreak on our business has been relatively minimal, considering that (i) based on our unaudited management accounts for the six months ended June 30, 2020, compared to the six months ended June 30, 2019, our revenue and gross profit both increased by over 50%. Such increases were primarily due to the over 50% increases in our revenue and gross profit from online products, respectively, as a result of the increased time spent online by Internet users as a result of the quarantine, (ii) services we provide are online services and most of the products we offered through our services are online products, (iii) we prearranged and completed most of our business processes that require offline communication before the Chinese New Year holiday, (iv) our employees are able to work remotely to complete most business processes, and (v) we believe the demand for our services from we-media publishers and marketers have not been materially and adversely affected by COVID-19 outbreak. We cannot guarantee that the COVID-19 outbreak will not worsen or have a material and adverse

SUMMARY

effect on our business operations and financial results. See “Risk Factors — Risks Relating to Our Operations — We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations.”

Compared to industries such as retail, tourism and manufacturing that are heavily relied on offline operations and activities, Internet industry is expected to be less affected by the COVID-19 pandemic and the quarantine policies, according to Frost & Sullivan. To some extent, due to the COVID-19 pandemic and the quarantine policies, people tends to spend more time on the Internet activities such as online reading, gaming and shopping, from which benefits relevant Internet business segments. Given that our major suppliers mainly provide us with traffic resources, which are online services, we have not encountered and are not expected to encounter supply chain disruption from our major suppliers during the COVID-19 outbreak.

Our revenue from performance-based marketing services for apps and Html 5 products, which generally accounting for more than 70% of our total revenue during the Track Record Period, experienced a significant increase during the three months ended March 31, 2020 compared to the three months ended March 31, 2019. However, our revenue from performance-based marketing services for online promotion activities experienced a significant decrease during the three months ended March 31, 2020 compared to the three months ended March 31, 2019. The COVID-19 outbreak has caused, and may continue to cause, decreases or delays in marketing spending and budgets of our customers operating in tradition industries. Despite of the adverse impact of COVID-19 outbreak on our performance-based marketing services for online promotion activities, we have been able to manage the adverse impact of COVID-19 outbreak on our business leveraging the cross-media and cross-platform product portfolio we offer to we-media publishers. According to our unaudited management accounts for the six months ended June 30, 2020, our revenue and gross profit increased compared to the six months ended June 30, 2019. As of the Latest Practicable Date, we are not aware of any material adverse impact on our business and financial condition as a result of the COVID-19 outbreak and we believe that the likelihood we use the [REDACTED] proceeds for purposes other than our intended use of [REDACTED] stated in the “Future Plans and Use of [REDACTED]” is low.

If the COVID-19 outbreak continues to the second half of 2020, global economic conditions may deteriorate and may continue to cause decreases or delays in the marketing spending and budgets of our customers. In the worst case scenario, assuming that (i) there will be no demand for we-media marketing services, we-media platforms will cease operation, as a result, our business will be suspended starting from September 2020 with no revenue or cost of sales and no government grants received thereafter; (ii) we will maintain existing employments and maintain minimal operating with constrained operating expenses (such as administrative expenses, research and development expenses and distribution and selling expenses); (iii) we settle our trade and other payables and receive our trade receivables based on the historical turnover days; (iv) we will fail to redeem our unconsumed prepayments for purchases of traffic from our suppliers thus fully impaired all of our prepayments for purchases of traffic by the end of 2020; (v) we will postpone implementing any of our business strategies as stated in this document; (vi) we will be able to use approximately 10% of our total estimated net [REDACTED] from the [REDACTED] for working capital and general corporate

SUMMARY

purpose; and (vii) we do not have any bank facilities or financing activities or obtain any external financial assistance, taking into account our existing bank balances and cash, we would have sufficient working capital to remain financially viable for at least 12 months from September 2020.

As of the Latest Practicable Date, none of the RMB14.4 million trade receivables as of December 31, 2019 was settled by Customer Group F as certain customers of Customer Group F extended their payables due to Customer Group F. We are closely communicating with Customer Group F regarding the recovery of its trade receivables. We issued a formal attorney letter to Customer Group F on May 22, 2020 and have not received feedbacks from Customer Group F since then. We are also preparing for further legal actions including bring an action in a PRC court against Customer Group F. We made allowance of RMB4.1 million for credit loss of trade receivables from Customer Group F for the year ended December 31, 2019 and made further allowance of RMB10.3 million for the three months ended March 31, 2020. We have ceased our cooperation with Customer Group F since the beginning of 2020.

Our Directors confirm that there has been no material and adverse change in our financial, operational or trading positions or prospects since March 31, 2020, being the date of our audited consolidated financial information as set out in “Appendix I — Accountants’ Report” to this document, and up to the date of this document.

[REDACTED] STATISTICS

The statistics in the following table are based on the assumptions that the Share Subdivision and the [REDACTED] are completed and [REDACTED] Shares are in issue upon the completion of the Share Subdivision and the [REDACTED] and the [REDACTED] is not exercised.

	Based on an [REDACTED] of HK\$[REDACTED] per share	Based on an [REDACTED] of HK\$[REDACTED] per share
Market capitalization of our Shares ⁽¹⁾	HK\$[REDACTED] million	HK\$[REDACTED] million
Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share ⁽²⁾	HK\$[REDACTED]	HK\$[REDACTED]

(1) The calculation of market capitalization is based on [REDACTED] Shares expected to be in issue immediately upon completion of the Share Subdivision and the [REDACTED], assuming the [REDACTED] is not exercised.

(2) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated taking into account the Share Subdivision and after making adjustments referred to in “Appendix II — Unaudited Pro Forma Financial Information.”

SUMMARY

USE OF [REDACTED]

We estimate that we will receive net [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] million, after deducting [REDACTED] and estimated fees and expenses payable by us in the [REDACTED], and assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] stated in this document. We intend to apply these net [REDACTED] for the following purposes: (i) approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to develop our short-form video we-media monetization business; (ii) approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to continue to strengthen our capabilities in providing performance-based we-media marketing services; (iii) approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to expand our international presence; and (iv) approximately [REDACTED]%, or HK\$[REDACTED] million, will be used for our working capital and general corporate purposes. See “Future Plans and use of [REDACTED].”

[REDACTED] EXPENSES

Total [REDACTED] expenses borne or to be borne by us are estimated to be approximately RMB[REDACTED] million (including [REDACTED]), accounting for approximately [REDACTED]% of the gross [REDACTED] of the [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per Share, which is the mid-point of the indicative [REDACTED] stated in this document and assuming that the [REDACTED] is not exercised. During the Track Record Period, approximately RMB[REDACTED] million has been charged to our consolidated statement of profit or loss and other comprehensive income as [REDACTED] expenses. After March 31, 2020, we expect that approximately RMB[REDACTED] million will be charged to our statements of profit or loss and other comprehensive income as [REDACTED] expenses, and approximately RMB[REDACTED] million will be accounted for as a deduction from equity upon the [REDACTED]. The [REDACTED] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such [REDACTED] expenses to have a material adverse impact on our results of operation for the year ending December 31, 2020.

DIVIDENDS

No dividends have been paid by the Company or Beijing Joyspreader during the Track Record Period. Our ability to declare future dividends will depend on the availability of dividends, if any, received from our operating subsidiaries. Under applicable laws and the constitutional documents of our operating subsidiaries, the payment of dividends may be subject to certain limitations. Our Board may declare dividends in the future after taking into account our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law. Currently, we do not have any dividend policy or intention to declare or pay any dividends in the near future.

SUMMARY

RISK FACTORS

There are certain risks relating to our business and industry, relating to our contractual arrangements, relating to doing business in China and in connection with the [REDACTED], many of which are beyond our control. We believe the most significant risks we face include but not limit to the following: (i) we may fail to retain existing marketers and we-media publishers or attract new marketers and we-media publishers; (ii) we may be unable to innovate, adapt and respond timely and effectively to rapidly-changing technologies and new market trends in the performance-based we-media marketing services market; (iii) the performance-based we-media marketing services industry may fail to continue to develop, or develops or grows at a slower pace than expected; (iv) our algorithms for assessing and predicting potential target audience may be or become flawed or ineffective, and our performance-based marketing may fail to deliver satisfactory results; (v) we may face limitations on our data collection, or challenges to our right to collect and use such data, which could significantly diminish the value of our services and cause us to lose marketers and we-media publishers; and (vi) the data that we collect from marketers and we-media publishers may be inaccurate or fraudulent. In addition, during the Track Record Period, certain of our Consolidated Affiliated Entities enjoyed preferential tax rates. However, upon the [REDACTED], net profits from our Consolidated Affiliated Entities are expected to be transferred to the WFOE in the form of service fees, which would subject to a 25% income tax rate according to the EIT Law. See “Risk Factors — Risks Relating To Our Business And Industry — Any termination of, or changes to, the preferential tax treatment that we enjoy could adversely affect our profitability.” See “Risk Factors” of this document for details of our risk factors, which you should read carefully and in full before you decide to invest in the [REDACTED].

DEFINITIONS

In this document, unless the context otherwise requires, the following terms and expressions have the meanings set forth below.

“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

[REDACTED]

“Articles” or “Articles of Association” the articles of association of our Company (as amended from time to time), approved by the written resolutions of the Shareholder(s) on August 26, 2020 and effective from the [REDACTED], a summary of which is set out in Appendix III in this document

“associate(s)” has the meaning ascribed thereto under the Listing Rules

“Balance Capital Group Ltd” Balance Capital Group Ltd., a limited liability company incorporated in the BVI on May 29, 2019 and wholly owned by Nanjing Pingheng Capital as of the Latest Practicable Date

“Beijing Daoyoudao” Daoyoudao Technology Group Co., Ltd. (道有道科技集团股份有限公司, formerly known as 道有道(北京)科技股份有限公司), a company listed on the NEEQ with stock code 832896, established under the laws of the PRC on June 12, 2007

“Beijing Joyspreader” Beijing Joy Spreader Interactive Network Technology Co., Ltd (北京樂享互動網絡科技股份有限公司), a company established under the laws of the PRC with limited liability on October 9, 2008, and by virtue of the Contractual Arrangements, accounted for as our subsidiary

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“Beijing Wuyou”	Beijing Wuyou Technology Co., Ltd (伍遊(北京)科技有限公司), a company established under the laws of the PRC with limited liability on July 30, 2014, a wholly-owned subsidiary of Beijing Joyspreader and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“Beijing Yingyi”	Beijing Yingyi Vision Technology Co., Ltd (北京影漪視界科技有限公司), a company established under the laws of the PRC with limited liability on December 21, 2018
“Beijing Zinan and Friends”	Beijing Zinan and his Friends Cultural Centre (Limited Partnership) (北京子南和他的小伙伴们文化中心(有限合伙)), a limited partnership set up under the laws of the PRC on July 6, 2016 which is directly owned as to 90% by Mr. Zhu and 10% by Mr. Zhang
“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
“Catalog”	Guidance Catalog of Industries for Foreign Investment (《外商投資產業指導目錄》), which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC
“Cayman Registrar”	the Registrar of Companies of the Cayman Islands

[REDACTED]

DEFINITIONS

[REDACTED]

“Circular 13”	the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《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》)
“Circular 19”	Notice 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》)
“Circular 37”	SAFE Circular on Relevant Issues Relating to Domestic Resident’s 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)
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the 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
“Companies Law” or “Cayman Companies Law”	Companies Law (2018 Revision), Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “we” or “us” or “the Company”	Joy Spreader Interactive Technology. Ltd (乐享互动有限公司), a company incorporated in the Cayman Islands on February 19, 2019 as an exempted company with limited liability
“Concert Party Agreement”	the acting-in-concert agreement entered into between Mr. Zhu and Mr. Zhang on April 1, 2016 and renewed on December 11, 2019

DEFINITIONS

“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 Beijing Joyspreader and its subsidiaries
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, WFOE, Beijing Joyspreader and the Registered Shareholders, details of which are described in the section headed “Contractual Arrangements” in this document
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to Mr. Zhu, Mr. Zhang, ZZN. Ltd., ZZD. Ltd. and Laurence mate. Ltd.
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)” or “our Director(s)”	the director(s) of our Company
“EIT”	enterprise income tax
“EIT Law”	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), as enacted by the NPC on March 16, 2007 and effective on January 1, 2008, as amended, supplemented or otherwise modified from time to time
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“F&S Report”	the market research report prepared by Frost & Sullivan and commissioned by us
“Foreign Investment Law”	the PRC Foreign Investment Law (《中華人民共和國外商投資法》), adopted by the NPC on March 15, 2019, and took effect on January 1, 2020
“Frost & Sullivan”	Frost & Sullivan, our industry expert
“GDP”	gross domestic product

DEFINITIONS

[REDACTED]

“Group”, “our Group”, “we”, “us”, or “our”	our Company, its subsidiaries and the Consolidated Affiliated Entities at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the subsidiaries of our Company or the businesses operated by its present subsidiaries (as the case may be)
“HK\$” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

[REDACTED]

DEFINITIONS

[REDACTED]

“Hongcheng Xinglong”	Beijing Hongcheng Xinglong Commerce & Trading Co., Ltd. (北京宏成興隆商貿有限公司), a company established under the laws of the PRC with limited liability on March 1, 2004 and is wholly owned by WFOE
“Horgos Joyspreader”	Horgos Joyspreader Interactive Technology Co., Ltd. (霍爾果斯樂享互動網絡科技有限公司), a company established under the laws of the PRC with limited liability on March 24, 2020 and is wholly owned by WFOE
“Horgos Wuyou”	Horgos Wuyou Internet Technology Co., Ltd (霍爾果斯伍遊網絡科技有限公司), a company established under the laws of the PRC with limited liability on March 20, 2017, a wholly-owned subsidiary of Beijing Joyspreader and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“Horgos Yaoxi”	Horgos Yaoxi Internet Technology Co., Ltd (霍爾果斯耀西網絡科技有限公司), a company established under the laws of the PRC with limited liability on March 19, 2017, a wholly-owned subsidiary of Beijing Joyspreader and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“IFRSs”	International Financial Reporting Standards

DEFINITIONS

“Independent Third Party(ies)” an individual(s) or a company(ies) which is or are not connected with (within the meaning under the Listing Rules), any directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associate(s)

[REDACTED]

“Jiaxing Baozheng” Jiaxing Baozheng Investment Partnership Enterprise (Limited Partnership) (嘉興寶正投資合夥企業(有限合夥)), a limited partnership set up under the laws of the PRC on May 9, 2017

“Jiaxing Guangda” Jiaxing Guangdameiyinyihao Investment Partnership Enterprise (Limited Partnership) 嘉興光大美銀壹號投資合夥企業(有限合夥), a limited liability partnership set up under the laws of the PRC on August 28, 2015

DEFINITIONS

[REDACTED]

“Joint Sponsors”	China Securities (International) Corporate Finance Company Limited, China Merchants Securities (HK) Co., Limited, BOCOM International (Asia) Limited
“Joyspreader Group HK”	Joy Spreader Interactive Group (HK) Limited (香港樂享互動集團有限公司), a company incorporated under the laws of Hong Kong with limited liability on October 25, 2019 and a wholly-owned subsidiary of Joyspreader HK as of the Latest Practicable Date

DEFINITIONS

“Joyspreader HK”	Joy Spreader Interactive Technology (HK) Limited (樂享互動網絡科技(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability on March 28, 2019 and a directly wholly-owned subsidiary of our Company
“Latest Practicable Date”	September 4, 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication
	[REDACTED]
“Listing Committee”	the Listing Committee of the Stock Exchange
	[REDACTED]
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“LPR”	loan prime rate of the PRC, the benchmark lending rate a commercial bank charged its prime customers; lending interest rate of a loan can be set by adding or subtracting basis points based on LPR
“M&A Rules”	the Rules on the 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》), jointly issued by the State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會), MOFCOM, SAT, SAIC, CSRC and SAFE on August 8, 2006 and re-issued by MOFCOM on June 22, 2009
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the GEM of the Stock Exchange

DEFINITIONS

“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company (as amended from time to time), approved by the written resolutions of the Shareholder(s) on August 26, 2020 and effective from the [REDACTED], a summary of which is set out in Appendix III in this document
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOCT”	the Ministry of Culture of the PRC or the Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅遊部) after the 2018 State Council Institutional Reform
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of PRC (中華人民共和國商務部)
“MPS”	the Ministry of Public Security of PRC (中華人民共和國公安部)
“Mr. Zhang”	Mr. Zhang Zhidi (張之的), our executive Director, chief operating officer and one of our Controlling Shareholders
“Mr. Zhu”	Mr. Zhu Zinan (朱子南), our chairman, executive Director, chief executive officer and one of our Controlling Shareholders
“Nanjing Pingheng Capital”	Nanjing Balance Capital Management Centre (General Partnership) (南京平衡資本管理中心(普通合夥)), a general partnership set up under the laws of the PRC on March 6, 2013
“Nantong Pinghengchuangye”	Nantong Pinghengchuangye Venture Capital Investment Centre (Limited Partnership) (南通平衡創業投資基金中心(有限合夥)), a limited partnership set up under the laws of the PRC on June 11, 2015
“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)
“NEEQ”	National Equities Exchange and Quotations (全國中小企業股份轉讓系統)

DEFINITIONS

“Negative List”	The List of Special Management Measures for the Market Entry of Foreign Investment (《外商投資准入特別管理措施(負面清單)》), which was last amended on June 23, 2020 and subsequently enforced on July 23, 2020 by the NDRC and the MOFCOM and replace the Catalog
“NPC”	the National People’s Congress (全國人民代表大會)

[REDACTED]

“Online Culture Operating License”	Online Culture Operating License (網絡文化經營許可證)

[REDACTED]

“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC” or “China”	the People’s Republic of China, where the context requires otherwise, excluding Hong Kong, Macau and Taiwan

DEFINITIONS

“PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), which was promulgated by the SCNPC on December 29, 1993, came into effect on July 1, 1994 and was last amended on October 26, 2018
“PRC Government”	the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“PRC Legal Advisors”	Beijing Jingtian & Gongcheng Law Firm
“Pre-[REDACTED] Investments”	certain rounds of financings carried out by the Group before the [REDACTED], details of which are set out in the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments” in this document
“Pre-[REDACTED] Investors”	the investors of the Pre-[REDACTED] Investments

[REDACTED]

[REDACTED]

“Registered Shareholder(s)”	being Mr. Zhu, Shenzhen Nanhai Chengzhangtongying, Nantong Pinghengchuangye, Beijing Zinan and Friends, Jiaxing Baozheng, Beijing Daoyoudao, Nanjing Pingheng Capital, Mr. Zhang, Mr. Chen Liang, Shanghai Jinjia, Mr. Guo Zhiwei, Ms. Zhang Yue, Ms. Zhang Wenyan, Ms. Xue Xiaoli, Ms. Zhu Xifen, Mr. Xiong Chi and Ms. Huang Huijuan, who are shareholders of Beijing Joyspreader after the Reorganization
“Regulation S”	Regulation S under the U.S. Securities Act

DEFINITIONS

“Reorganization”	refers to the reorganization arrangement undergone by our Group in preparation for the [REDACTED], particulars 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 the PRC
“RSU(s)”	restricted share units reserved to be granted pursuant to the RSU Scheme
“RSU Scheme”	the restricted share unit scheme adopted by our Company on August 26, 2020
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), and its branch(es)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), which is reformed and known as the State Administration of Market Regulation of the PRC (中華人民共和國市場監督管理總局) since March 21, 2018
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SCNPC”	the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shanghai Jinjia”	Shanghai Jinjia Asset Management Co., Ltd (上海今嘉資產管理有限公司), a company established under the laws of the PRC with limited liability on February 6, 2016
“Share(s)”	ordinary share(s) in the share capital of our Company with a nominal value of HK\$0.001 each

DEFINITIONS

“Share Subdivision”	the subdivision of each share in the Company’s issued and unissued share capital with par value of HK\$0.001 each into 100 shares of the corresponding class with par value of HK\$0.00001 each to be conducted before the [REDACTED], the details of which are set out in “History, Reorganization and Corporate Structure — Share Subdivision”
“Shareholder(s)”	holder(s) of our Share(s)
“Shenzhen Nanhai Chengzhangtongying”	Shenzhen Nanhai Growth Win-win Private Equity Investment Fund (Limited Partnership) (深圳南海成長同贏股權投資基金(有限合夥)), a limited partnership set up under the laws of the PRC on July 20, 2017
“Shenzhen Nanhai Growth”	Shenzhen Nanhai Growth Win-win Limited, a limited liability company incorporated in the BVI on March 26, 2019
“SPV”	special purpose vehicle [REDACTED]
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	a stock borrowing agreement expected to be entered into between ZZN. Ltd. and the [REDACTED] (or its affiliate) on or around the [REDACTED]
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Companies Ordinance
“Substantial Shareholders”	has the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers and Share Buy-backs in Hong Kong as approved by the SFC and as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the three years ended December 31, 2019 and the three months ended March 31, 2020

DEFINITIONS

“U.S.”, “United States” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the U.S. Securities Act of 1933 (as amended from time to time) and the rules and regulations promulgated thereunder

[REDACTED]

“US dollars”, “U.S. dollars: or “US\$”	United States dollars, the lawful currency of the United States
“VAT”	value-added tax of the PRC
“VIE” or “VIEs”	variable interest entity or variable interest entities
“WFOE”	Beijing Joy Spreader Interactive Technology Co., Ltd (北京樂享互動科技有限公司), a limited liability company established in the PRC on May 22, 2019 and a wholly-owned subsidiary of Joyspreader HK

[REDACTED]

DEFINITIONS

“Zhipu Shulian”

Horgos Zhipu Shulian Internet Technology Co., Ltd. (霍爾果斯智普數聯網絡科技有限公司), a company established under the laws of the PRC with limited liability on January 7, 2020, a wholly-owned subsidiary of Beijing Joyspreader and by virtue of the Contractual Arrangements, accounted for as our subsidiary

In this document, the English translations of the official Chinese names of PRC laws or regulations, PRC government authorities, companies or other entities organized in the PRC are furnished for identification purposes only. Should there be any inconsistency between the Chinese names and the English translations, the Chinese names shall prevail.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments or approximation. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF INDUSTRY TERMS

This glossary contains definitions of certain terms used in this document in connection with our Company and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms

“3C”	computer, communication and consumer electronics
“active users”	in any given period, (1) active users of a particular game refers to all registered users of such game that have entered the game at least once in such period; (2) active users of a particular type or all of our games refers to the simple sum of the active users of each game of such type or all of our games, as applicable, in such period and a registered user that entered two or more games in such period is counted as two or more active users in such period
“AI”	artificial intelligence
“API”	application programming interface, a set of routines, protocols, and tools for building software applications
“app”	mobile application
“ARPPU”	average revenues per paying user
“CAGR”	compound annual growth rate
“click-through rate”	the ratio of internet audiences who click to the number of total internet audiences who view the marketing campaign
“conversion rate”	the proportion of visitors who take action to go beyond the casual content view or web page visit and perform a desired action by the marketer, such as clicking a marketing campaign, downloading an app, signing up a new account or making a purchase, to the number of total visitors who viewed or clicked the marketing campaign. The calculation method of conversion rate varies among marketing campaigns and depends on the desired action that the marketers seek to achieve. For example, it may refer to the click-through rate as defined above, or the proportion of visitors who take specific actions, such as downloading an app, to the total number of visitors who clicked the marketing campaign

GLOSSARY OF INDUSTRY TERMS

“CPA”	cost per action, a performance-based pricing model where marketer is charged on the basis of each action of the mobile device user such as download, installation or registration
“CPC”	cost per click, a pricing model where marketer is charged on the basis of each click
“DAU”	daily active users
“DPU”	daily paying users
“CPM”	cost per mille, a non-performance-based pricing model where marketer is charged on the basis of thousand impressions
“CPS”	cost per sale, a performance-based pricing model where marketer is charged on the amount of actual sales
“device ID”	a unique device-specific identifier used to accurately measure actions taken by a specific mobile device
“Douyin”	the largest short-form video platform in China in terms of MAU as of March 31, 2020 and a leading live-streaming platform, according to Frost & Sullivan, with TikTok being the international version of Douyin (抖音) that has become immensely popular
“DSP”	demand side platform
“Html”	hyper text markup language
“Html 5”	a markup language used for structuring and presenting content on the internet, with detailed processing models to encourage more interoperable implementations, which can be used to develop interactive marketing
“impression(s)”	an audience who views the marketing campaign
“information flow platform(s)”	a type of we-media platform that automatically pushes recommended and customized information to users
“KOL(s)”	key opinion leader(s)

GLOSSARY OF INDUSTRY TERMS

“machine-based product analysis”	product analysis conducted by computer programs, where products will be analyzed and products with the same characteristics will be categorized by applying the same tags on them. Machine-based product analysis is more effective and efficient compared to product analysis manually
“MAU(s)”	monthly active users, which refers to the number of individuals who login to a particular game in the relevant calender month; average MAUs for a particular period is the average of the MAUs in each month during that period
“MCN”	multi-channel network, is a third-party service provider that offers assistance in areas including production, content programming, production, funding, cross-promotion, partner management, intellectual property rights management, monetization and audience development to the internet KOLs or internet celebrity
“mini-program”	a small application function within WeChat (微信) that provides advanced features to WeChat users
“mobile games”	games that are played on mobile devices
“MPU(s)”	monthly paying users, which refers to the number of paying users in the relevant calender month; average MPUs for a particular period is the average of the MPUs in each month during that period
“performance-based marketing”	a type of online marketing in which the marketers are charged when a specific designated action, such as a click or sale is performed by internet audiences
“PGC” or “professional-generated content”	high-quality content produced by professional production institutions and published on we-media platforms
“portal website(s)”	specially designed website(s) that often serves as the single point of access for information and brings information from diverse sources and different categories

GLOSSARY OF INDUSTRY TERMS

“powerful technology platforms”	algorithm-based technology platforms that enable us to efficiently process and analyze accumulated behavioral data, so as to increase the accuracy and userfriendliness of our performance-based marketing services compared to other service providers without algorithm-based technology platforms
“RPG”	role-playing games
“SDK”	software development kits, typically a set of software development tools that allows the creation of applications
“server”	a computer system that provides services to other computing systems over a computer network
“short-form video”	a form of video with length under five minutes, while contents on many short-form video platforms, such as Douyin and Kuaishou (快手), are less than one minute
“small- to mid-sized we-media accounts”	we-media accounts with less than one million followers for WeChat and less than five million followers for Douyin
“SSP”	supply side platform
“tag”	a keyword describing the characteristic assigned, such as to an audience or app
“traffic”	in terms of traffic in we-media marketing, the flow of audience on we-media
“traffic entry points”	submenu on WeChat Official Account that can be used to drive user traffic to external websites. Each WeChat Official Account includes two menu tabs with up to five submenus each. Submenu is an entry point that we-media publishers can be used to drive user traffic on its WeChat Official Account to external website, therefore can be used for marketing purposes
“we-media account”	an online account, which is registered by the user on websites or apps including social network platforms, news platforms, live streaming platforms and short-form video platforms, and publishes text, picture, audio or video content to the public

FORWARD-LOOKING STATEMENTS

We have included in this document forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are 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 operations and business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals and our ability to successfully implement these strategies, plans, objectives and goals;
- our ability to continue to maintain our leadership position in the industry;
- our ability to develop and manage our operations and business;
- continued demand for our we-media (自媒體) marketing services and monetization services;
- our ability to maintain and strengthen our relationship with marketers and we-media publishers;
- general economic conditions;

FORWARD-LOOKING STATEMENTS

- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control costs;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- our future debt levels and capital needs;
- the competitive environment of the industry and markets in which we operate;
- the actions and developments of our competitors;
- certain statements in the sections headed “Business” and “Financial Information” in this document with respect to trends in prices, operations, margins, overall market trends, and risk management; and
- other statements in this document that are not historical facts.

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

You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an [REDACTED] in our Shares. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. The [REDACTED] of our Shares could decline due to any of these risks, and you may lose all or part of your [REDACTED]. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that we deem immaterial, could also harm our business, financial condition and results of operations.

There are certain risks involved in our operations and many of these risks are beyond our control. These risks can be characterized as: (i) risks relating to our business and industry; (ii) risks relating to our contractual arrangements; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the [REDACTED].

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Failure to retain existing marketers and we-media (自媒體) publishers or attract new marketers and we-media publishers may negatively impact our revenue and business.

We generate substantially all of our revenue from providing performance-based we-media marketing services to marketers. At the same time, we help match we-media publishers’ user-follower network traffic with suitable products through our monetization services. Our ability to generate sustainable and/or increased revenue depend on our ability to retain existing we-media publishers and marketers, deepen or expand our relationships with them as well as attract new business. In order to do so, we need to ensure that these customers are satisfied with the effectiveness of our services. These marketers may have business relationships with a number of we-media marketing service providers at the same time. If they determine that their expenditures on our we-media marketing services do not generate sufficient returns, they may reduce their marketing budgets or terminate marketing arrangements with us. Failure to retain existing marketers or attract new marketers may materially and adversely affect our business, financial condition, results of operations and prospects.

Although we generate revenue primarily from marketers, under our business model, we also serve we-media publishers, which provide us with traffic inventories, with monetization services. If we-media publishers are no longer satisfied with the monetization efficiency of our services, they may reduce or discontinue their cooperation with us and we would lose a portion or all of the traffic inventories through which we can provide our marketing service. For example, publishers may place restrictions on the use of their traffic inventories, including prohibiting the distribution of product on behalf of specific marketers. In the event that we lose we-media publishers or access to their traffic inventories, we may not be able to complete our services for marketers in a timely manner or at all, and may incur significant costs in finding new publishers or new traffic inventories, which may adversely affect our business, financial condition, results of operations and prospects.

RISK FACTORS

We may be unable to innovate, adapt and respond timely and effectively to rapidly-changing technologies and new market trends in the performance-based we-media marketing services market.

The performance-based we-media marketing services market is a fast-growing and rapidly-changing industry. Our future success will depend on our ability to continuously innovate and develop to meet evolving marketing needs, and address technological advancements and new market trends in the performance-based we-media marketing industry. We-media is a rapidly growing media format. As early as 2015, we identified we-media as the next big driver in digital marketing and began to offer performance-based we-media marketing to marketers. As the we-media marketing market boomed, we enjoyed rapid business growth as a first-mover and pioneer in the market. We cannot assure you that we will be able to timely identify and respond to new trends in the future, nor can we assure you that we can accurately predict future industry trends and market demand. The new services we introduce may not achieve widespread market acceptance, and our investment in such services may not achieve the level of returns that we anticipated. For example, we intend to invest in developing short-form video we-media monetization services, which we believe will be an upcoming trend in the we-media marketing industry. For details, see “Business — Business Strategy — Capture market share as a first-mover in short-form video we-media monetization services.” If we fail to keep pace with changing technologies and to introduce successful and well-accepted performance-based we-media marketing services for our existing customers and potential customers, or fail to improve and enhance the functionality and performance of our services, our competitive position and ability to generate revenue and growth could be adversely affected.

Furthermore, our relationship with third-party we-media platforms is crucial to the distribution of products, fee settlement and data collection. Digital marketing industry is a fast-growing and rapidly-changing industry. We cannot assure you that we will be able to timely identify and respond to new trends and developments in digital marketing or media publishers in the future. We-media publishers and we-media platforms may not remain attractive to audiences in the future. If our marketing services were unable to work on new media, or if we fail to keep pace with the changing digital marketing industry and introduce new services for new forms of media or media platforms, or if we fail to improve and enhance the efficiency and effectiveness of our services, our ability to continue to generate revenue and growth could be significantly affected. In addition, international operation of short-form video platforms and we-media platforms may be restricted by overseas government authorities due to unforeseeable reasons. In this case, the implementation of our international expansion business strategy on short-form video platforms in certain countries and regions that restricted the operations of such platforms may be adversely affected.

RISK FACTORS

If the performance-based we-media marketing services industry fails to continue to develop, or develops or grows at a slower pace than expected, our profitability and prospects may be materially and adversely affected.

During the Track Record Period, we primarily served marketers and we-media publishers. Our business and prospects depend on the continuing development of the performance-based we-media marketing services industry, which may be affected by a number of factors, including:

- technological innovation or new business models of performance-based we-media marketing services or the changing requirements of marketers;
- acceptance of we-media as an effective marketing channel and the emergence of other alternative marketing channels;
- changes in regulations or policies affecting we-media, marketers or we-media marketing services; and
- growth of we-media, mobile marketing and the Internet industry at large.

Such factors may be beyond our control. There is no assurance that the performance-based we-media marketing services industry will continue to develop. Our business, financial condition, results of operations and prospects will be materially and adversely affected if the performance-based we-media marketing services industry fails to grow or grows at a slower pace than we expect.

Our algorithms for assessing and predicting potential target audience may be or become flawed or ineffective, and our performance-based marketing may fail to deliver satisfactory results.

Our ability to attract marketers and we-media publishers to engage in our performance-based we-media marketing services depends significantly on our ability to effectively assess and predict audience interest in the relevant products. We utilize algorithms to collect and analyze user behavioral data and make such assessments. For further information, see “Business — Our Platforms and Technologies.” The data that we collect need to be processed, tagged and stored in our data library, and our algorithms must effectively analyze and produce accurate performance analysis results. We cannot assure you that our data and algorithms will continue to be effective in this regard, in which case our business, financial condition and results of operations would be materially and adversely affected.

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We anticipate significant growth in the amount of data we process as we continue to develop our performance-based we-media marketing services to meet the evolving needs of our customers. As the amount of data we process increases, our algorithms and technology platforms are expected to become increasingly complex, and may become more prone to defects and errors. In the event our algorithms and technology platforms fail to make accurate assessments or experience significant errors or defects, resulting in unsatisfactory performance, our services may become less attractive to marketers and we-media publishers and damage our reputation, materially and adversely affecting our business, financial condition, results of operations, market position and prospects.

Limitations on our data collection, or challenges to our right to collect and use such data, could significantly diminish the value of our services and cause us to lose marketers and we-media publishers.

To optimize our delivery of services, we have developed technologies and platforms to match products from marketers with we-media accounts. We believe that it is essential to our success to maximize the click-through rate and conversion rate of the products we distribute, which in turn depend on the quality of our data. We collect substantial anonymized user behavioral data, such as click-throughs, geographical location, types of mobile device, network carrier, and mobile operating system, but we do not collect or store personal data such as the user's legal name and personal ID numbers. Marketers, we-media publishers and we-media platforms may choose to limit our data access or not to share data with us. Furthermore, there is no assurance that the government will not adopt legislation that prohibits or limits collection of data on the internet, or that third parties will not bring lawsuits against us relating to data privacy. As laws and regulations on data protection and privacy develop, marketers, we-media publishers and we-media platforms may be subject to increasingly stringent requirements on data sharing, which may limit our ability to collect data from them. If any of the above occurs, we may not be able to provide effective services and may lose marketers and we-media publishers, and our business, financial condition and results of operations may be adversely affected. Lawsuits or administrative inquiries could also be costly and divert our management resources, and the outcome of such lawsuits or inquiries may be uncertain and may harm our business.

If data we collected from marketers and we-media publishers were inaccurate or fraudulent, our business, financial conditions, results of operations and reputation may be materially and adversely affected.

The effectiveness and accuracy of our services depend on the accuracy and genuineness of data collected from marketers and we-media publishers, which allow us to assess user behavior and preferences and evaluate the performance of our marketing service. However, there is no assurance that such mechanism will always be effective or adequate in identifying fraud. If the data we collected were inaccurate or fraudulent, we may not be able to provide effective performance-based we-media marketing services. In such an event, our marketers

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may refuse to pay us and we-media publishers may lessen or terminate their business with us. We may be involved in disputes with marketers and we-media publishers, which may materially and adversely affect our business, financial condition, results of operations and reputation.

We were exposed to concentration risk and counter-party risk of reliance on our major customers and suppliers during the Track Record Period.

During the Track Record Period, we generated a significant portion of our revenue from sales to our major customers and we procured a significant portion of our total purchase amount from our major suppliers. For the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, our five largest customers accounted for approximately 82.9%, 73.4%, 50.3% and 63.3% of our revenue, respectively. During the same periods, our largest customer accounted for approximately 23.0%, 25.0%, 19.6% and 22.6% of our revenue, respectively. For the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, our five largest suppliers accounted for approximately 85.7%, 86.5%, 92.7% and 100.0% of our total purchase amount, respectively. During the same periods, our largest supplier accounted for approximately 31.5%, 47.6%, 34.0% and 54.3% of our total purchase amount, respectively. As such, we may be subject to concentration and counter-party risk from these customers and suppliers. See “Business” for more details. We cannot guarantee that our major customers and suppliers will continue to work with us or reduce their business with us. In particular, we cannot guarantee that our customers will enter into new service contracts with WFOE for Non-restricted Businesses (as defined in “Contractual Arrangements”) upon termination of existing service contracts for Non-restricted Businesses. Moreover, we cannot guarantee that our major customers or suppliers will not have a change of business scope or business model, will continue to maintain their market position and reputation, will not cease to operate or will not experience operational or financial difficulties. Any material adverse change to the operation, financial performance or financial condition of customers and suppliers may have a significant adverse impact on us. If we are unable to find new customers and suppliers on comparable commercial terms or, in the case of customers, with similar revenue contribution, within a reasonable period of time, or at all, our business, financial condition, results of operations and profitability may be adversely affected.

Our large prepayments to major suppliers may involve significant uncertainty.

During the Track Record Period, we made significant prepayments to major suppliers for traffic acquisition. The balance of our prepayments for purchases of traffic as of December 31, 2017, 2018 and 2019 and March 31, 2020 was RMB26.2 million, RMB50.7 million, RMB172.2 million and RMB202.4 million, respectively. Our increased prepayments paid to suppliers were one of the primary reasons resulted in our negative operating cash flow for the year ended December 31, 2019 and the three months ended March 31, 2020. If the amount of prepayments paid to major suppliers for traffic acquisition increase significantly in the future, we may experience issues related to business operation and capital insufficiency caused by mismatched prepayment for purchases of traffic and the collection of trade receivables. If our suppliers change the price or material terms of our traffic purchase arrangement, we may be subject to

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price pressure and may incur more traffic acquisition costs than we expected. If our suppliers fail to provide relevant traffic resources to us, our business may be materially adversely affected. Moreover, any material adverse change to the operation, financial performance or financial condition of these suppliers may have a significant adverse impact on us.

We recorded negative operating cash flows for the year ended December 31, 2019 and for the three months ended March 31, 2020.

We recorded net cash used in operating activities of RMB64.3 million and RMB50.2 million for the year ended December 31, 2019 and for the three months ended March 31, 2020, respectively, primarily because we recorded high prepayments to large suppliers to secure a favorable price for we-media traffic. Our negative operating cash flow for the three months ended March 31, 2020 was also due to an increase in trade and other receivables and deposits, primarily reflecting our business expansion and our slower collection of trade receivables in the first quarter of 2020 as a result of the COVID-19 outbreak. Negative operating cash flow may require us to obtain sufficient external financing to meet out financing needs and obligations. If, in the future, we are unable to generate sufficient cash flow for our operations or otherwise unable to obtain sufficient funds to finance our business, our liquidity and financial condition will be materially and adversely affected.

We are exposed to credit risk in relation to our customers, which could adversely impact our financial condition, results of operations and operating cash flow.

We are exposed to credit risk in relation to our trade receivables. The balance of our trade receivables was RMB32.5 million, RMB41.9 million, RMB69.3 million and RMB130.8 million as of December 31, 2017, 2018 and 2019 and March 31, 2020, respectively. As of December 31, 2017, 2018 and 2019 and March 31, 2020, our allowance for credit loss of trade receivables was RMB0.2 million, RMB0.9 million, RMB5.0 million and RMB16.5 million, respectively. For the years ended December 31, 2018 and 2019 and the three months ended March 31, 2020, we recognized impairment losses, net of reversal in respect of trade and other receivables and deposits of RMB0.5 million, RMB5.2 million and RMB11.4 million, respectively. We usually grant a credit period of 90 days to our customers, which is interest free with no collateral. We cannot guarantee that our customers will settle our trade receivables within the credit period, and our trade receivable turnover days may increase in the future. If any of our customers with significant outstanding trade receivable balances were to become insolvent or otherwise unable to make payments in a timely manner, or at all, we would have to make further provisions against such trade receivable and deposits, or write off the relevant amounts, either of which could adversely affect our profitability and liquidity position. For example, as of the Latest Practicable Date, none of the RMB14.4 million trade receivables as of December 31, 2019 was settled by Customer Group F as certain customers of Customer Group F extended their payables due to Customer Group F. We made allowance of RMB4.1 million for credit loss of trade receivables from Customer Group F for the year ended December 31, 2019 and made further allowance of RMB10.3 million for the three months ended March 31, 2020. There is no assurance that our customers will settle their trade receivables in full in a timely manner or at all in the future. See “Financial Information —

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Quantitative and Qualitative Disclosure of Financial Risks — Credit Risk” and notes 8 and 33 to “Appendix I — Accountants’ Report” of this document. If our customers fail to pay us in full in a timely manner, our financial condition, results of operations and operating cash flow may be materially and adversely affected.

We heavily rely on third-party we-media platforms, such as WeChat, to provide our performance-based marketing services, if limitation on data access, data collection and content restrictions were imposed by we-media platforms, or if we fail to maintain our relationships with agents of large we-media platforms, it could materially harm our business.

Over 90% of our revenue were from performance-based marketing service conducted through WeChat for the three months ended March 31, 2020. We have strategically focused on covering we-media publishers on large we-media platforms. During the Track Record Period, a majority of the we-media publishers we served have accounts on some of the largest we-media platforms in China, such as WeChat Official Accounts. Third-party we-media platforms, such as WeChat, Douyin and Kuaishou, may adjust their policies on data access, data collection and content restrictions from time to time, and such changes are beyond our control. If third-party we-media platforms change their policies on data access and data collection for their agents and users on their platforms, our performance-based marketing service provided through we-media publishers on such third-party we-media platforms may be harmed. In addition, short-form video platforms like Douyin and Kuaishou began to impose requirements on MCNs, such as on their content production capability and qualification, they may adjust their requirements on MCNs from time to time in the future, and such changes are beyond our control. We will have to take into account these requirements when selecting target MCNs, which may delay the implementation of our expansion plans.

We rely on agents of large we-media platforms to provide us with traffic resources. If we are unable to maintain good relationships with these licensed or large agents of large we-media platforms, or if any licensed or large agents of top media decides to terminate our cooperation or fail to provide us with sufficient traffic resource, we may incur additional costs find suitable suppliers to replace our existing suppliers. If we are unable to find suitable suppliers or find suitable suppliers in time, our ability to obtain premium traffic resources may be materially and adversely affected and our ability to maintain and expand our performance-based marketing services may be impaired as a result. Any of the above may materially and adversely affect our business, financial condition, results of operations and prospects.

Any termination of, or changes to, the preferential tax treatment that we enjoy could adversely affect our profitability.

We enjoyed certain preferential tax rates in relation to a portion of our operations during the Track Record Period. Beijing Joyspreader and Beijing Wuyou were qualified as high and new technology enterprises in 2015 and 2016, respectively, for a three-year period, and extended their qualifications in 2018 and 2019 for another three-year period, respectively. In addition, Horgos Yaoxi, Horgos Wuyou, Zhipu Shulian and Horgos JoySpreader were exempted

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from income tax during the Track Record Period. Our effective income tax rate, which is calculated by dividing income tax expenses by profit before taxation for the same period, was approximately 4.5%, 1.1%, 4.0% and 6.1% for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, respectively. However, there is no assurance that we will continue to enjoy preferential EIT rates or be entitled to preferential tax treatment in the future. The discontinuation of any preferential tax treatment currently available to us would cause our effective tax rate to increase, which could have an adverse effect on our results of operations.

Upon the [REDACTED], net profits from our Consolidated Affiliated Entities are expected to be transferred to the WFOE in the form of service fees, which would subject to a 25% income tax rate according to the EIT Law. In addition, the PRC Government makes adjustments or changes to its policies on VAT, EIT and other taxes from time to time. Unless we are able to renew our existing accreditations upon their expiration or are granted additional preferential tax treatment in the future, we expect our effective tax rates to gradually increase in the foreseeable future. Moreover, any further adjustments or changes, together with any uncertainties resulting therefrom, could have a material adverse effect on our business, financial condition and results of operations.

We face intense competition.

The performance-based we-media marketing industry is a rapidly-changing, highly-competitive and fragmented industry with relatively low entry barriers. With the introduction of new technologies and the influx of new entrants, we expect competition to continue and intensify, which could harm our ability to increase revenue and attain or sustain profitability. We believe the principal competitive factors in this industry include:

- ability to deliver attractive returns on marketing expenditure;
- ability to gain customer trust and to retain existing customers;
- breadth and depth of cooperation with marketers, we-media publishers and other participants in our industry;
- bargaining power in negotiation of traffic acquisition cost with agents of we-media platforms;
- comprehensiveness of product and service offerings;
- pricing structure and competitiveness;
- accessibility and user-friendliness of solutions; and
- brand awareness.

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We face competitive pressure from competitors that may have established stronger and broader presence across the industry and may have significantly more financial, technical, marketing and other resources, more extensive customer base, and longer operating histories and greater brand recognition than we do. These companies may have access to more user information and have the technology designed for use in conjunction with information that they have collected. These companies may also leverage their positions to make changes to their systems, platforms, exchanges, networks or other products or services that could be harmful to our business and results of operations.

If in the future (i) third-party platforms decide to provide effective and user-friendly self-service marketing tools for marketers to directly market their products on the platform, (ii) marketers and brands possess algorithms and technologies to deliver their products to targeted customers, (iii) marketers and brands are willing to accept higher costs compared to engage performance-based marketing service providers, and (iv) business departments of large we-media platforms seek to conduct business with marketers and brands directly, we may face competitive pressure from such third-party platforms with effective and user-friendly self-service marketing tools for marketers.

New technologies and methods of performance-based we-media marketing present an evolving competitive challenge, as market participants upgrade or expand their service offerings to capture more spending from marketers. In addition to existing competitors and their existing service offerings, we expect to face competition from new entrants to the performance-based we-media marketing services industry and new service offerings from existing competitors. If existing or new companies develop, market or resell competitive high-value marketing solutions, acquire one of our competitors or strategic partners, form a strategic alliance or enter into exclusivity arrangement with one of our competitors or strategic partners, our ability to compete effectively could be significantly compromised and our business, results of operations and prospects could be materially and adversely affected.

Our historical growth rates may not be indicative of our future growth, and if we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.

We experienced rapid business growth during the Track Record Period. Our revenue increased by 93.9% from RMB135.3 million for the year ended December 31, 2017 to RMB262.3 million for the year ended December 31, 2018, and further by 80.6% to RMB473.6 million for the year ended December 31, 2019. For the three months ended March 31, 2019 and 2020, our revenue increased by 71.5% from RMB97.5 million to RMB167.3 million. Our net profit increased by 41.8% from RMB32.1 million for the year ended December 31, 2017 to RMB45.5 million for the year ended December 31, 2018, and further by 48.1% to RMB67.4 million for the year ended December 31, 2019. For the three months ended March 31, 2019 and 2020, our net profit increased by 91.9% from RMB10.7 million to RMB20.5 million. While our business has grown rapidly in the past, we cannot assure you that we will be able to sustain our historical growth rate for various reasons, including the uncertainty of success of our future

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services and intensified competition in the performance-based we-media marketing services market in China. [REDACTED] should not rely on our historical results as an indication of our future financial or operating performance.

Our future growth and expansion will continue to place substantial demands on our management, operations, technological infrastructure and financial resources. We will also be required to offer consistently high-quality services to maintain customer satisfaction and our sound reputation. In particular, our continued growth may subject us to the following challenges:

- ensuring the productivity of a larger team and recruiting, training and retaining talented personnel for our growing operations;
- successfully improving our existing services and launching new services that gain market acceptance;
- maintaining effective operational, financial and management controls across a larger operating scale; and
- responding to evolving industry standards and government regulation that impact our growing business.

If we do not effectively manage our costs and expenses, we may not be able to sustain our profitability.

During the Track Record Period, our largest cost component was our traffic acquisition cost. We rely on the supply of traffic inventories from our we-media network to place our marketers’ products. Our traffic acquisition cost totaled RMB87.4 million, RMB196.2 million, RMB356.6 million and RMB125.0 million for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, respectively, representing 97.2%, 100.0%, 100.0% and 100.0% of our cost of sales for the same periods. An increase in traffic acquisition costs may materially and adversely impact our profitability and our business, financial condition and results of operations.

In addition, we have invested significant resources to grow our business in recent years on our technologies and platforms. As our business continues to grow, we expect to require substantial financial and other resources for the following purposes, among other things:

- invest in the development of our technology platforms and improve our technology and data analysis capabilities;
- invest in the optimization of our services, including our recommendation engine;
- expand our product portfolio and expand our we-media network;

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- expand our team of technical personnel;
- cover administrative expenses as our business scale grows;
- cover distribution and selling expenses;
- cover expenses relating to data privacy protection; and
- explore potential acquisition and investment opportunities.

Our expenditures may not yield the anticipated returns or benefits to our business, and if we fail to effectively manage our costs, we may not be able to sustain profitability.

Our business strategy of growth through acquisitions and investments may not succeed.

As part of our business strategy, we may from time to time pursue acquisition and investment opportunities in China and overseas that we believe would benefit our business. During the Track Record Period, we invested in Beijing Yingyi to provide us with synergies in developing our own we-media publishers and priority access to premium short-form video production resources, as well as enable us to secure monetization opportunities through top-end qualification held by Beijing Yingyi. Our expenses and costs, including administrative expenses, professional service fee and amortization and depreciation, may increase as a result of our investments or acquisitions and may in turn affect our results of operations and financial condition. Our ability to grow through such means depends upon our ability to identify, negotiate, complete and integrate suitable targets as well as to obtain the necessary financing and required governmental or third-party consents, approvals and permits in a timely manner. Even if we engage in such acquisitions, we may have limited experience and we may be exposed to the following risks, among others:

- difficulties in integrating any acquired businesses, technologies or personnel into our existing business, particularly integrating different business, operations, financial and risk management, technologies and platforms and other business functions; and
- difficulties in implementing and enforcing our management and internal control mechanisms that timely and adequately respond to our expanded scope of operations.

We may experience systems disruption, software defects, computer viruses and breakdowns, distributed denial of service attacks, or other hacking and phishing attacks on our systems.

The stable operation of our technologies and platforms, including our technology platforms, data collection and analysis systems, telecommunication networks, computer systems, servers and other hardware, is critical to our business. We rely on the uninterrupted

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and secure operation of our technologies and platforms and the safekeeping of user information and historical online marketing records. Any system outage or data loss or other disruption owing to the events that may be beyond our control would cause damage to our business and reputation and expose us to liability to third parties.

We are susceptible to computer viruses, system breakdowns, power loss or telecommunications failure. In addition, our infrastructure may be subject to distributed denial of service attacks, or other hacking and phishing attacks on our platforms in the future and we cannot guarantee that any applicable recovery system, security protocol, network protection mechanisms or other defense procedures are or will be adequate to prevent such network or service interruptions, system failures or data losses. Our infrastructure and platforms may also be breached if any vulnerabilities therein are exploited by unauthorized third parties. If we fail to repair or maintain our platforms in a timely manner, our business may have to be temporarily disrupted, which could have a material adverse impact on our business.

We are exposed to fair value changes for financial assets at fair value through profit or loss and valuation uncertainty due to the use of unobservable inputs that require judgement and assumptions which are inherently uncertain.

During the Track Record Period, we purchased low-risk financial assets at fair value through profit or loss, which represented wealth management products issued by PRC commercial banks, because we believe we can make better use of such cash by making appropriate investments to enhance our income without interfering with our business operation or capital expenditures. As of December 31, 2018, our financial assets at fair value through profit or loss amounted to RMB1.0 million. We also strategically invested in 19.9% of the equity interests in Beijing Yingyi at a total consideration of RMB6.0 million in December 2018, which was recorded as equity instruments at fair value through other comprehensive income. As of December 31, 2018 and 2019 and March 31, 2020, our equity instruments at fair value through other comprehensive income amounted to RMB6.0 million, RMB9.9 million and RMB9.9 million, respectively. The fair value of financial assets at fair value through profit or loss are valued by discounting their future cash flows based on expected interest rate disclosed by the issuing banks, and net changes in their fair value are recorded as our operating income or loss, and therefore directly affects our results of operations. The fair value of equity instruments at fair value through other comprehensive income may be determined using unobservable inputs, including market approach and income approach, which may involve management judgment and be inherently uncertain and may result in material adjustment, which in turn may materially and adversely affect our results of operations. We did not incur any fair value losses for financial assets at fair value through profit or loss or equity instruments at fair value through other comprehensive income during the Track Record Period. However, we cannot assure you that we will not incur any such fair value losses in the future. If we incur such fair value losses, our results of operations, financial condition and prospects may be adversely affected.

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If we are unable to protect our proprietary information or other intellectual property, our business could be adversely affected.

We rely on a combination of copyrights, trademarks and trade secret laws, and contractual restrictions, including through confidentiality, non-disclosure and assignment of copyright or invention assignment agreements with our key employees and third parties with whom we do business, to establish, maintain and protect our proprietary information and other intellectual property. We may not be able to efficiently detect and prevent all misappropriation, unauthorized use or reverse engineering our proprietary information and other intellectual property. For example, contractual restrictions may be breached, and we may not succeed in enforcing our rights or have adequate remedies for any breach of laws or contractual restrictions. Moreover, our trade secrets may be disclosed to or otherwise become known or be independently developed by competitors, and in these situations we may have no or limited rights to stop others’ use of our information. Furthermore, to the extent that our employees or other third parties with whom we do business use intellectual property owned by others in their work for us, disputes may arise as to the rights to such intellectual property. If, for any of the above reasons, our intellectual property is disclosed or misappropriated, it would have an adverse effect on our business, financial condition and results of operations.

We may be subject to claims by third parties for intellectual property infringement.

We depend to a large extent on our ability to effectively develop and maintain intellectual property rights relating to our business. However, we cannot assure you that third-parties will not put forward claims that our business infringes upon or otherwise violates patents, copyrights or other intellectual property rights which they hold, whether valid or otherwise. We may face 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 trade practices. We may become involved in litigations and proceedings relating to allegations of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and violations of rights of third parties. The validity, enforceability and scope of protection of intellectual property rights, particularly within China, are still evolving. As we face increasing competition and as litigation becomes a more commonly pursued method for resolving commercial disputes in China, we face a higher risk of being the subject of intellectual property infringement claims.

Defending against intellectual property claims is costly and can impose a significant burden on our management and resources. Further, there is no guarantee that we can obtain favorable final outcomes in all cases. Such intellectual property claims may harm our brand and reputation, even if they do not result in liability. Any resulting liability or expenses, or changes required to our products or services to reduce the risk of future liability, may have a material adverse effect on our business, results of operations and prospects.

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We may fail to detect fraud or prevent products from our customers from appearing on undesirable we-media.

Our business depends on providing our marketers with a service that they trust, and we seek to take reasonable measures to prevent their products from appearing on undesirable we-media. We use proprietary technology to detect click fraud. We also use filters to prevent our customers’ products from appearing on undesirable we-media. Preventing and combating fraud requires constant monitoring, and we may not always be successful in our efforts to do so. We may distribute products on we-media that is objectionable to our marketers, and we may lose the trust of our marketers, which would harm our brand and reputation and negatively impact our business, financial condition and results of operations.

We did not register our lease agreements.

As of the Latest Practicable Date, we leased 12 properties with an aggregate gross floor area of approximately 1,504.5 square meters from Independent Third Parties. We have not registered any lease agreements with the relevant government authorities in accordance with PRC laws and regulations and may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease should we and our landlords fail to register the lease agreement upon request by the relevant authority.

We face potential liability and harm to our business based on the nature of our business products we distribute.

We may be subject to litigation relating to copyright or trademark infringement, public performance royalties, game licensing and permits or other claims based on the nature and type of products that is distributed through our services. We do not independently verify whether we are permitted to deliver, or verify the content of, such marketing activities. If any of these representations are untrue, we may be exposed to potential liability and our reputation may be damaged. Indemnification from marketers may not fully cover us, or we may not be able to collect. In addition to settlement costs, we may be responsible for our own litigations costs, which can be expensive.

Misconduct, mistakes and failure to act by our employees and the breach of data privacy regulation or leakage of consumer data could harm our business and reputation.

We are exposed to many types of operational risks, including the risk of misconduct and mistake by our employees and the breach of data privacy regulation or leakage of consumer data. Our business depends on our employees to process a large set of data and business information. We could be materially and adversely affected if such data or information was disclosed to unintended recipients or if we experience an operational breakdown whether as a result of human error, a purposeful sabotage or a fraudulent manipulation of our operations or systems. We could also be materially and adversely affected if our employees absconded with the data or used our know-how to compete with us.

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We may be exposed to fraud, bribery, or other misconduct committed by our employees that could subject us to financial losses and sanctions imposed by governmental authorities, which may adversely affect our reputation. Our internal control procedures are designed to monitor our operations and ensure overall compliance. However, our internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions or incidents of corruption, bribery or other misconduct in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud, bribery and other misconduct, and the precautions we take to prevent and detect such activities may not be effective. We cannot assure you that fraud, bribery, or other misconduct will not occur in the future. If such fraud, bribery, or other misconduct does occur, it may subject us to potential penalties and negative publicity as a result. Any of these occurrences could result in our diminished ability to operate our business, potential liability to our customers, inability to attract future customers, reputational damage, regulatory intervention and financial harm, which could negatively impact our business and results of operations.

We may not be able to obtain additional capital when desired, on acceptable terms or at all.

We may require additional funds to support the growth of our business, including to better support and serve our customers, develop new features or enhance our technology platforms and systems, improve our operating and technology infrastructure or acquire businesses and technologies. If our current sources of liquidity are insufficient to satisfy our cash requirements, we may seek to sell additional equity, debt securities or obtain a credit facility. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financial covenants that would restrict our operations, while the sale of additional equity securities or convertible debt securities would result in dilution to shareholders.

We cannot assure you that we will have sufficient funding to finance our future development. If we are unable to obtain financing in a timely manner or at a reasonable cost, or at all, our expansion plans may be delayed and our financial performance and growth prospects may be materially and adversely affected. The availability of external funding is subject to various factors, including governmental policies, market conditions, credit availability, interest rates and our operational performance. Any disruptions, uncertainty or volatility in the capital and credit market resulting from any global financial crisis may also limit our ability to obtain financing to meet our funding requirements. If the PBOC raises the benchmark lending rates, the cost of our external funding could significantly increase and our fund-raising ability may be limited. If adequate funding is not available to us at commercially acceptable terms, it may materially and adversely affect our ability to fund our existing operations and to develop or expand our business, in which case our business, financial condition and results of operations may be materially and adversely affected.

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Regulation and censorship of information disseminated through we-media publishers and we-media platforms in the PRC may adversely affect our business.

The we-media industry in the PRC is subject to stringent rules, regulations, policies and requirements on information disseminated through we-media publishers and we-media platforms. In enforcing these rules, regulations, policies and requirements, relevant government authorities may suspend services or revoke licenses of any service provider or we-media publisher that is deemed to provide illicit content, and such activities may be intensified in connection with any ongoing government actions to eliminate prohibited content. We endeavor to eliminate illicit content provided through our services. However, government standards and interpretations may change in a manner that could render our current monitoring efforts insufficient. We cannot assure you that our business and operations will not be subject to government actions or sanctions in the future. If government actions or sanctions are brought against us or our we-media publishers, or if there are widespread rumors that government actions or sanctions have been brought against us, our marketers or our we-media publishers, our ability to generate sustainable and/or increased revenue and our reputation and brand could be harmed. We may lose marketers and we-media publishers, our revenue and results of operation may be materially and adversely affected.

Regulatory, legislative or self-regulatory developments for businesses such as ours, including privacy and data protection regimes, are expansive, not clearly defined and rapidly evolving. These laws and regulations could create unexpected costs, subject us to enforcement actions for compliance failures, or restrict portions of our business or cause us to change our proprietary technology platforms or business model.

Governments across the world, including the PRC and Hong Kong governments, are gradually enacting legislation relating to online businesses. There may be an increase in legislation and regulation related to we-media marketing regarding the collection and use of internet user data and unique device identifiers, such as IP address or mobile unique device identifiers. These laws and regulations could adversely affect the demand for or effectiveness and value of our we-media marketing services, force us to incur substantial costs or require us to change our business practices in a manner that could adversely affect our business and results of operations or compromise our ability to effectively pursue our growth strategies.

In recent years, the PRC Government has enacted legislation relating to internet use to protect personal information from unauthorized disclosure. For example, the Several Provisions on Regulation of the Market Order of Internet Information Service (規範互聯網信息服務市場秩序若干規定), promulgated by the MIIT, stipulates that internet information service providers must not, without a user’s consent, collect the user’s personal information that can reveal the identity of the user whether by itself or when used in combination with other information, and must not provide any such information to third parties without prior consent from the user. In addition, internet information service providers are required to explicitly inform their users about their service scope and may not use users’ information beyond such scope or collect any other information that is irrelevant to the services they provide.

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We have placed great emphasis on data privacy and strive to comply with all applicable laws and regulations relating to privacy and data collection, processing, use, and disclosure. These laws and regulations are continually evolving, are not always clear, and are not always consistent across the jurisdictions in which we do business, and the measures we take to comply with these laws, regulations and industry standards may not always be effective. We may be subject to litigation or enforcement action or reduced demand for our solutions or services if we or our customers fail to abide by applicable privacy laws or to provide adequate notice and/or obtain consent from end users. Any proceeding or perception of concerns relating to our collection, use, disclosure and retention of data, including our security measures applicable to the data we collect, whether or not valid, could adversely affect our reputation, force us to spend significant amounts on defense of these proceedings, distract our management, increase our costs of doing business and inhibit the use of our services, which could materially and adversely affect our business, results of operations and prospects.

Any negative publicity with respect to us, the performance-based we-media marketing industry in general or our partners may materially and adversely affect our reputation, business and results of operations.

Complaints, litigation, regulatory actions or other negative publicity that arise from the performance-based we-media marketing services industry in general or our company in particular, including on the quality, effectiveness and reliability of performance-based we-media marketing services solutions, privacy and security practices, and marketing content, even if inaccurate, could adversely affect our reputation and market confidence in, and the use of, our solutions. Harm to our reputation and customer confidence can also arise for many other reasons, including employee misconduct, misconduct of our customers, we-media publishers or other counterparties, failure by these persons or entities to meet minimum quality standards or otherwise fulfill their contractual obligations or to comply with applicable laws and regulations.

Failure to retain key management team or attract additional talented personnel could materially and adversely affect our business.

Our future success will depend substantially on the continued service of our management team. In particular, our founder, Mr. Zhu, plays an important role in our business, and continues to be closely involved in the development of our business. Our founder, together with our management team and key personnel, are the main drivers of our innovative and creative corporate culture. We do not maintain key-man life insurance on our senior management. In the event that our founder or another key member of our senior management becomes unavailable for any reason, our business may be adversely affected. In addition, our continued success will depend in large part on our ability to attract and retain qualified and highly skilled personnel. Competition for such key personnel is intense and is expected to remain so for the foreseeable future. Failure to retain, hire and motivate key management team members and qualified personnel could impair our ability to grow our business. Such failure could also materially and adversely affect our financial condition and results of operations.

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Our business is sensitive to general economic conditions, and any severe or prolonged downturn in the global or PRC economy could materially and adversely affect our business and financial condition.

Economic conditions in China are sensitive to global economic conditions, and our business may be affected by economic conditions in China and globally. We rely on the spending of marketers for our revenue, which may in turn depend on their level of disposable income, perceived future earnings and willingness to spend. Due to uncertain global economic and political conditions, particularly the current trade tension between the U.S. and China, market demand for our services may decrease. In addition, financial turmoil and uncertainties affecting the financial markets, banking systems or currency exchange rates may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all, which could also materially and adversely affect our business, results of operations and prospects.

Our insurance coverage may be inadequate to cover all significant risk exposures.

We maintain limited insurance policies covering certain potential liabilities. In line with industry practice, we have elected not to maintain certain types of insurance, such as business interruption insurance. There can be no assurance that such coverage will be available or sufficient to cover all our risk exposures. Our existing liability insurance contains exclusions and limitations on coverage. In addition, insurance may not continue to be available at economically acceptable premiums. If insurance coverage is unavailable or insufficient to cover any such exposures, we may incur substantial costs and diversion of our resources which, in turn, could materially and adversely affect our business, financial condition and results of operations.

Failure to obtain, renew, or retain licenses, permits or approvals or failure to comply with applicable laws and regulations may affect our ability to conduct our business.

The licensing requirements within the PRC performance-based we-media marketing services industry are constantly evolving and we may be subject to more stringent licensing requirements due to changes in the regulatory framework or political or economic policies in China. There can be no assurance that we will be able to satisfy such regulatory requirements and as a result we may be unable to retain or renew any existing or additional licenses, permits or approvals in the future. If we fail to obtain all of the necessary licenses, permits and approvals, we may be subject to fines, confiscation of the gains derived from the related operations or the suspension of operations, which could materially and adversely affect our business and results of operations. We may also experience adverse publicity arising from such non-compliance with government regulations that negatively impacts our reputation. If we cannot obtain and/or maintain all licenses required by us, our ongoing business could be interrupted.

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The evolving and changing laws and regulations governing online games in China may adversely affect our business.

Online games are strictly regulated in China. Our customers in game industry are required to obtain licenses, permits and approvals from different regulatory authorities in order to conduct their business. According to the relevant PRC laws and regulations, the commercial launch of domestic online games is subject to pre-approval for publication by the State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣電總局). As laws and regulations in relation to online games are at an early stage of development in China, and may evolve and change in a way that is unfavorable for our customers in game industry. Substantial uncertainties exist in the implementation and interpretation of the current PRC laws and regulations, and as new laws and regulations are passed and adopted, their implementation and interpretation may also be uncertain or unfavorable to the business and operations of our customers. Any failure in obtaining requisite permits, licenses and approvals of our customers in online game industry may materially and adversely affect their marketing expenditure, financial condition, results of operations and prospects, and may in turn adversely affect our business relating to online game industry.

We may be involved in legal and other proceedings in the ordinary course of our business from time to time and may face significant liabilities as a result.

We may be involved in disputes in the ordinary course of our business. These disputes may lead to various legal or other proceedings. We may receive formal and informal inquiries from government authorities and regulators regarding our compliance with laws and regulations, many of which are evolving and subject to interpretation. There is no guarantee that we will be successful in defending ourselves in legal and administrative actions or in asserting our rights under various laws. Even if we are successful in our attempt to defend ourselves in legal and administrative actions or to assert our rights under various laws, enforcing our rights against the various parties involved may be expensive, time-consuming and ultimately futile. These actions could expose us to negative publicity and to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties, including but not limited to suspension or revocation of licenses to conduct business, and may result in substantial costs, damage to our reputation and diversion of resources and management attention.

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

We are vulnerable to natural disasters and other calamities. Fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar 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 we-media marketing services. Our business could also be adversely affected by the effects of Ebola virus disease, Zika virus disease, H1N1 flu, H7N9 flu, avian flu, SARS, COVID-19 or

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other epidemics, 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 any of these epidemics harms the PRC economy in general and the business of marketers and we-media publishers. In response to the COVID-19 outbreak in China, the PRC government has introduced a series of measures. Business activities in China have also been temporarily disrupted. We have extended the Chinese New Year holiday for employees and encourage them to work from home, in line with policies of the PRC government. We cannot guarantee that the COVID-19 outbreak will not worsen or the suspension of business activities in China will not continue, which may, in turn, delay or negatively affect our business and those of our customers, suppliers, acquisition targets and other counterparties. Most of our Directors, senior management and employees are based in China. Therefore, if any of the above-mentioned natural disasters, health epidemics or other outbreaks were to occur in these regions, our operations may experience material disruptions, such as temporary closure of our offices and suspension of services, which may materially and adversely affect our business and results of operations.

We may be subject to additional social insurance fund and housing provident fund contributions and late payments or fines imposed by relevant regulatory authorities.

Under the relevant PRC laws and regulations, we are required to make social insurance fund and housing provident fund contributions for our employees. During the Track Record Period, we did not make in full the social insurance fund and housing provident fund contributions for all of our employees. For the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, we made provisions for social insurance fund and housing provident fund contributions of RMB0.9 million, RMB1.5 million, RMB2.1 million and RMB0.4 million, respectively. As of the Latest Practicable Date, we had not received such requirement from the relevant governmental authority. According to the confirmation letters issued by social insurance and housing provident fund authorities in Beijing and Horgos, during the Track Record Period, such authorities did not impose penalty on any of our PRC subsidiaries for failure to make social insurance or housing provident fund contributions in full.

According to our PRC Legal Advisors, such authorities are the competent authorities for issuing the relevant confirmations. Based on the confirmation letters, our PRC Legal Advisors are of the view that the likelihood that we would be subject to material administrative penalties by relevant authorities is low. However, we cannot guarantee that we will not be required to pay any shortfalls or be subject to any penalties or fines.

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RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

If the PRC Government determines that our Contractual Arrangements do not comply with applicable regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities.

Current PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in internet culture businesses and other related businesses. In particular, under the Catalog, which was revised in 2017 and the Negative List, certain of our performance-based marketing services fall into the internet culture businesses which is considered prohibited. See “Regulatory Overview — Laws and Regulations Relating to Foreign Investment.” To comply with PRC laws and regulations, we conduct our performance-based marketing in China through Beijing Joyspreader and its subsidiaries, based on a series of Contractual Arrangements by and among WFOE, Beijing Joyspreader and the Registered Shareholders. As a result of these Contractual Arrangements, we exert control over Beijing Joyspreader and its subsidiaries and consolidate their results of operations into our financial statements. Beijing Joyspreader and its subsidiaries hold the licenses, approvals and key assets that are essential for the operations of our Relevant Businesses (as defined in “Contractual Arrangements”).

However, there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Thus, we cannot assure you that the PRC Government will not ultimately take a view contrary to the opinion of our PRC Legal Advisors. If we are found in violation of any PRC laws or regulations or if the Contractual Arrangements among WFOE, Beijing Joyspreader and the Registered Shareholders are determined as illegal or invalid by any PRC court, arbitral tribunal or regulatory authorities, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoke the agreements constituting the Contractual Arrangements;
- revoke our business and operating licenses related to our performance-based marketing services;
- require us to discontinue or restrict operations related to our performance-based marketing services;
- restrict our right to collect revenue generated from our performance-based marketing services;
- levy fines on us and/or confiscate the proceeds that they deem to have been obtained through non-compliant operations;

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- require us to restructure the operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets related to our performance-based marketing services;
- impose additional conditions or requirements with which we may not be able to comply; or
- take other regulatory or enforcement actions that could be harmful to our business.

Furthermore, any of the assets under the name of any record holder of equity interest in our Consolidated Affiliated Entities, including such equity interest, may be put under court custody in connection with litigation, arbitration or other judicial or dispute resolution proceedings against that record holder. We cannot be certain that the equity interest will be disposed of in accordance with the Contractual Arrangements. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and Contractual Arrangements. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to conduct the business. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of our consolidated affiliated entity and its subsidiary or the right to receive their economic benefits, we would no longer be able to consolidate our Consolidated Affiliated Entities, thus adversely affect our results of operations.

Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

The Foreign Investment Law was promulgated by the NPC on March 15, 2019, which came into effect as of January 1, 2020. The Foreign Investment Law replaced the Sino-foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法》), the Sino-foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-invested Enterprises Law (《中華人民共和國外資企業法》) to become the legal foundation for foreign investment in the PRC.

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in China. The Foreign Investment Law stipulates three forms of foreign investment. However, the Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment, which means our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements shall not be affected at present.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “a foreign investor makes investment in any other way stipulated by laws, administrative regulations or provisions of the State Council”. Therefore, there are possibilities

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

In the extreme case-scenario, we may be required to unwind the Contractual Arrangements and/or dispose of our Consolidated Affiliated Entities, which could have a material and adverse effect on our business, financial condition and result of operations. For details of the Foreign Investment Law and its potential impact on the Group, see “Contractual Arrangements — Foreign Investment Law.”

Our Contractual Arrangements may not be as effective in providing operational control as direct ownership and the Consolidated Affiliated Entities or the Registered Shareholders may fail to perform their obligations under our Contractual Arrangements.

Current PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in internet culture business and other related businesses, including the performance-based marketing services. In particular, under the Catalog and Negative List, certain of our performance-based marketing services fall into the internet culture business and is considered “prohibited.” As a result, we conduct our performance-based marketing services business in China through the Consolidated Affiliated Entities, based on a series of Contractual Arrangements by and among WFOE, Beijing Joyspreader and the Registered Shareholders. Our revenue and cash flow from our performance-based marketing services related businesses are attributable to the Consolidated Affiliated Entities. The Contractual Arrangements may not be as effective as direct ownership in providing us with control over the Consolidated Affiliated Entities. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the boards of directors of the Consolidated Affiliated Entities, which, in turn, could affect changes, subject to any applicable fiduciary obligations at the management level. However, under the Contractual Arrangements, as a legal matter, if the Consolidated Affiliated Entities or the Registered Shareholders fail to perform their respective obligations under the Contractual Arrangements, we may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration and rely on legal remedies under PRC laws. These remedies may include seeking specific performance or injunctive relief and claiming damages, any of which may not be effective. For example, if the Registered Shareholders were to refuse to transfer their equity interest in Beijing Joyspreader to us or our designee when we exercise the call option pursuant to the Contractual Arrangements, or if they were otherwise to act in bad faith toward us, we might have to take legal action to compel them to perform their respective contractual obligations. In the event we are unable to enforce these Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing these Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities and may lose control over the assets owned by the

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Consolidated Affiliated Entities. As a result, we may be unable to consolidate the Consolidated Affiliated Entities in our consolidated financial statements, which could materially and adversely affect our financial condition and results of operations.

We may lose the ability to use and enjoy assets and licenses held by the Consolidated Affiliated Entities that are important to the operation of our business if any of the Consolidated Affiliated Entities declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

The Consolidated Affiliated Entities hold certain assets that are related to our business operations. The Contractual Arrangements with Beijing Joysreader and the Registered Shareholders contain terms that specifically obligate the Registered Shareholders to ensure the valid existence of Beijing Joysreader and that Beijing Joysreader may not be voluntarily liquidated. However, should the Registered Shareholders breach this obligation and voluntarily liquidate Beijing Joysreader, or should any of the Consolidated Affiliated Entities declare bankruptcy, all or part of their assets may become subject to liens or rights of third-party creditors and we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your [REDACTED].

According to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to challenge by the PRC tax authorities, additional taxes and interest may be imposed. We would be subject to adverse tax consequences if the PRC tax authorities were to determine that transactions under the Contractual Arrangements between WFOE and Beijing Joysreader were not conducted on an arm’s-length basis as the PRC tax authorities have the authority to make special tax adjustments on Beijing Joysreader’s tax position. Such adjustments may adversely affect us by increasing Beijing Joysreader’s tax expenses without reducing the tax expenses of WFOE, subjecting Beijing Joysreader to late payment fees and other penalties for under-payment of taxes. Our consolidated results of operations may be adversely affected if Beijing Joysreader’s tax liabilities increase or if it is subject to late payment fees or other penalties.

The Registered Shareholders may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests.

We conduct the Relevant Businesses through the Consolidated Affiliated Entities. Our control over these entities is based upon the Contractual Arrangements with Beijing Joysreader and the Registered Shareholders that allow us to control Beijing Joysreader. The Registered Shareholders may potentially have a conflict of interest with us, and they may breach their contracts with us if they believe it would further their own interest or if they

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otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us and Beijing Joyspreader, the shareholders will act completely in our interests or that the conflicts of interest will be resolved in our favor.

In addition, the Registered Shareholders may breach or cause Beijing Joyspreader to breach the Contractual Arrangements. If Beijing Joyspreader or the Registered Shareholders breach their contracts with us or otherwise have disputes with us, we may have to initiate legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly disrupt our business operations, adversely affect our ability to control Beijing Joyspreader and otherwise result in negative publicity. There is also substantial uncertainty as to the outcome of any such legal proceedings.

We conduct the Relevant Businesses in the PRC through the Consolidated Affiliated Entities by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under PRC laws.

All the agreements which constitute the Contractual Arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these agreements would be interpreted in accordance with PRC laws and disputes and would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions and uncertainties in the PRC legal system could limit our ability to enforce the Contractual Arrangements. In the event that we are unable to enforce the Contractual Arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert effective control over the Consolidated Affiliated Entities, and our ability to conduct our business and our financial condition and results of operations may be materially and adversely affected.

The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Beijing Joyspreader, injunctive relief and/or winding up of Beijing Joyspreader. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in Beijing Joyspreader in case of disputes. 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 China. PRC laws do not allow the arbitral body to grant an award of transfer of assets of or equity interests in Beijing Joyspreader in favor of an aggrieved party. Therefore, in the event of breach of any agreements constituting the Contractual Arrangements by Beijing Joyspreader and/or the Registered Shareholders, and if we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over Beijing Joyspreader, which could negatively affect our ability to conduct our business.

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If we exercise the option to acquire equity ownership of Beijing Joyspreader, the ownership transfer may subject us to certain limitations and substantial costs.

Pursuant to the Contractual Arrangements, the WFOE or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in Beijing Joyspreader from the Registered Shareholders. The equity transfer may be subject to the approvals from or filings with or reportings to the MOFCOM, the MIIT, the MOCT, the SAIC and/or their local competent branches as well as polices in relation to restrictions on foreign investment. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax authority. The Registered Shareholders of Beijing Joyspreader will pay the equity transfer price they received to the WFOE under the Contractual Arrangements. The amount to be received by the WFOE may also be subject to EIT, in which case the amount of tax could be substantial.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

As all of our operations are conducted in China, we are vulnerable to adverse changes in economic, political and social conditions and government policies in China.

All of our operations and assets are located in China, and all of our revenue is derived from our business in China. Accordingly, our financial condition, results of operations and prospects are, to a significant degree, subject to the economic, political, social and legal conditions in China. The PRC economy differs from that of most developed countries in many respects, including the extent of government involvement, level of economic development, investment control, resource allocation, growth rate and control over foreign exchange. We believe the PRC Government has indicated its commitment to the continued reform of the economic system as well as the structure of the government. The PRC Government’s reform policies have emphasized the independence of enterprises and the use of market mechanisms. Since the introduction of these reforms, significant progress has been achieved in economic development, and enterprises have enjoyed an improved environment for their development. However, any changes in the political, economic or social conditions in China may materially and adversely affect our business, financial condition and results of operations.

We may be deemed a PRC resident enterprise for PRC EIT purposes under the EIT Law and be subject to PRC taxation on our global income.

Pursuant to the EIT Law, which came into effect on January 1, 2008 and was amended on December 29, 2018, an enterprise established outside of China whose “de facto management body” is located in China is considered a “PRC resident enterprise” and will generally be subject to the uniform EIT rate, of 25% on its global income. The Implementation Regulation for Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) defines “de facto management body” as the organization body that effectively exercises management and control over aspects such as the business operations, personnel, accounting and properties of the enterprise.

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On April 22, 2009, the SAT released 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》) (“Circular 82”), which sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of China and controlled by PRC enterprises or PRC enterprise groups is located within China. Under Circular 82, a foreign enterprise controlled by a PRC enterprise or PRC enterprise group is considered a PRC resident enterprise if all of the following apply: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within China; and (iv) at least half of the enterprise’s directors with voting rights or senior management reside within China. Further to Circular 82, the SAT issued Chinese-Controlled Offshore Incorporated Resident Enterprises Income Tax Regulation (境外註冊中資控股居民企業所得稅管理辦法(試行)) (“Bulletin 45”), which took effect on September 1, 2011, to provide more guidance on the implementation of Circular 82 and clarify the reporting and filing obligations of such “Chinese-controlled offshore incorporated resident enterprises.” Bulletin 45 provides procedures and administrative details for the determination of resident status and administration of post-determination matters. Although Circular 82 and Bulletin 45 explicitly provide that the above standards apply to enterprises which are registered outside of China and controlled by PRC enterprises or PRC enterprise groups, Circular 82 may reflect SAT’s criteria for determining the tax residence of foreign enterprises in general. If our global income were to be taxed under the EIT Law, our financial condition and results of operations may be materially and adversely affected.

You may be subject to PRC income tax on dividends from us or on any gain realized on the sale or other disposition of our Shares under PRC law.

Under the EIT Law, subject to any applicable tax treaty or similar arrangement between China and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from sources within China payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in China, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within China unless a treaty or similar arrangement otherwise provides. Under the PRC Individual Income Tax Law (中華人民共和國個人所得稅法) and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20%, and gains from PRC sources realized by such investors on the transfer of shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws.

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Although substantially all of our business operations are in China, it is unclear whether dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, would be treated as income derived from sources within China and as a result be subject to PRC income tax if we are considered a PRC resident enterprise. If PRC income tax is imposed on gains realized from the transfer of our Shares or on dividends paid to our non-PRC resident investors, the value of our investors’ investment in our Shares may be materially and adversely affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.

On February 3, 2015, the SAT issued (國家稅務總局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) (“SAT Circular 7”). SAT Circular 7 provided comprehensive guidelines relating to, and also heightened the PRC tax authorities’ scrutiny over, indirect transfers by a nonresident enterprise of PRC taxable assets. Under SAT Circular 7, the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC taxable assets, when a non-resident enterprise transfers PRC taxable assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC taxable assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC EIT and without any other reasonable commercial purpose. However, SAT Circular 7 contains certain exemptions, including (i) where a non-resident enterprise derives income from the indirect transfer of PRC taxable assets by acquiring and selling shares of an overseas listed holding company which holds such PRC taxable assets on a public market; and (ii) where there is an indirect transfer of PRC taxable assets, but if the non-resident enterprise had directly held and disposed of such PRC taxable assets, the income from the transfer would have been exempted from EIT in the PRC under an applicable tax treaty or arrangement.

We have conducted and may conduct acquisitions involving changes in corporate structures, and historically our Shares were transferred by certain then shareholders to our current shareholders. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our Shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your [REDACTED] in us.

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Laws and regulations governing the internet industry and related businesses in China are evolving and may involve significant uncertainty.

The PRC Government extensively regulates the internet industry, including the foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. With regard to the mobile advertising industry in China, various regulatory authorities of the PRC central government, such as the State Council, the MIIT, the SAIC, the MOC, the State Administration of Press, Publication, Radio, Film and Television and the MPS, are empowered to promulgate and implement regulations governing various aspects of the we-media marketing services industries. There exist inconsistencies and ambiguities in the regulations promulgated by different government authorities.

Risks and uncertainties relating to PRC regulation of internet businesses include new laws, regulations or policies may be promulgated or announced that will regulate internet activities, including we-media marketing services. If these new laws, regulations or policies are promulgated, additional licenses may be required for our operations. If our operations do not comply with these new regulations after they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties and our business operations could be disrupted.

There are uncertainties relating to the regulation of the internet industry in China, including evolving licensing requirements. This means that permits, licenses or operations of some of our companies may be subject to challenge, or we may fail to obtain or renew permits or licenses that applicable regulators may deem necessary for our operations. If we fail to maintain or obtain the required permits or licenses, we may be subject to various penalties, including fines and discontinuation of, or restriction on, our operations. Any penalty may disrupt our business operations and may have a material adverse effect on our results of operations.

The interpretation and application of existing or future PRC laws, regulations and policies relating to the internet industry 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 we-media marketing services business. We cannot assure you that we will be able to maintain our existing licenses or obtain any new licenses required under any existing or new laws or regulations. There are also risks that we may be found to be in violation of existing or future laws and regulations given the uncertainty and complexity of China's regulation of Internet businesses. If current or future laws, rules or regulations regarding Internet-related activities are interpreted in such a way as to render our ownership structure and/or business operations illegal or non-compliant, our business could be severely impaired and we could be subject to severe penalties.

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We rely on dividends paid by WFOE and Beijing Joyspreader for our cash needs, and any limitation on the ability of WFOE and Beijing Joyspreader to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We conduct substantially all of our business through WFOE and Beijing Joyspreader. Therefore, we rely on the dividends received from WFOE and Beijing Joyspreader to pay dividends to our Shareholders. Currently, PRC regulations permit the payment of dividends only out of distributable profits determined in accordance with the accounting standards and regulations in China, which differ in many aspects from generally accepted accounting principles in other jurisdictions. WFOE, Hongcheng Xinglong, Horgos Joyspreader and Consolidated Affiliated Entities are required to allocate certain percentages of any accumulated profits after tax each year to their statutory common reserve fund as required under the PRC Company Law, until the aggregate accumulated statutory common reserve funds exceed 50% of its registered capital. These reserve funds cannot be distributed as cash dividends. In addition, if WFOE, Hongcheng Xinglong, Horgos Joyspreader and Consolidated Affiliated Entities incur debt on their own or enter into certain agreements in the future, the instruments governing the debt or such other agreements may restrict their ability to pay dividends or make other distributions to us. Therefore, these restrictions on the availability and usage of our major source of funding may materially and adversely affect our ability to pay dividends to our Shareholders.

The PRC Government’s control over currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.

The Renminbi is not presently a freely convertible currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. There is no assurance that, under a certain exchange rate, we will have sufficient foreign currencies to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends following completion of the [REDACTED], do not require prior approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the requisite licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE. There is no assurance that we will be able to receive these approvals in time, or at all. This could restrict the ability of WFOE, Hongcheng Xinglong and Consolidated Affiliated Entities to obtain debt or equity financing in foreign currencies.

The existing foreign regulations allow us, following completion of the [REDACTED], to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that the PRC Government will continue to adopt this policy going forward. The PRC Government may also restrict our access to foreign currencies for current account transactions at its discretion. Any insufficiency of foreign currencies may impair our ability to obtain sufficient foreign currencies for dividend payments to our Shareholders or to satisfy any other foreign exchange requirements.

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Regulations relating to offshore investment activities by PRC residents may subject us to fines or sanctions imposed by the PRC Government, including restrictions on WFOE, Hongcheng Xinglong, Horgos Joyspreader and Consolidated Affiliated Entities’ ability to pay dividends or make distributions to us and our ability to increase investment in WFOE, Hongcheng Xinglong, Horgos Joyspreader and Consolidated Affiliated Entities.

The SAFE promulgated Circular 37 in July 2014. Pursuant to Circular 37, PRC residents must register with local branches of SAFE in connection with their direct or indirect offshore investments in an overseas special purpose vehicle, or SPV, directly established or indirectly controlled by PRC residents for the purposes of offshore investment and financing with their legally owned assets or interests in domestic enterprises, or their legally owned offshore assets or interests or any inbound investment through SPVs. Such PRC residents are also required to amend their registrations with the SAFE when there is a significant change to the registered SPV, such as changes of its PRC resident individual shareholder, name, operation period or other basic information, or the PRC individual resident’s increase or decrease in its capital contribution in the SPV, or any share transfer or exchange, merger or division of the SPV. In accordance with Circular 13, the foreign exchange registration aforesaid has been directly reviewed and handled by banks since June 1, 2015, and the SAFE and its branches perform indirect regulation over such foreign exchange registration through local banks. Under this regulation, failure to comply with the registration procedures set forth in Circular 37 may result in restrictions being imposed on the foreign exchange activities of WFOE and Beijing Joyspreader, including the payment of dividends and other distributions to its offshore parent or affiliate, the capital inflow from the offshore entities and its settlement of foreign exchange capital, and may also subject the relevant onshore company or PRC residents to penalties under PRC foreign exchange administration regulations.

We are committed to complying with, and to ensuring that our Shareholders who are subject to the regulations will comply with, the relevant rules. However, there is no assurance that the PRC Government will not have a different interpretation of the requirements of Circular 37 in the future. Moreover, we may not at all times be fully aware or informed of the identities of all of our Shareholders who are PRC residents, and we may not always be able to compel our Shareholders to comply with the requirements of Circular 37.

Fluctuations in the value of Renminbi and other currencies could have an adverse effect on our business, financial condition and results of operations.

The value of the Renminbi against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC Government’s policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces and the PRC Government’s policies will continue to impact Renminbi exchange rates going forward. The Renminbi may appreciate or depreciate significantly in value against the Hong Kong dollar, the U.S. dollar or other foreign currencies in the long term, depending on the

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fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float, which may also result in significant appreciation or depreciation of the Renminbi against the U.S. dollar or other foreign currencies.

Even though substantially all of our revenue and expense are denominated in RMB, fluctuations in exchange rates may nonetheless in the future adversely affect the value of our net assets and earnings. In particular, proceeds from the [REDACTED] are made in Hong Kong dollars. Any unfavorable movement in the exchange rate of the Renminbi against the Hong Kong dollar may adversely affect the value of our [REDACTED] from the [REDACTED]. In addition, any unfavorable movement in the exchange rate of the Renminbi against other foreign currencies may also lead to an increase in our costs, which could adversely affect our business, financial condition and results of operations.

Uncertainties with respect to the PRC legal system could limit the legal protection available to our Shareholders.

The PRC legal system has inherent uncertainties that could limit the legal protection available to our Shareholders. As substantially all of our business operations are in China, we are principally governed by PRC laws, rules and regulations. The PRC legal system is based on the civil law system. Unlike the common law system, the civil law system is established on the written statutes and their interpretation by the PRC Supreme People’s Court (最高人民法院), while prior legal decisions and judgments have limited significance for guidance. The PRC Government has been developing a commercial law system, and has made significant progress in promulgating laws and regulations relating to economic affairs and matters, such as corporate organization and governance, foreign investments, commerce, taxation and trade.

However, many of these laws and regulations are relatively new, and because of the limited volume of published decisions, their implementation and interpretation involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of any violation of these policies and rules until sometime after such violation has occurred. Furthermore, the legal protection available to our Shareholders under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and diversion of resources and management attention.

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PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to WFOE, Hongcheng Xinglong, Horgos Joyspreader and Consolidated Affiliated Entities, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Any funds we transfer to WFOE, Hongcheng Xinglong, Horgos Joyspreader and Consolidated Affiliated Entities, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to WFOE, Hongcheng Xinglong, Horgos Joyspreader and Consolidated Affiliated Entities are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System (商務部業務系統統一平台外商投資綜合管理應用), or FICMIS, and registration with other governmental authorities in China. In addition, (i) any foreign loan procured by WFOE, Hongcheng Xinglong and Consolidated Affiliated Entities is required to be registered with SAFE, or its local branches, and (ii) each of WFOE, Hongcheng Xinglong and Consolidated Affiliated Entities may not procure loans which exceed the difference between its registered capital and its total investment amount as recorded in FICMIS. Any medium or long term loan to be provided by us to WFOE, Hongcheng Xinglong and Consolidated Affiliated Entities must be recorded and registered by the NDRC and the SAFE or its local branches. We may not be able to complete such recording or registration on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to WFOE, Hongcheng Xinglong and Consolidated Affiliated Entities. If we fail to complete such recording or registration, our ability to use the [REDACTED] of the [REDACTED] and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular 19. The Circular 19 took effect as of June 1, 2015. The Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using the RMB fund converted from their foreign exchange capitals for expenditures beyond their business scopes. On June 9, 2016, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange Settlement (《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 SAFE Circular 16. The Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope, investment and financing (except for securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use. The Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in China the net [REDACTED] from the [REDACTED], which may adversely affect our business, financial condition and results of operations.

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Any failure to comply with PRC regulations regarding our RSU Scheme may subject the participants or us to fines and other legal or administrative sanctions.

After our Company becomes an overseas [REDACTED] company upon the completion of the [REDACTED], we, along with our Directors, executive officers and other employees who will be granted options, may be subject 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), issued by SAFE in February 2012, according to which, employees, directors, supervisors and other management members participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of no less than one year, subject to limited exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC operating entity of such overseas listed company, and complete certain other procedures. Failure to complete SAFE registrations may subject them to fines and other legal sanctions and may also limit their ability to make payment under the equity incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into WFOE, Hongcheng Xinglong, Horgos Joyspreader and Consolidated Affiliated Entities and WFOE, Hongcheng Xinglong, Horgos Joyspreader and Consolidated Affiliated Entities’ 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 laws and regulations.

In addition, SAT has issued certain circulars with respect to employee share option. Under these circulars, our employees working in China will be subject to PRC individual income tax if they exercise share options. WFOE, Hongcheng Xinglong, Horgos Joyspreader and Consolidated Affiliated Entities have the obligation to file documents relating to the employee share options with the relevant tax authorities and to withhold individual income tax for those employees. If our employees fail to pay or we fail to withhold income tax according to the relevant laws and regulations, we may face sanctions imposed by the relevant tax authorities.

You may experience difficulties in effecting service of process or enforcing foreign judgments against us, our executive Directors or senior management residing in China.

Substantially all of our assets are located in China and all of our executive Directors and senior management reside in China. Therefore, it may not be possible to effect service of process within Hong Kong or elsewhere outside of China upon us or our Directors or senior management. Moreover, China has not entered into treaties for the reciprocal recognition and enforcement of court judgments with Japan, the United Kingdom, the United States and many other countries. As a result, recognition and enforcement in China of a court judgment obtained in other jurisdictions may be difficult or impossible.

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In addition, on July 14, 2006, China and Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the “Arrangement”). Pursuant to the Arrangement, a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in China. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong or PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for [REDACTED] to enforce a Hong Kong court judgment against our assets or our Directors or senior management in China.

PRC laws and regulations establish more complex procedures for some acquisitions of PRC companies by foreign investors, which could make it difficult for us to pursue growth through acquisitions in China.

A number of PRC laws and regulations, including the M&A Rules, the Anti-Monopoly Law (反壟斷法), and the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions 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) promulgated by MOFCOM on August 25, 2011 and effective from September 1, 2011 (“Security Review Rules”), have established procedures and requirements that are expected to make the review of certain merger and acquisition activities by foreign investors in China more time consuming and complex. These include requirements in some instances to notify MOFCOM in advance of any transaction in which foreign investors take control of a PRC domestic enterprise, or to obtain approval from MOFCOM before 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 merger control or security review.

The Security Review Rules prohibits foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. If we are found to be in violation of the Security Review Rules and other PRC laws and regulations with respect to the merger and acquisition activities in China, or fail to obtain any of the required approvals, the relevant regulatory authorities would have broad discretion in dealing with such violations, including levying fines, confiscating our income, revoking WFOE, Hongcheng Xinglong, Horgos Joyspreader and Consolidated Affiliated Entities’ business and operating licenses,

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requiring us to restructure or unwind the relevant ownership structure or business operations. Any of these actions could cause significant disruption to our business operations and may materially and adversely affect our business, financial condition and results of operations. Furthermore, if the business of any target company we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company either by equity or asset acquisition, capital contribution or any contractual arrangement. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including approval from MOFCOM, may delay or inhibit our ability to complete such transactions, thus affecting our ability to expand our business or maintain our market share.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our Shares and there can be no assurance that an active market would develop.

Prior to the [REDACTED], there has been no public market for our Shares. The initial [REDACTED] for our Shares was the result of negotiations among us and the [REDACTED] (for themselves and on behalf of the [REDACTED]) and the [REDACTED] may differ significantly from the [REDACTED] for our Shares following the [REDACTED]. We have applied for [REDACTED] of and permission to [REDACTED] our Shares on the Stock Exchange. There is no assurance that the [REDACTED] will result in the development of an active, liquid public [REDACTED] market for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and [REDACTED] at which our Shares will be traded.

Furthermore, the [REDACTED] and [REDACTED] of our Shares may be volatile. The following factors, among others, may cause the [REDACTED] of our Shares after the [REDACTED] to vary significantly from the [REDACTED]:

- our financial results;
- unexpected business interruptions resulting from natural disasters or power shortages;
- major changes in our key personnel or senior management;
- changes in laws and regulations in China;
- our inability to compete effectively in the we-media marketing services industry;
- our inability to obtain or maintain regulatory approval for our operations;
- fluctuations in [REDACTED];

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- changes in analysts’ estimates of our financial performance;
- political, economic, financial and social developments in China and Hong Kong and in the global economy; and
- involvement in material litigation.

In addition, shares of other companies listed on the Stock Exchange with operations and assets in China have experienced significant price volatility in the past. As a result, it is possible that our Shares may be subject to changes in [REDACTED] not directly related to our performance and as a result, [REDACTED] in our Shares may suffer substantial losses.

The interests of our Controlling Shareholders may not align with those of our other Shareholders.

Immediately following the completion of the Share Subdivision and the [REDACTED], our Controlling Shareholders will directly and indirectly own an aggregate of 42.54% of our Shares. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matters submitted to our Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership, as a result, may discourage, delay or prevent a change in control of the Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of the Company or may reduce the [REDACTED] of our Shares. In addition, to the extent the interests of our Controlling Shareholders conflict with the interest of our other Shareholders, the interests of our other Shareholders may be disadvantaged or harmed.

Since there will be a gap of several days between [REDACTED] and [REDACTED] of our Shares, holders of our Shares are subject to the risk that the [REDACTED] of our Shares could fall during the period before [REDACTED] of our Shares begins.

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

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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. For details of our intended use of [REDACTED], see “Future Plans and Use of [REDACTED].” 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].

Substantial future sales or the expectation of substantial sales of our Shares in the public market could cause the [REDACTED] of our Shares to decline.

Sales of substantial amounts of Shares in the public market after the completion of the [REDACTED], or the perception that these sales could occur, could adversely affect the [REDACTED] of our Shares. Although our Controlling Shareholders is subject to restrictions on its sales of Shares within 12 months from 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 [REDACTED], or the perception that these sales could occur, could cause the [REDACTED] 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 it or that we will not [REDACTED] Shares pursuant to the general mandate to [REDACTED] shares granted to our Directors as described in “Appendix IV — Statutory and General Information” or otherwise, upon the expiration of restrictions set out above. 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 [REDACTED] of the Shares. 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 [REDACTED] of the Shares.

There may be difficulties in protecting your interests under the laws of the Cayman Islands.

Our corporate affairs are governed by, among other things, our Memorandum of Association, Articles of Association, the Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, 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 in other jurisdictions. Such differences may mean that the remedies available to the minority shareholders may be different from those they would have under the laws of other jurisdictions.

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There may be dilution because of issuance of new Shares or equity securities.

In spite of our current bank balances and cash and the net [REDACTED] from the [REDACTED], we may require additional funds due to changes in business conditions or other future developments relating to, inter alia, our existing operations or any future expansions. The amount and timing of such additional financing needs will vary depending on the timing 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. If additional funds are raised by way of issuance of new Shares or equity linked securities other than on a pro rata basis to existing shareholders, the percentage of ownership of our existing Shareholders in our Company, the earnings per Share and the net asset value per Share may be reduced.

Because the initial public [REDACTED] per Share is higher than the net tangible book value per Share, purchasers of our Shares in the [REDACTED] will experience immediate dilution.

The [REDACTED] of our [REDACTED] is higher than the net tangible book value per Share immediately prior to the [REDACTED]. Therefore, purchasers of our Shares in the [REDACTED] will experience an immediate dilution. Existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible assets value per share of their shares. If we issue additional Shares in the future, purchasers of our [REDACTED] may experience further dilution.

Whether and when the dividends will be declared and paid cannot be assured.

No dividend has been paid by the Company and from entities comprising the Group in respect of the Track Record Period. Our ability to declare future dividends will depend on the availability of dividends, if any, received from our operating subsidiaries. Under applicable laws and the constitutional documents of our operating subsidiaries, the payment of dividends may be subject to certain limitations. The calculation of certain of our operating subsidiaries' profit under applicable accounting standards differs in certain respects from the calculation under IFRSs. As a result, our operating subsidiaries may not be able to pay a dividend in a given year even if they have profit as determined under IFRSs. Accordingly, since we derive all of our earnings and cash flows from dividends paid by our operating subsidiaries, we may not have sufficient distributable profit to pay dividends to our Shareholders. In addition, any future dividend declaration and distribution will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our Articles of Association and PRC laws, including, where required, the approvals from our shareholders and our Directors. Our Shareholders at a general meeting must approve any declaration of dividends, which must not exceed the amount recommended by our Board.

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Moreover, our Directors may from time to time pay such interim dividends as our Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they think appropriate. As a result, we cannot assure you that we will make any dividend payments on our Shares in the future. See “Financial Information — Dividend Policy.”

If securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our Shares, the [REDACTED] and [REDACTED] of our Shares may decline.

The trading market for our Shares may be influenced by research reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our Shares or publish negative opinions about us, the [REDACTED] of our Shares would likely decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the [REDACTED] or [REDACTED] of our Shares to decline.

Certain facts, forecasts and statistics contained in this document are derived from a third-party report and publicly available official sources and they may not be reliable.

Certain facts, forecasts and other statistics contained in this document relating to China, the PRC economy and the industry in which we operate have been derived from various official government publications or other third-party reports. We have taken reasonable care in the reproduction or extraction of the official government publications or other third-party reports for the purpose of disclosure in this document, however, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the [REDACTED] or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics in this document may be inaccurate or may not be comparable to statistics produced with respect to other economies. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, [REDACTED] should give consideration as to how much weight or importance they should attach to or place on such facts.

[REDACTED] should read the entire document carefully and should not consider any particular statements in this document or in published media reports or other publicly available information without carefully considering the risks and other information contained in this document.

There may have been, prior to the publication of this document, and 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]. We do not accept any responsibility

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for the accuracy or completeness of any information reported by the press or other media or otherwise publicly available, nor the fairness or appropriateness of any estimates/forecasts, views or opinions expressed by the press or other media or otherwise publicly available regarding our Shares or the [REDACTED] or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective [REDACTED] should not rely on any such information, reports or publications in making their decision whether to invest in our Shares or in the [REDACTED]. You should rely solely upon the information contained in this document, the [REDACTED] and any formal announcements made by us in making your [REDACTED] decision regarding our Shares.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the [REDACTED], our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

1. MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules provides that an applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinary resident in Hong Kong.

We do not have sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules. Our Company's principal business, operations, management and senior management are located, managed and conducted in the PRC, the Company considers that it would be unduly burdensome, impractical and not be in the best interests of our Company and our Shareholders as a whole to appoint executive Directors who will be ordinarily resident in Hong Kong. As all of the executive Directors currently reside in the PRC, the Company does not, and for the foreseeable future, will not, 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 Rule 8.12 of the Listing Rules, and the following arrangements have been made for maintaining regular and effective communication with the Stock Exchange:

- (a) We have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two appointed authorized representatives are Mr. Zhu, an executive Director and Mr. Lei Kin Keong, the joint company secretary. Each of our authorized representatives will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by the Stock Exchange by telephone, facsimile and/or email to deal promptly with enquires from the Stock Exchange. Both of our authorized representatives are authorized to communicate on our Company's behalf with the Stock Exchange.
- (b) Each of our authorized representatives has means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. Our Directors, who are not ordinarily resident in Hong Kong, have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and are able to meet with the Stock Exchange within a reasonable period of time. To enhance the communication between the Stock Exchange, our authorized representatives and our Directors, we have implemented a policy that (a) each Director will provide, if available, his/her respective office phone number, mobile phone number, facsimile

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

number and email address to our authorized representatives; and (b) each Director and authorized representative will provide, if available, his/her respective office phone number, mobile phone number, facsimile number and email address to the Stock Exchange.

- (c) We have retained the services of a compliance advisor, Orient Capital (Hong Kong) Limited (the “**Compliance Advisor**”), 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 us with professional advice on continuing obligations under the Listing Rules. There will be adequate and efficient means of communication between the Company, the authorized representatives, the Directors and other officers and the Compliance Advisor. The Compliance Advisor will also provide advice to us when consulted by us in compliance with Rule 3A.23 of the Listing Rules.
- (d) Any meeting between the Stock Exchange and our Directors will be arranged through our authorized representatives or directly with our Directors within a reasonable timeframe. We will inform the Stock Exchange promptly in respect of any changes in our authorized representatives, our Directors and the Compliance Advisor in accordance with the Listing Rules.

2. JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary must be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable: (i) a member of The Hong Kong Institute of Chartered Secretaries; (ii) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and (iii) a certified public accountant (as defined in the Professional Accountants Ordinance).

In assessing “relevant experience,” the Stock Exchange will consider the individual’s: (i) length of employment with the issuer and other listed companies and the roles he/she played, (ii) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code, (iii) relevant training taken and/or to be taken in addition to the minimum requirement of taking not less than fifteen hours of relevant professional training in each financial year under Rule 3.29 of the Listing Rules, and (iv) professional qualifications in other jurisdictions.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

We have appointed Ms. Qin Jiaxin (“**Ms. Qin**”) and Mr. Lei Kin Keong (“**Mr. Lei**”) as our joint company secretaries. Ms. Qin is the secretary to the Board and is responsible for the information disclosure and legal compliance of our Group. She also assists in the coordination and organization of our Board and Shareholders’ meetings. Ms. Qin’s biographical information is set out in the section headed “Directors and Senior Management” in this document. Since Ms. Qin does not possess a qualification stipulated in Rule 3.28 of the Listing Rules, she is not able to solely fulfil the requirements as a company secretary of a listed issuer stipulated under Rules 3.28 and 8.17 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 Rules 3.28 and 8.17 of the Listing Rules in relation to the appointment of Ms. Qin as our joint company secretary. In order to provide support to Ms. Qin, we have appointed Mr. Lei, an associate member of the Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) and the Hong Kong Institute of Chartered Secretaries which meets the requirements under Rule 3.28 and 8.17, as a joint company secretary to provide assistance to Ms. Qin, for a three-year period from the [REDACTED] so as to enable her to acquire the relevant experience (as required under Rule 3.28(2) of the Listing Rules) to duly discharge her duties.

Such waiver will be revoked immediately if and when Mr. Lei ceases to provide such assistance. We will liaise with the Stock Exchange before the end of the three-year period to enable it to assess whether Ms. Qin, having had the benefit of Mr. Lei’s assistance for three years and will have acquired relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

See the section headed “Directors and Senior Management” in this document for further information regarding the qualifications of Ms. Qin and Mr. Lei.

3. CONNECTED TRANSACTIONS

We have entered into certain transactions which would constitute non-exempt continuing connected transactions of our Company under Chapter 14A of the Listing Rules upon [REDACTED]. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver in relation to certain continuing connected transactions between us and our connected persons from strict compliance with the requirements under Chapter 14A of the Listing Rules. For further details in this respect, please see the section headed “Connected Transactions” in this document.

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]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

NAME	RESIDENTIAL ADDRESS	NATIONALITY

Executive Directors

Mr. Zhu Zinan (朱子南)	No. 12 Xiaochangsanjiao Xuanwu District Beijing PRC	Chinese

Mr. Zhang Zhidi (張之的)	1-6-2, No. 122-3 Sanhao Street Heping District Shenyang City PRC	Chinese

Mr. Cheng Lin (成林)	2-7-2, No. 169-1 Lianhe Road Dadong District Shenyang City PRC	Chinese

Non-executive Directors

Mr. Guo Sijia (郭思嘉)	Room 1306A, Huasheng Guoji Building 12 Chaowai Yabao Road Chaoyang District Beijing PRC	Chinese

Mr. Hu Qingping (胡慶平)	24/F Taiping Finance Tower 6001 Yitian Road Futian District Shenzhen PRC	Chinese

Ms. Chen Yuanyuan (陳圓圓)	Room 802, Block 4, No. 520 Zhongshan East Road Qinhuai District Nanjing City Jiangsu Province PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

NAME	RESIDENTIAL ADDRESS	NATIONALITY
<i>Independent Non-executive Directors</i>		
Mr. Xu Chong (徐冲)	No. 1802, Building 4 Zaoyuan Court Chongwen District Beijing PRC	Chinese
Mr. Tang Wei (唐偉)	Room 501, Unit 6 Building No. 1, Namli Zone 1 Donghuashi, Chongwen District Beijing PRC	Chinese
Mr. Fang Hongwei (房宏偉)	5/F Building 1 No. 11 Fu Cheng Road Haidian District Beijing PRC	Chinese

For further information regarding our Directors, please refer to the section headed “Directors and Senior Management” in this document.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors

**China Securities (International)
Corporate Finance Company Limited**
18/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

**China Merchants Securities (HK)
Co., Limited**
48/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

BOCOM International (Asia) Limited
9/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

Legal advisors to our Company

As to Hong Kong laws:

Sidley Austin

39/F, Two International Finance Centre

8 Finance Street

Central

Hong Kong

As to PRC laws:

Beijing Jingtian & Gongcheng Law Firm

34/F, Tower 3, China Central Place

77 Jianguo Road

Beijing

PRC

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

As to Cayman Islands laws:

Campbells

Room 3507, 35/F

Edinburgh Tower

The Landmark

15 Queen’s Road Central

Hong Kong

**Legal advisors to the Joint Sponsors and
the [REDACTED]**

As to Hong Kong laws:

William Ji & Co. LLP

in Association with

Tian Yuan Law Firm Hong Kong Office

Suite 702, 7/F

Two Chinachem Central

26 Des Voeux Road Central

Central

Hong Kong

As to PRC laws:

Commerce & Finance Law Offices

6th Floor, Xinhua Insurance Plaza

12A Jianguomenwai Avenue

Chaoyang District

Beijing

PRC

**Reporting accountants and independent
auditor**

Deloitte Touche Tohmatsu

Certified Public Accountants

35/F, One Pacific Place

88 Queensway

Hong Kong

Independent industry consultant

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

1018, Tower B

500 Yunjin Road

Xuhui District

Shanghai

PRC

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

CORPORATE INFORMATION

Registered Office

Office of Sertus Incorporations
(Cayman) Limited
Sertus Chambers
Governors Square, Suite #5-204
23 Lime Tree Bay Avenue
P.O. Box 2547, Grand Cayman
KY1-1104, Cayman Islands

Corporate Headquarters

Building 54, Jialin Garden
No. 1 Jialin Road
Chaoyang District
Beijing
PRC

Principal Place of Business in Hong Kong

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wan Chai
Hong Kong

Company's Website

www.adjjoy.com.cn
*(the information contained in this website
does not form part of this document)*

Joint Company Secretaries

Qin Jiaxin (秦佳鑫)
No. 7 of Inner No. 5, Garden 1
Nanyuan, Wwaitun Street
Fengtai District
Beijing
PRC

Lei Kin Keong (李健強)
ACIS, ACS & HKICPA
40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

CORPORATE INFORMATION

Authorized Representatives

Zhu Zinan (朱子南)
No. 12, Xiaochangshantiao
Xuanwu District
Beijing
PRC

Lei Kin Keong (李健強)
ACIS, ACS & HKICPA
40th Floor, Sunlight Tower
No. 248 Queen’s Road East
Wanchai
Hong Kong

Audit Committee

Tang Wei (唐偉) (*Chairman*)
Xu Chong (徐翀)
Guo Sijia (郭思嘉)

Remuneration Committee

Xu Chong (徐翀) (*Chairman*)
Fang Hongwei (房宏偉)
Cheng Lin (成林)

Nomination Committee

Zhu Zinan (朱子南) (*Chairman*)
Xu Chong (徐翀)
Fang Hongwei (房宏偉)

Compliance Advisor

Orient Capital (Hong Kong) Limited
28th and 29th Floor
100 Queen’s Road Central
Central
Hong Kong

[REDACTED]

CORPORATE INFORMATION

[REDACTED]

Principal Banks

Industrial Bank Co., Ltd

Dongcheng Branch

Room A105a, Building No. 1
No. 17, Cangjingguan Hutong
Dongcheng District
Beijing
PRC

Industrial and Commercial Bank of China Limited

Science Park Branch
Building No. 105, Lizezhongyuan
Wangjing District
Beijing
PRC

Bank of China Limited

Khorgas Branch
No. 18, Youyi West Road
Khorgas City
Ili Kazakh Autonomous Prefecture
Xinjiang
PRC

INDUSTRY OVERVIEW

This section contains certain information and statistics relating to our industry which is derived from official government sources. In addition, this section and elsewhere in this document contain information extracted from a report prepared by Frost & Sullivan, or the F&S Report⁽¹⁾, commissioned by us for purposes of this document. We believe that the sources of the information in this Industry Overview section 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 materially false or misleading, and no fact has been omitted that would render such information materially false or misleading. Our Directors confirm that, after taking reasonable care, they are not aware of any adverse change in market information since the date of the F&S Report which may qualify, contradict or have an adverse impact on the quality of information in this section. However, the information has not been independently verified by us, the Joint Sponsors or any other party, other than Frost & Sullivan involved in the [REDACTED] and no representation is given as to its accuracy. Except as otherwise noted, all the data and forecast in this section are derived from the F&S Report.

MOBILE INTERNET INDUSTRY

Internet economy has been one of the major growth drivers of the PRC economy in recent years. In 2019, the internet economy per capita in China accounted for 32.0% of GDP per capita. There is a large and growing base of smartphone users in China. Driven by the boom in usage of smartphones, the number of mobile internet users in China increased from 556.8 million in 2014 to 830.7 million in 2019 with a CAGR of 8.3% and is expected to reach 1,044.1 million by 2024, representing a CAGR of 4.7% from 2019 to 2024. The penetration rate of mobile internet users in China experienced stable growth from 40.7% in 2014 to 59.3% in 2019. However, the internet economy per capita in China was far less than that of developed countries such as the U.S., Japan and Korea.

- (1) We have agreed to pay a commission fee of RMB1,165,000 for the preparation and use of the F&S Report, and we believe that such fees are consistent with the market rate. Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom.

In preparing the report, Frost & Sullivan has relied on the statistics and information obtained through primary and secondary research. Primary research includes interviewing industry insiders, competitors, downstream customers and recognized third-party industry associations. Secondary research includes reviewing corporate annual reports, databases of relevant official authorities, independent research reports and publications, as well as the exclusive database established by Frost & Sullivan over the past decades.

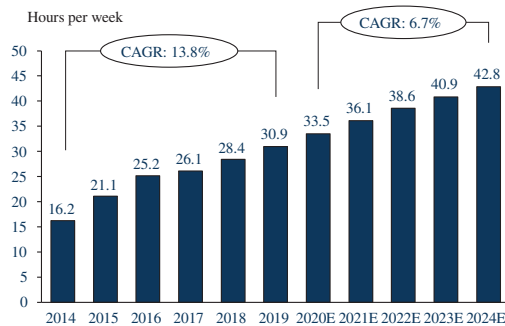
Frost & Sullivan has prepared the F&S report on the following assumptions: (i) PRC economic condition has recovered and is expected to continue to recover gradually from the impact of COVID-19 outbreak since the second quarter of 2020. Internet industry is expected to be less affected by the COVID-19 pandemic and the quarantine policies, as compared to industries such as retail, tourism and manufacturing that are heavily relied on offline operations and activities. To some extent, due to the COVID-19 pandemic and the quarantine policies, people tend to spend more time on the Internet activities such as online reading, gaming and shopping, from which benefits relevant Internet business segments; (ii) government policies on PRC digital marketing and internet content industry will remain consistent during the forecast period; (iii) key drivers of performance-based digital marketing in China include constant growth of digital marketing market, continuous innovation of performance optimization technology and increasing demand for marketing performance optimization; and (iv) key drivers of internet content monetization in China include development of internet content creating industry, growing willingness to pay for content of internet users, increasing monetization demand of we-media (自媒體) accounts.

After making reasonable inquiries, our Directors confirm that there has been no adverse change in the market information presented in the F&S Report since the date of its issuance which may qualify, contradict or impact the information in this section.

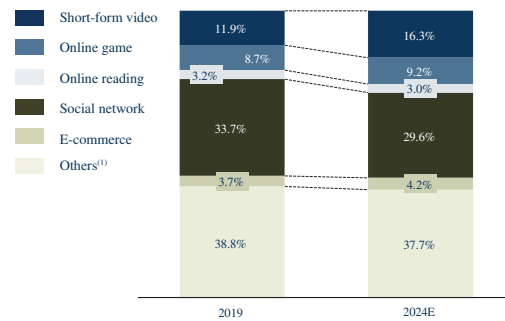
INDUSTRY OVERVIEW

As illustrated in the chart below, time spent on mobile internet per capita in China increased each year from 2014 to 2019, and is expected to continue increasing through 2024. This presents a business opportunity for marketers, media platforms and we-media publishers. Competition for user attention is fierce. The ability to capture smartphone users’ attention, such as through directed advertisements and content customized to each user, is increasingly critical to success.

**Time Spent on Mobile Internet
Per Capita, China, 2014-2024E**



**Breakdown of Time Spent on Mobile Internet
Per Capita, China, 2019 and 2024E**



(1) Others mainly include online music, news and online long-form video.

Source: CNNIC, Frost & Sullivan

WE-MEDIA MARKETING IN CHINA

Overview of We-media

We-media refers to online accounts registered by users on we-media platforms to publish content to the public in various format types, such as text, pictures, audio or video contents. Before the emergence of we-media in 2013, mobile internet users accessed content primarily through portal websites and mobile apps. Since 2013, we-media has developed rapidly and has become an integral part of mainstream media in terms of time spent on mobile devices in China in 2018.

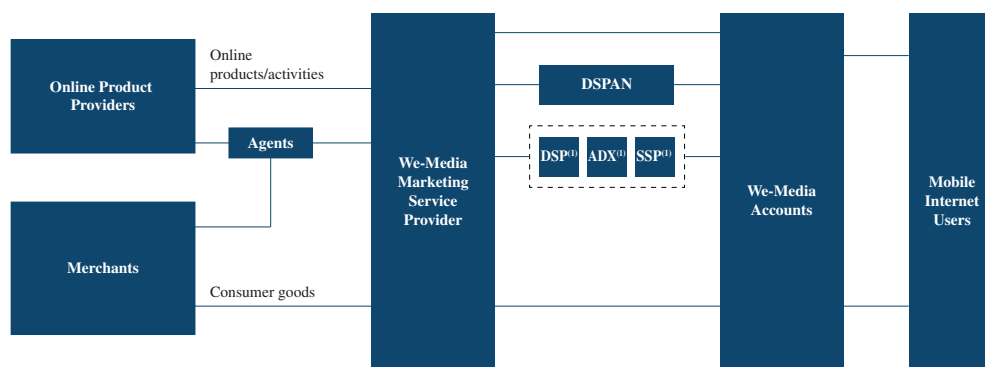
We-media platforms can be generally categorized into three types based on content format, namely, text-based, video-based and audio-based. WeChat Official Account was the largest text-based we-media platform in China as of March 31, 2020. Douyin and Kuaishou were the largest and second largest short-form video platforms in China in terms of MAU as of March 31, 2020, respectively. Douyin was also a leading live-streaming platform. There are also many leading we-media platforms in specific-interest genres such as bilibili (哔哩哔哩) in animation, comics and games, and Meet You (美柚) in female community.

INDUSTRY OVERVIEW

Due to unique features and functions provided by we-media platforms, we-media platforms have grown rapidly and we-media has become a major channel for marketers to market and promote their brand and products. At the same time, we-media publishers are keen to monetize their traffic by providing traffic inventory to marketers. This has created a market for we-media marketing, as well as business opportunities for we-media marketing service providers. We-media marketing service providers connect marketers (namely, product providers and merchants) with we-media publishers. Compared to other service providers, we-media marketing service providers that are able to provide multiple types of products that we-media publishers can monetize are more favored among we-media publishers. Performance-based marketing is an attractive business opportunity for small- to mid-sized we-media publishers. Substantially all of the performance-based we-media marketing expenditure of marketers is spent on small- to mid-sized we-media publishers. In 2019, small- to mid-sized we-media publishers account for approximately 70% of the total traffic of we-media platforms. However, it is difficult for them to monetize their traffic and therefore have strong demand for monetization services.

Each market player in the industry value chain takes a share of the total marketing budget of a marketer. Generally, marketing agents retain approximately 15% of the total marketing budget, we-media marketing service providers retain approximately 20% of the total marketing budget, agents of we-media platforms or we-media publishers retain approximately 5% of the total marketing budget, and we-media platforms, together with we-media publishers, share approximately 60% of the total marketing budget. In the industry, in terms of gains received by we-media publishers through monetizing their traffic resources, we-media publishers usually will not be further charged by we-media platforms such as WeChat, if the monetization services are not arranged or served by we-media platforms or its official agents.

The following diagram sets out the value chain of the we-media marketing market:



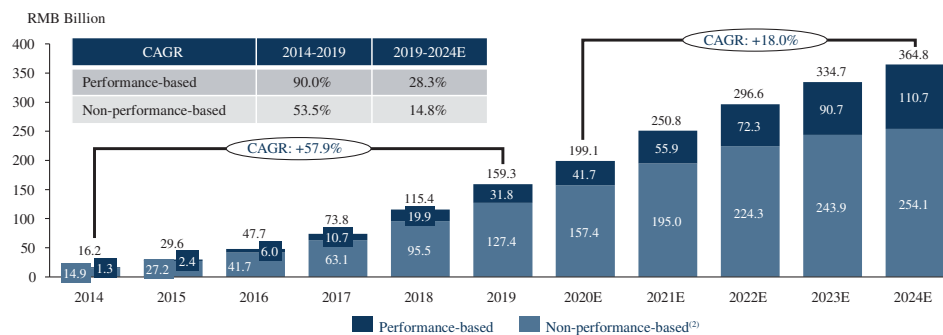
(1) DSP: Demand side platform. ADX: Ad exchange. SSP: Supply side platform. DSPAN: Demand-side platform ad network.

INDUSTRY OVERVIEW

Market Size

Driven by the popularity of top we-media platforms such as WeChat (微信), Weibo (微博), Toutiao (今日頭條) and Douyin that increasingly attracted the attention of mobile internet users, marketers have focused more resources and marketing budget on we-media than traditional portal websites. As measured by revenue in 2019, the market size of we-media marketing accounted for approximately one third of the total mobile advertising market. Market size of we-media marketing market by revenue increased from RMB16.2 billion in 2014 to RMB159.3 billion in 2019 with a CAGR of 57.9%, and is expected to reach RMB364.8 billion by 2024, representing a CAGR of 18.0% from 2019 to 2024. Although performance-based marketing only accounted for 20.0% of the we-media marketing market in terms of revenue in 2019, performance-based marketing has high growth potential as it is generally a more efficient and effective marketing tool compared to non-performance-based marketing, and therefore performance-based marketing is expected to capture more market share in the future.

Market Size of We-Media Marketing Market (by Revenue)⁽¹⁾, China, 2014-2024E



- (1) Market size refers to all revenue received from companies (such as brands, marketing agents, online literature providers and game providers) that spend on we-media for the purpose of marketing for or promoting their products or services.
- (2) Non-performance-based we-media marketing refers to marketing activities where the marketers are usually charged on a CPM or CPT basis. These pricing models usually indicate that service providers do not guarantee performance or effectiveness of their services.

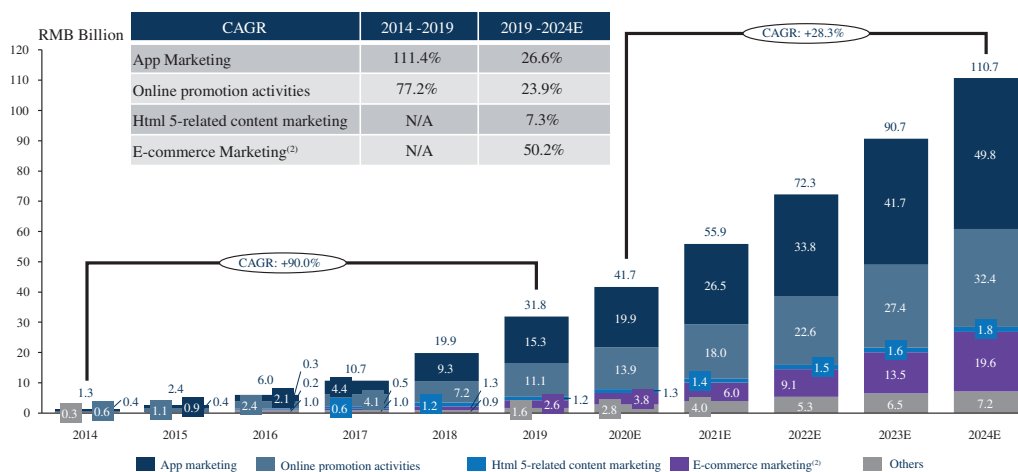
Source: Frost & Sullivan

INDUSTRY OVERVIEW

PERFORMANCE-BASED WE-MEDIA MARKETING IN CHINA

Performance-based marketing refers to a type of online marketing in which the marketers are charged when a specific designated action, such as a click, download or sale, is performed by internet audiences, unlike with other forms of marketing where fees do not depend upon the success of the marketing campaign. For this reason, marketing campaigns under a performance-based marketing model is highly targeted for each marketer. Consistent with the development of we-media marketing, the performance-based we-media marketing segment has also grown rapidly as marketers pay more attention on the performance and outcome of their marketing activities. The market size of performance-based we-media marketing market increased from RMB1.3 billion in 2014 to RMB31.8 billion in 2019, with a CAGR of 90.0%, and is expected to reach RMB110.7 billion by 2024, representing a CAGR of 28.3% from 2019 to 2024.

Market Size of Performance-based We-Media Marketing Market (by Revenue)⁽¹⁾, China, 2014-2024E



(1) Market size refers to all the revenue received from companies (such as advertisers, marketing agents, online literature providers and game providers) that spend on we-media for the purpose of marketing for or promoting their products or services.

(2) E-commerce marketing aims to influence online purchasing decisions for consumer goods.

Source: Frost & Sullivan

App Marketing

App marketing aims to encourage users to install the marketed mobile apps. Marketers are typically charged on a CPC or CPA basis. The number of mobile apps and app developers is rapidly increasing, and therefore competition for users is intensifying. App developers are increasingly seeking third-party marketing services to gain new users. App marketing became the leading segment holding nearly 50% of the total we-media performance-based marketing

INDUSTRY OVERVIEW

market in 2019. The market size of app marketing rapidly increased from RMB0.4 billion in 2014 to RMB15.3 billion in 2019 with a CAGR of 111.4% and is expected to reach RMB49.8 billion by 2024, representing a CAGR of 26.6% from 2019 to 2024.

Html 5-related Content Marketing

Html 5-related content marketing is relatively new and aims to direct traffic to Html 5 content or mini-programs for further potential consumption. Marketers are usually charged on a CPC or CPS basis. The market size of Html 5-related content marketing rapidly increased from RMB318.6 million in 2016 to RMB1.2 billion in 2019 with a CAGR of 57.0%. In 2018, the issuance of gaming licenses by the PRC Government decreased and gradually returned to normal pace in late 2019. The market size of Html 5-related content marketing segment is expected to reach RMB1.8 billion in 2024, representing a CAGR of 7.3% from 2019 to 2024.

Online Promotion Activities

Online promotion activities aim to promote marketing campaigns, articulate brand propositions or promote business activities. Brand owners are increasingly valuing cost efficiency and consumer engagement in recent years. We-media performance-based marketing enables marketers to better evaluate conversions and interact with consumers. The market size of online promotion activities rapidly increased from RMB0.6 billion in 2014 to RMB11.1 billion in 2019 with a CAGR of 77.2% and is expected to reach RMB32.4 billion by 2024, representing a CAGR of 23.9% from 2019 to 2024.

E-commerce Marketing

E-commerce marketing aims to influence online purchasing decisions for consumer goods. Marketers are usually charged on a CPS basis. E-commerce marketing is the fastest growing segment after it first appeared in 2015 because the CPS model benefits marketers with improved cost efficiency. The market size of e-commerce marketing rapidly increased from RMB42.0 million in 2015 to RMB2.6 billion in 2019 and is expected to reach RMB19.6 billion in 2024, representing a CAGR of 50.2% from 2019 to 2024. E-commerce marketers usually include consumer good brands, such as Newmine, a well-known 3C digital accessories brand.

COMPETITIVE LANDSCAPE

The performance-based we-media marketing industry is highly fragmented, with the five largest players accounting for less than a 5.0% market share in 2019. We are one of the leading performance-based we-media marketing service provider in China with a market share of 1.5% in terms of 2019 revenue. The following table sets forth details of the top five players in terms of 2019 revenue.

INDUSTRY OVERVIEW

Market Share of Top Performance-based We-media Marketing Service Providers (by Revenue), China, 2019

Rank	Company Name	Revenue (RMB in millions)	Market Share
1	The Company	473.6	1.5%
2	Company A	276.5	1.0%
3	Company B	272.4	0.9%
4	Company C	177.4	0.6%
5	Company D	165.4	0.5%
	Others	30,470.5	95.5%
Total Market Size		31,835.8	100.0%

The we-media marketing industry is highly fragmented, with the five largest players accounting for less than a 2.0% market share in 2019. We are one of the leading we-media marketing service provider in China with a market share of 0.3% in terms of 2019 revenue. The following table sets forth details of the top five players in terms of 2019 revenue.

Market Share of Top We-media Marketing Service Providers (by Revenue), China, 2019⁽¹⁾

Rank	Company Name	Revenue (RMB in billions)	Market Share
1	Company E	0.9	0.6%
2	The Company	0.5	0.3%
3	Company A	0.4	0.3%
4	Company B	0.3	0.2%
5	Company C	0.2	0.1%
	Others	157.0	98.5%
Total Market Size		159.3	100.0%

- (1) The current ranking has already taken service providers and marketing agents who provide we-media marketing services directly and do not engage service providers into consideration.

INDUSTRY OVERVIEW

DRIVERS AND TRENDS

- ***Growing willingness to pay for content provided by we-media.*** In line with consumption upgrades and growing disposable income, internet users in China have shown increasing willingness to pay for attractive and meaningful content on the internet. Moreover, convenient payment channels and user-friendly transaction processes on we-media platforms such as WeChat have facilitated user payment for content, which will drive the we-media marketing market. 5G technology with higher transmission speed is taking over 4G given its ability to significantly improve user experience when playing online games and watching livestreams, which further increase willingness to pay.
- ***Increasing demand for monetization services from we-media publishers.*** Weibo and WeChat have grown rapidly in user base in the last few years, which drives the increases in we-media publishers. Having invested heavily in the production of high quality contents to attract a large volume of user traffic, these we-media publishers need monetization channels to sustain operations. This need is especially apparent for small- to mid-sized we-media publishers that find it challenging to attract substantial loyal users and monetize their user traffic. Seeking services of monetization service providers that are able to provide diverse product offerings is a way for these we-media publishers to convert their user traffic into revenue.
- ***Increasing reliance by social media platforms on marketing service providers.*** As competition among we-media intensifies, social media platforms like WeChat are increasingly eager to rely on third-party marketing service providers to consolidate and provide a significant marketing demand. The we-media marketing market is growing rapidly as more partnerships are formed between social media platforms and marketing service providers.
- ***Increasing demand for performance-based marketing services from marketers.*** With the support of increasing data collection capability, data analysis capability and development of performance optimization algorithms, we-media marketing service providers are able to better understand the interests of audiences and identify targeted audiences to distribute suitable contents. More marketers are becoming aware of the benefits of performance-based marketing services, which leads to an increasing demand for performance-based marketing services.
- ***Diverse content forms and types.*** The emergence of new forms of content, such as short-form videos and live streaming, we-media marketing service providers are extending their services to new content forms to better serve marketers. Moreover, we-media publishers are increasingly seeking a diverse range of content types and content forms to monetize their online traffic, which is expected to improve the effectiveness and efficiency of marketing.

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- ***Increasing importance of data and algorithms.*** Marketing service providers are looking to explore more efficient conversion methods to monetize traffic and maximize individual audience values. This requires marketing service providers to better understand audience’s behaviors and preferences from their historical behavioral data through the usage of advanced algorithms to ensure in-time optimization, efficient recommendations and accurate audience acquisition. Moreover, advanced algorithms enable marketing service providers to more accurately match users and followers with their preferred content.

ENTRY BARRIERS

Entry barriers to the we-media marketing market in China include the following:

- ***Access to large we-media platforms.*** We-media marketing service providers rely heavily on large and diverse we-media platforms and we-media resources to secure favorable prices for we-media traffic and to maximize their access to potential audiences. When providing marketing services to marketers, the marketing performance is largely determined by online traffic that the service provider can access, and also by the ability to direct audience to the content that they are interested in and willing to pay for. Furthermore, we-media platforms focus on various forms of content, such as text and videos, to attract users with different consumption habits.
- ***Data and algorithm resources.*** A we-media marketing service provider should have solid capabilities to establish technology systems and algorithms to perform complex functions and build comprehensive and detailed libraries of user profiles. Data and algorithms are fundamental to make high quality recommendation of different types of content to targeted end users and maximize user consumption and monetization for we-media publishers. It is difficult for new entrant to accumulate data and develop effective algorithms for various content types.
- ***Content resource.*** High-quality content is important to attract users to pay. Marketing service providers need to acquire abundant high-quality content and provide more content options for end-users by attracting marketers from different platforms with various backgrounds and brand propositions. In addition, with stricter supervision on the internet content, the supply of legally-distributed content will be limited and competition for content resources will be more intense.
- ***Capital resources.*** In order to provide a stable and profitable we-media marketing service, we-media marketing service providers need to secure a favorable traffic acquisition price and maintain a long-term relationship with we-media platforms. We-media service providers generally need to make prepayments to top we-media platforms, such as WeChat Official Account, to acquire user traffic. Therefore, the requirement of abundant capital resources and steady cash flow may prevent new participants without strong financial support from entering the market.

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SHORT-FORM VIDEO MARKETING IN CHINA

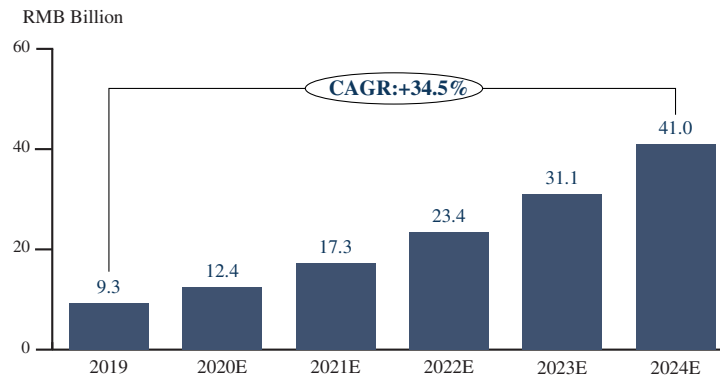
Short-form video refers to videos that are under five minutes long, with a majority of those on top short-form video platforms taking less than one minute to watch. Benefiting from faster wireless networks and cheaper data, short-form video has gained popularity rapidly in recent years. Compared to text and pictures, videos can convey more information in same length of time and can be more entertaining, enabling it to attract users’ attention more easily. Moreover, short-form videos can better occupy the fragmented leisure time of users. The MAU and average monthly time spent per user on short-form video platforms in China increased rapidly from 226.9 million and 10.1 hours, respectively, in 2017 to 627.1 million and 28.8 hours, respectively, in 2019. The MAU and average monthly time spent per user on short-form video platforms is expected to reach 842.9 million and 42.7 hours by 2024, compared to 1,303.6 million and 89.4 hours for text-based platforms.

Short-form video we-media has accumulated significant user traffic since the popularization of short-form video in 2017. Over the next few years, this content format is expected to move on to the next stage of its life cycle, where it will gradually be used as a monetization channel. The short-form video monetization market is expected to grow rapidly from RMB10.9 billion in 2019 to RMB57.8 billion in 2024 representing a CAGR of 39.6% from 2019 to 2024. The market size of performance-based we-media marketing on short-form video we-media was RMB9.3 billion in 2019, and is expected to reach RMB41.0 billion in 2024, representing a CAGR of 34.5% from 2019 to 2024. The growth is attributable to the increasing commercial value of short-form video we-media, which is accumulating a large user base and occupying more attention of users, as well as the efforts made by leading short-form video platforms to help content producers generate income. China’s booming short-form video monetization market also attracts foreign talents, including talents from South Korea and Southeast Asia, to extend their presence on leading short-form video platforms in China. These foreign talents generally upload original contents focusing on specific-interest areas, such as make-up tutorials and foreign culture introduction, to attract viewers. Differentiating from Chinese talents with their multi-national background, some of these foreign talents rely on MCNs to produce localization contents to gain popularity and attention. Compared with Chinese talents, foreign talents usually highly rely on professional institutions like MCNs in Chinese market due to multiple reasons, including the lack of knowledge and understanding of relevant laws and regulations, appropriate contents allowed by the authorities, Chinese culture and preference of the Chinese audience, in particular, foreign talents usually rely on MCNs to help them comply with relevant laws and regulations, follow content restrictions imposed by the authorities, figure out the type of appropriate content audience may like and the effective way to interact with audience. In addition, it may not be convenient for foreign talents to build production team with professional content production capabilities in China by themselves. Without the help of MCNs in China, foreign talents may not be able to quickly gain popularity in China. With the help of MCNs in China, they may be in a better position to produce localization content to present their special skills and characteristics and gain popularity. For example, a Korean model, had over 8 million followers by the end of March 2020 by posting

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dance videos and sitcoms on Douyin, and a Chinese-Thai actor gained over 4 million followers on Douyin by the end of March 2020. Entry barriers of short-form video monetization market mainly include technological capabilities relating to data and algorithms and content production capabilities.

Market Size of Performance-based Short-Video Marketing Market (by Revenue), China, 2019-2024E



Source: Frost & Sullivan

Key trends of the short-form video marketing market in China include the following:

- Great potential in monetization.** Although leading short-form video platforms like Douyin and Kuaishou (快手) have accumulated a large amount of users, they are still in the process of taking full advantage of their user traffic to achieve monetization. These platforms are upgrading their functions and capabilities to enable better monetization. For example, Douyin recently launched the Game Center (遊戲中心) where users can access games and mini-programs, creating opportunities for monetization.
- Diversification of monetization.** Short-form video we-media is a developing segment. Current monetization models for short-form video platforms are mainly limited to advertisements or cooperation with e-commerce platforms and content creators. To better capitalize on short-form video content, more innovative monetization models, may be adopted as new sources of revenue. In 2019, some leading platforms have already proven the feasibility of content monetization on short-form videos. For instance, leading platforms like Douyin and Kuaishou are introducing and promoting game monetization in their platforms, which benefits we-media marketing service providers focusing on content monetization. It is expected that diversification of monetization will benefit a large amount of the business partners in the value chain.

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- ***Overseas expansion of short-form video platforms.*** Benefiting from improved network infrastructure, the amount of mobile internet followers in Southeast Asia has been growing rapidly. For example, by 2019, mobile internet followers in Thailand, Vietnam and Indonesia reached over 400 million in total, with a CAGR of 18.6% from 2014 to 2019. With a population of over 400 million in total and rapidly expanding 4G network coverage, these three countries have substantial potential for development of short-form video platforms. Leading PRC short-form video platforms are expanding in Southeast Asia. For example, in 2018, total overseas MAUs of a leading short-form video platform reached over 100 million, with around 10 million in Thailand and over 15 million in Indonesia.
- ***Professional content creation.*** Professional-generated content (PGC) and professional-user-generated-content (PUGC) are growing in popularity due to their professional skills and abundant resources. Multi-channel networks (MCN) have emerged to assist content creators by creating high-quality content to capture specific-interest audiences. Short-form video platforms like Douyin and Kuaishou began to impose requirements on MCNs recently on their content production capability and qualification, creating an entry barrier.
- ***Increasing new users from third-tier and lower-tier cities.*** Compared to 2017, around 60% of the new users of short-form videos in 2019 were from third-tier and lower-tier cities. The income and consumption level of the residents from third-tier and lower-tier cities have significant growth potential. The growth rate of consumption expenditure of urban residents and rural residents in 2019 was 7.5% and 9.9%, respectively, and the growth rate of disposable income of urban residents and rural residents in 2019 was 7.9% and 9.6%, respectively. The expansion and increasing demand of the short-form video consumer base in third-tier and lower-tier cities will become a major source of growth for the short-form video marketing market in China.

REGULATORY OVERVIEW

Our business and operations in China are subject to laws and regulations in the PRC. This section summarizes the relevant laws and regulations which impact the key aspects of the industry in which our business operates.

LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

According to the Provisions on Guiding the Direction of Foreign Investment (《指導外商投資方向規定》), which took effect on April 1, 2002, industries in the PRC are classified into four categories: “permitted foreign investment industries”, “encouraged foreign investment industries”, “restricted foreign investment industries” and “prohibited foreign investment industries”. “Encouraged foreign investment industries”, “restricted foreign investment industries” and “prohibited foreign investment industries” are stipulated in the Catalog. Industries which do not fall in any of these three categories are regarded as “permitted foreign investment industries”. The Catalog is promulgated and is amended by the NDRC and the MOFCOM. The Negative List, which was last amended on June 23, 2020 and subsequently enforced on July 23, 2020 by the NDRC and the MOFCOM and replace the Catalog, sets forth management measures for the market entry of foreign investors, such as equity requirements and senior manager requirements. According to the Negative List, any internet cultural activities (except for the provision of music) is a foreign investment prohibited industry, and foreign-invested shares of value-added telecommunications services must not exceed 50% (excluding e-commerce, domestic multi-party communications services, store and forward services and call center services) of the business.

An enterprise which establishes, operates and manages within the Chinese territory is subject to the PRC Company Law last amended on October 26, 2018. The PRC Company Law is also applicable to a foreign investment company. Nevertheless, where there are other special laws relating to foreign investment, such laws shall prevail.

The procedures for the establishment of a wholly foreign-owned enterprise, the verification, registration and approval procedures, registered capital requirements, foreign exchange restrictions, accounting practices, taxation and labor matters are subject to the Law on Wholly Foreign-invested Enterprises of the PRC (《中華人民共和國外資企業法》), which was last amended on September 3, 2016 and subsequently enforced on October 1, 2016 and the Implementation Regulations for Law on Wholly Foreign-invested Enterprises of the PRC (《中華人民共和國外資企業法實施細則》), which was last amended on February 19, 2014 and subsequently enforced on March 1, 2014 and Provisional Administration Measures for the Registration of the Formation and Changes of Foreign Invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Measures**”) which was last amended on June 29, 2018 and subsequently enforced on June 30, 2018.

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According to the Measures, where the incorporation of foreign-invested enterprises do not fall within the scope of the Negative List, such enterprises shall file and submit the record-filing information on the incorporation of foreign-invested enterprises simultaneously when they go through the registration procedures for incorporation. Within the record-filing scope of the Measures, in the case of a change of basic information of the foreign-invested enterprises or their investors, a change of equity (shares) or cooperation interest of the foreign-invested enterprises, merger, division or dissolution, mortgage or transfer of foreign-invested enterprise’s property or rights and interests to others and other matters, the foreign-invested enterprise shall file the relevant documents online within 30 days upon occurrence of such changes via the comprehensive administrative system.

On December 30, 2019, the MOC and the State Administration of Market Regulation issued the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》), which came into effect on January 1, 2020 and replaced the Measures. Since January 1, 2020, for foreign investors carrying out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities pursuant to these measures.

On March 15, 2019, the NPC approved the Foreign Investment Law, which became effective on January 1, 2020, and replaced the Sino-foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法》), the Sino-foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-invested Enterprises Law (《中華人民共和國外資企業法》). On December 26, 2019, the State Council issued the Regulations on Implementing the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》), which came into effect on January 1, 2020, and replaced the Regulations on Implementing the Sino-Foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法實施條例》), Provisional Regulations on the Duration of Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業合營期限暫行規定》), the Regulations on Implementing the Wholly Foreign-Invested Enterprise Law (《中華人民共和國外資企業法實施細則》), and the Regulations on Implementing the Sino-foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法實施細則》).

Under the Foreign Investment Law, the State shall implement the management systems of pre-establishment national treatment and negative list for foreign investment, according to which the treatment given to foreign investors and their investments during the investment access stage shall be not lower than that given to their domestic counterparts, and the State shall give national treatment to foreign investment beyond the negative list where special administrative measures for the access of foreign investment in specific fields is specified. Besides, the State shall protect foreign investors’ investment, earnings and other legitimate rights and interests within the territory of China in accordance with the law. The state will take measures to prompt foreign investment such as ensuring fair competition for foreign-invested enterprises to participate in government procurement activities, and protection of intellectual property rights of foreign investors and foreign-invested enterprises.

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LAWS AND REGULATIONS RELATING TO INTERNET CULTURAL ACTIVITIES

In accordance with the Provisional Regulations on the Administration of Internet Culture (《互聯網文化管理暫行規定》) (the “**Ministry of Culture Decree No. 57**”), which took effect on April 1, 2011 and was last amended on December 15, 2017, internet cultural activities refer to the activities of providing internet cultural products and services, which mainly include: (1) the activities such as production, reproduction, import, release or broadcast of Internet cultural products; (2) the online distribution activities of publishing cultural products on internet, or sending cultural products through internet, mobile communication network and other information network to customer premise equipment such as computers, fixed telephones, mobile phones, radios, TV sets, game players, etc. as well as Internet bar and other Internet online service operating premises available for users to browse, read, appreciate, use or download such contents; (3) the exhibitions and competitions and other similar activities concerning internet culture products. Internet cultural products refer to the cultural products made from music, games, shows (programs), performance, arts, cartoons or other cultural products produced by certain technical means that are disseminated and circulated through the internet.

According to Ministry of Culture Decree No. 57, to engage in for-profit internet cultural activities, an application shall be filed to the local culture authority at the provincial level for approval and acquire an Online Culture Operating License which shall be valid for three years. An entity which needs to continue its business operations after its Online Culture Operating License expires shall apply for renewal at least 30 days before it expires. According to the Negative List, internet culture (except for music) is a foreign investment prohibited industry. As of the Latest Practicable Date, Beijing Joyspreader, Beijing Wuyou, Horgos Wuyou, Horgos Yaoxi and Zhipu Shulian possessed the Online Culture Operating License, which was issued by Department of Culture and Tourism of Beijing (北京市文化和旅遊局) (named Department of Culture of Beijing (北京市文化局) before) and Department of Culture and Tourism of Xinjiang (新疆維吾爾自治區文化和旅遊廳) separately, to carry out our internet culture activities.

LAWS AND REGULATIONS RELATING TO VALUE-ADDED TELECOMMUNICATION SERVICES

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the “**Telecommunications Regulations**”), which took effect on September 25, 2000 and was last amended on February 6, 2016, provide a regulatory framework for telecommunications service providers in China. The Telecommunications Regulations require telecommunications service providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications businesses into basic telecommunications businesses and value-added telecommunications businesses. According to the Catalog of Telecommunications Business (《電信業務分類目錄》), which was attached to the Telecommunications Regulations and was last amended by the MIIT on June 6, 2019, information service provided via fixed network, mobile network and internet fall within the scope of value-added telecommunications services.

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The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the “**Internet Measures**”), which took effect on September 25, 2000 and was last amended on January 8, 2011, set out guidelines on the provision of internet information services. The Internet Measures classified internet information services into commercial internet information services and non-commercial internet information services, and a commercial operator of internet content provision services must obtain a value-added telecommunications operating license (增值電信業務經營許可證) (the “**ICP License**”) for the provision of internet information services from the appropriate telecommunications authorities. The Administrative Measures for Telecommunications Businesses Operating Licensing (《電信業務經營許可管理辦法》), which took effect on September 1, 2017, provide that a commercial operator of value-added telecommunications services must first obtain an ICP License from MIIT or its provincial level counterparts. In addition, in the first quarter of every year while the operator is holding the license, the operator must report information such as business performance and service quality to the issuing authorities.

Foreign direct investment in telecommunications companies in China is governed by the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), which was promulgated by the State Council on December 11, 2001 and was last amended on February 6, 2016. The regulations require foreign-invested value-added telecommunications enterprises in China to be established as Sino-foreign equity joint ventures, and the foreign investors may acquire up to 50% of the equity interests of such enterprise. In addition, the main foreign investor who invests in a foreign-invested value-added telecommunications enterprise operating the value-added telecommunications business in China must demonstrate a good track record and experience in operating a value-added telecommunications business; the main foreign investor is defined as the one who makes the largest contribution among all foreign investors and has a share of 30% or more of the total amount invested by all foreign investors. Moreover, foreign investors that meet these requirements must obtain approvals from MIIT and MOFCOM, or their authorized local counterparts, which retain considerable discretion in granting approvals, for the commencement of that investor of value-added telecommunication business in China.

According to the Circular of Ministry of Information Industry on Strengthening the Administration of Foreign Investment in Value-Added Telecommunication Services (《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》), which took effect on July 13, 2006, a foreign investor that invests in telecommunications services within the territory of China shall, in strict accordance with the Provisions, apply for establishing a foreign-funded telecommunication enterprise and a corresponding license for telecommunications operation. A foreign investor that fails to go through the said procedures subject to relevant laws may not make any investment in the telecommunications business within the territory of China.

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LAWS AND REGULATIONS RELATING TO GAME CO-OPERATING

In accordance with the Provisional Measures for the Administration of Online Games (《網絡遊戲管理暫行辦法》) (the “**Provisional Measures for Online Games**”), which took effect on August 1, 2010 and was last amended on December 15, 2017, an applicant shall obtain an Online Culture Operating License to engage in business activities involving the operation of online games. On July 10, 2019, the MOCT issued the Decision of the Ministry of Culture and Tourism of the PRC on Abolishing the Provisional Measures for the Administration of Online Games and the Measures for Planning and Administration of Tourism Development (《文化和旅遊部關於廢止<網絡遊戲管理暫行辦法>和<旅遊發展規劃管理辦法>的決定》), which specifies that the Provisional Measures for Online Games was abolished by the MOCT on July 10, 2019.

The Notice on Regulating Online Game Operation and Strengthening Interim and Ex Post Supervision (《文化部關於規範網絡遊戲運營加強事中事後監管工作的通知》) (the “**Notice**”), which took effect on May 1, 2017, sets the following requirements in relation to online games: (i) clarifying the scope of online game operation; (ii) regulating services for issuance of virtual props of online games; (iii) strengthening the protection of the rights and interests of online game users; (iv) strengthening the interim and ex-post supervision of online game operation; and (v) seriously investigating and punishing illegal operating activities. The Notice further clarifies the business scope of online games: (i) the supply of online game products and services by online game operators to the public by opening online game user registration or providing online game download services with financial gain obtained from charging online game users or from e-commerce, advertising and sponsorship; (ii) the online game testing conducted by an online game operator by opening user registration or online game charging system, or providing client-side apps which can be used for direct registration and login of its server is deemed as online game operation; (iii) where an online game operator provides user system, charging system, program download, promotion and other services for the online game products of other operators, and participates in distributing the operational gains of such online games, it is deemed as having carried out online game co-operating, and shall undertake the corresponding responsibilities. Besides, the Notice requires the local culture authorities and cultural market comprehensive law enforcement agencies to strengthen the operation supervision on, the credit supervision on and the guidance, service and training for, the online game operators. The principle of punishment on the penalizing illegal behavior of online game co-operating enterprises is also regulated in the Notice. On August 19, 2019, the MOCT issued the Announcement on the Results of Clearing Administrative Normative Documents (《文化和旅遊部關於行政規範性文件清理結果的公告》), which specifies that the Notice was abolished by the MOCT.

LAWS AND REGULATIONS RELATING TO MARKETING BUSINESS

The Advertising Law of the PRC (《中華人民共和國廣告法》) (the “**Advertising Law**”), which took effect on February 1, 1995 and was last amended on October 26, 2018, regulates contents of advertisements, codes of conduct for advertisers, and the supervision and administration of the advertising industry. It also stipulates that advertisers, advertising operators, and advertisement publishers shall abide by the Advertising Law and other laws and

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regulations, be honest and trustworthy, and compete in a fair manner in advertising business. According to the Advertising Law, if advertising operators know or should have known the content of the advertisements is false or deceptive but still provide advertising design, production and agency services in connection with the advertisement, they might be subject to penalties, including confiscation of revenue and fines, and the competent PRC authority may suspend or revoke their business licenses.

The Interim Measures for the Administration of Internet Advertising (《互聯網廣告管理暫行辦法》) (the “**Interim Measures on Internet Advertising**”), which took effect on September 1, 2016, regulate advertising activities conducted via the internet. According to the Interim Measures on Internet Advertising, advertisements published or distributed via the internet shall not interfere with users’ normal use of the internet. For example, advertisements published on web page pop-up windows or in others forms shall be clearly marked with a “close” sign to ensure a “Click to close”. No entity or individual may induce users to click on the contents of an advertisement through deception. An internet advertisement publisher or advertising operator shall establish and maintain an acceptable registration, examination and file management system for its advertisers; examine, verify and record the identity information of each advertiser. The Interim Measures on Internet Advertising also require internet advertisement publishers and advertising operators to verify related supporting documents, check the contents of the advertisement and prohibits them from designing, producing, providing services or publishing any advertisement if the content and supporting documents do not match each other or the documentary evidence thereof are insufficient.

LAWS AND REGULATIONS RELATING TO INFORMATION SECURITY AND PRIVACY PROTECTION

Internet content in the PRC is regulated and restricted from a state security standpoint. The Standing Committee of the National People’s Congress (the “**SCNPC**”) enacted the Decisions on the Maintenance of Internet Security (《全國人民代表大會常務委員會關於維護互聯網安全的決定》), which took effect on December 28, 2000 and was last amended on August 27, 2009, to subject persons to criminal liabilities in the PRC for any attempt to (i) gain improper entry to a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. The Administration Measures on the Security Protection of Computer Information Network with International Connections (《計算機信息網絡國際聯網安全保護管理辦法》), which took effect on December 30, 1997 and was last amended on January 8, 2011, prohibit using the internet in ways which, among others, result in a leakage of state secrets or a spread of socially destabilizing content. The Provisions on the Technical Measures for the Protection of the Security of the Internet (《互聯網安全保護技術措施規定》), which was promulgated by the MPS and took effect on March 1, 2006, require internet service providers to take proper measures including anti-virus, data back-up and other related measures, to keep records of certain information about its users (including users registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days, and to detect illegal information, stop transmission of such information, and keep relevant records. If an internet information service provider violates

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these measures, the MPS and the local security bureaus may revoke its operating license and shut down its website. In accordance with the Circular of the Ministry of Public Security, the State Secrecy Bureau, the State Cipher Code Administration and The Information Office of the State Council on Printing and Distributing the Administrative Measures for the Graded Protection of Information Security (《公安部、國家保密局、國家密碼管理局、國務院信息工作辦公室關於印發<信息安全等級保護管理辦法>的通知》) which took effect on June 22, 2007, the security protection grade of an information system may be classified into the five grades. To newly build an information system of Grade II or above, its operator or user shall, within 30 days after it is put into operation, handle the record-filing procedures at the local public security organ at the level of municipality divided into districts or above of its locality.

On December 28, 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》) to enhance the legal protection of information security and privacy on the internet. On July 16, 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》), which took effect on September 1, 2013, to regulate the collection and use of users' personal information in the provision of telecommunication services and internet information services in PRC and the personal information includes a user's name, birth date, identification card number, address, phone number, account number, password and other information that can be used for identifying a user and time and place the user uses the aforementioned service. Telecommunication business operators and internet service providers are required to establish its own rules for collecting and use of user's information and cannot collect or use users' information without users' consent. Telecommunication business operators and internet service providers are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. Several Provisions on Regulation of the Market Order of Internet Information Service (《規範互聯網信息服務市場秩序若干規定》), which took effect on March 15, 2012, stipulate that without the consent of users, internet information service providers shall not collect information relevant to the users that can lead to the recognition of the identity of the users independently or in combination with other information, nor shall they provide personal information of users to others, unless otherwise provided by laws and administrative regulations.

In accordance with the Cyber Security Law of the PRC (《中華人民共和國網絡安全法》), which took effect on June 1, 2017, network operators shall comply with relevant laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks shall take technical measures and other necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data, and the network operator shall not collect the personal information irrelevant to the services it provides or collect or use the personal information in violation of the provisions of laws or agreements between both parties, and network operators of key information infrastructure shall store within the territory of the PRC all the personal information and important data collected and produced within the

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territory of the PRC. The purchase of network products and services that may affect national security shall be subject to national cyber security review. The Measures for Cybersecurity Review (《網絡安全審查辦法》), which took effect on June 1, 2020, provide for more detailed rules regarding cyber security review requirements.

On May 8, 2017, the Supreme People’s Court and the Supreme People’s Procuratorate released the Interpretations of the Supreme People’s Court and the Supreme People’s Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens’ Personal Information (《最高人民法院、最高人民檢察院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》) (the “**Interpretations**”), which took effect on June 1, 2017. The Interpretations clarify several concepts regarding the crime of “infringement of citizens’ personal information” stipulated by Article 253A of the Criminal Law of the People’s Republic of China (《中華人民共和國刑法》), including “citizen’s personal information”, “provision”, and “unlawful acquisition”. Also, the Interpretations specify the standards for determining “serious circumstances” and “particularly serious circumstances” of this crime.

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHT

Trademarks

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) which was last amended on April 23, 2019 and subsequently enforced on November 1, 2019, and the Implementation Rules of the PRC Trademark Law (《中華人民共和國商標法實施條例》) which was last amended on April 29, 2014 and subsequently enforced on May 1, 2014, a registered trademark means a trademark that has been approved by and registered with the trademark office, including goods trademarks, service trademarks, collective trademarks and certification trademarks. Twelve months prior to the expiration of the 10-year term, an applicant can renew its trademarks and reapply for trademark protection. A registered trademark is valid for 10 years commencing on the date of registration approval and renewal shall be made within 12 months before the expiration. If such an application cannot be filed within that period, an extension period of six months may be granted. To license a registered trademark, the licensor should file the licensing documents of the licensed trademark with the trademark bureau, and the trademark bureau shall gazette 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: (1) using a trademark that is identical or similar to a registered trademark of the same type of commodities or similar commodities without a license from the registrant of that trademark; (2) selling commodities that infringe upon the exclusive right to use a registered trademark; (3) 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; (4) 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 (5) other conduct that would hinder another party’s exclusive right to use its registered trademark.

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Patents

In accordance with the Patent Law of the PRC (《中華人民共和國專利法》), which was last amended December 27, 2008 and subsequently enforced on October 1, 2009 and the Implementation Rules for the Implementation of the Patent Law of the PRC (《中華人民共和國專利法實施細則》), which was last amended on January 9, 2010 and subsequently enforced on February 1, 2010, patent is divided in to 3 categories, i.e., invention patent, design patent and utility model patent. The duration of the invention patent right is 20 years, and the duration of the design patent right and utility model patent right is 10 years, which shall begin from the date of filing. An individual or entity who uses patent without the license of the patent holder, counterfeits patent products or engages in patent infringement activities shall be held liable for compensation to the patent holder and may be imposed a fine, or even subject to criminal liabilities.

Copyright

According to the Copyright Law of the PRC (《中華人民共和國著作權法》), which took effect on June 1, 1991, and was last amended February 26, 2010 and subsequently enforced on April 1, 2010, copyright includes computer software, and the Copyright Protection Centre of China provide a voluntary register system for copyright.

According to the Regulation on Computer Software Protection (《計算機軟件保護條例》), which took effect on October 1, 1991 and was last amended on January 30, 2013 and subsequently enforced on March 1, 2013, the software copyright shall exist from the date on which its development has been completed, and software copyright owner may register with the software registration institution recognized by the copyright administration department of the State Council. On February 20, 2002, the National Copyright Administration of the PRC issued the Measures on Computer Software Copyright Registration (《計算機軟件著作權登記辦法》), which outlines the operational procedures for registration of software copyright, as well as registration of the license for the software copyright and software copyright transfer contracts. The Copyright Protection Center of the PRC (中國版權保護中心) is mandated as the software registration agency under the regulations.

Domain Names

In accordance with the Measures for the Administration of Internet Domain Names (《互聯網域名管理辦法》), which took effect on November 1, 2017 and the Implementation Rules on Registration of National Domain Names (《國家頂級域名註冊實施細則》), the Measures on Dispute Resolution of National Domain Names (《國家頂級域名爭議解決辦法》), the Proceeding Rules on Dispute Resolution of National Domain Names (《國家頂級域名爭議解決程序規則》), which took effect on June 18, 2019, domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration.

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LAWS AND REGULATIONS RELATING TO LABOR PROTECTION

In accordance with the Labor Law of the PRC (《中華人民共和國勞動法》), which was last amended on December 29, 2018, and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), which took effect on January 1, 2008 and was amended on July 1, 2013, and the Implementation Regulation of the Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) which took effect on September 18, 2008, labor contracts in written form shall be executed to establish labor relationships between employers and employees. Employers shall establish and develop labor rules, regulations and systems according to the PRC laws to protect the rights and ensure the performance of duties of employees, and career development and training systems shall be established. Employers shall also set up and develop the labor safety and health system in strict compliance with the rules and standards of labor safety and sanitation of the PRC and provide education on labor safety and sanitation for the employees to prevent work-related accidents and occupational harm.

LAWS AND REGULATIONS RELATING TO SOCIAL INSURANCE AND HOUSING PROVIDENT FUND

In accordance with the Law of Social Insurance of the PRC (《中華人民共和國社會保險法》) which took effect on July 1, 2011 and was last amended on December 29, 2018, the Provisional Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) which took effect on January 22, 1999 and was last amended on March 24, 2019, the Decision of the State Council on the Establishment of Basic Medical Insurance System for Urban Workers (《國務院關於建立城鎮職工基本醫療保險制度的決定》) which took effect on December 14, 1998, the Decisions of the State Council on the Establishment of Unified System of Basic Retirement Insurance Fund for the Employees of Enterprises (《國務院關於建立統一的企業職工基本養老保險制度的決定》) which took effect on July 16, 1997, the Regulations of Insurance for Work-Related Injury (《工傷保險條例》) which was amended on December 20, 2010 and subsequently enforced on January 1, 2011, the Regulations of Insurance for Unemployment (《失業保險條例》) which took effect on January 22, 1999, the Provisional Insurance Measures for Maternity of Employees (《企業職工生育保險試行辦法》) which took effect on January 1, 1995 and the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》) which took effect on April 3, 1999 and was last amended on March 24, 2019, employers shall make payments of the basic medical insurance, basic retirement insurance, insurance for work-related injury, unemployment insurance, maternity insurance and housing provident fund for the employees.

If the employer fails to file the registration for social insurance, the social insurance administration authority shall order it to make rectification within a prescribed time limit. If rectification is not made within the prescribed time limit, the employer will be imposed a fine. If the employer does not pay the full amount of the Social Insurance as scheduled, the social insurance collection institution shall order it to pay within a prescribed time limit together with a late fee. If the payment including the late fee is not settled by the prescribed time limit, the employer will be imposed a fine. If the employer fails to file the registration for the housing provident fund, the housing provident fund administration center shall order the employer to

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pay the amount of the housing provident fund as specified under the relevant laws and regulations within a prescribed time limit, if the employer still fails to pay up within the prescribed time limit, the fund administration center may apply to the court for enforcement of the unpaid amount.

According to the Reform Scheme of Tax Collection and Management System of State Tax and Local Tax (《國稅地稅徵管體制改革方案》) which took effect on July 20, 2018, the social insurance collection and management authority was to be transferred from the Ministry of Human Resources and Social Security (人力資源和社會保障部) to the SAT from January 1, 2019. On September 18, 2018, the general meeting of State Council announced that the policies for social insurance shall remain unchanged until the transfer of the authority for social insurance has been completed. On September 21, 2018, the Ministry of Human Resources and Social Security released an Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilization the Levy of Social Insurance Payment (《關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) and required that the policies for both the rate and basis of social insurance contributions shall remain unchanged until the reform on the transfer of the authority for social insurance has been completed. On November 16, 2018, the SAT released the Notice of Certain Measures on Further Supporting and Serving the Development of Private Economy (《國家稅務總局關於實施進一步支持和服務民營經濟發展若干措施的通知》), which provided that the policy for social insurance shall remain stable and the SAT will pursue to lower the social insurance contribution rates with the relevant authorities, and ensure the overall burden of social insurance contribution on enterprises will be lowered.

LAWS AND REGULATIONS RELATING TO TAXATION

Corporate Income Tax

In accordance with the EIT Law, which took effect on January 1, 2008 and was last amended on December 29, 2018 and the Implementation Regulation for the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) which took effect on January 1, 2008 and was last amended on April 23, 2019 (collectively, the "EIT Laws"), taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with the PRC laws, or that are established in accordance with the laws of foreign countries (region) but whose actual or *de facto* control entity is within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries (region) and whose actual administration is conducted outside the PRC, but (i) have entities or premises in China, or (ii) have no entities or premises in China but have income generated from China. According to the EIT Laws, foreign invested enterprises in the PRC are subject to corporate income tax at a uniform rate of 25%. For a non-resident enterprise having no office or establishment inside China, or for a non-resident enterprise whose incomes have no actual connection to its institution or establishment inside China, a withholding tax of 10% will be levied for the income derived from China.

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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》) promulgated by the SAT and last amended on December 29, 2017 sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC.

In accordance with the EIT Laws, a high-tech enterprise which has independent intellectual property rights and complies with the rules of corporate income tax and other relevant laws and regulations enjoys a reduced corporate income tax rate of 15%. The specific standards and procedures for the management of identification of high-tech enterprises are stipulated in the Measures for the Administration of the Certification of High-tech Enterprises (《高新技術企業認定管理辦法》) which was jointly issued by the Ministry of Science and Technology, the MOF and the SAT on April 14, 2008, took retroactive effect on January 1, 2008 and amended on January 29, 2016, took retroactive effect on January 1, 2016.

Dividend Tax

Pursuant to the EIT Laws, income from equity investment between qualified PRC resident enterprises such as dividends and bonuses, which refers to investment income derived by a resident enterprise from direct investment in another resident enterprise, is tax-exempt.

In addition, pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the 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》) which took effect in the PRC on January 1, 2007, a the PRC resident enterprise which distributes dividends to its Hong Kong shareholders should pay income tax according to the PRC law, however, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds no less than 25% equity interests of the aforesaid enterprise (i.e. the dividend distributor), the tax levied shall be 5% of the distributed dividends.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) which took effect on February 20, 2009, all of the following requirements shall be satisfied in order to enjoy the preferential tax rates provided under the tax agreements: (i) the tax resident that receives dividends should be a company as provided in the tax agreement; (ii) the equity interests and voting shares of the PRC resident company directly owned by the tax resident reach the percentages specified in the tax agreement; and (iii) the equity interests of the Chinese resident company directly owned by such tax resident at any time during the twelve months prior to receiving the dividends reach a percentage specified in the tax agreement. On February 3, 2018, the SAT issued the Notice on Certain Issues regarding Beneficial Owner in Tax Treaties (《關於稅收協定中“受益所有人”

REGULATORY OVERVIEW

有關問題的公告》) which took effect on April 1, 2018 provides clearer guidelines and adopts comprehensive assessment approaches when determining whether a company can be qualified as Beneficial Owner, so as to enjoy the preferential tax rate on dividends.

Pursuant to Notice on the Applicable Scope of the Policy of Temporary Exemption of Withholding Taxes on the Direct Investment Made by Overseas Investors with Distributed Profits (《關於擴大境外投資者以分配利潤直接投資暫不徵收預提所得稅政策適用範圍的通知》) which took effect on January 1, 2018, where the profits distributed by a resident enterprise within the territory of China to an overseas investor are directly invested in an investment project which is not in the prohibited category and is in conformity with the specified conditions, the project shall be governed by the deferred tax payment policy and be temporarily exempt from withholding income tax.

VAT

According to the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) which took effect on January 1, 1994 and was last amended on November 19, 2017, and the Provisional Implementation Rules of the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例實施細則》) which was last amended on October 28, 2011 and subsequently enforced on November 1, 2011, all enterprises and individuals that engage in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC shall pay VAT. According to the Circular on Comprehensively Promoting the Pilot Program of the Collection of VAT in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》), which took effect on May 1, 2016, the pilot practice of levying VAT in lieu of business tax was extended nationwide to the sale of services, intangible assets or property.

According to the Circular of the Ministry of Finance (the "MOF") and SAT on Adjusting Value-added Tax Rates (《財政部、稅務總局關於調整增值稅稅率的通知》) which took effect on May 1, 2018, where a taxpayer engages in a taxable sales activity for the VAT purpose or imports goods, the previous applicable 17% and 11% tax rates are adjusted to be 16% and 10% respectively, and are further adjusted to be 13% and 9% respectively in accordance with the Announcement of the MOF, the SAT and the General Administration of Customs on Deepening the Policies Related to Value-Added Tax Reform (《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》) which took effect on April 1, 2019.

Urban Maintenance and Construction Tax as well as Education Surtax

In accordance with the Provisional Provisions on the Collection of Educational Surtax (《徵收教育費附加的暫行規定》), which was last amended on January 8, 2011, all entities and individuals who pay consumption tax, VAT and business tax shall also be required to pay educational surtax. The educational surtax rate is 3% of the amount of VAT, business tax and consumption tax actually paid by each entity or individual, and the educational surtax shall be paid simultaneously with VAT, business tax and consumption tax. In accordance with the Provisional Regulations on Urban Maintenance and Construction Tax of the PRC (《中華人民

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共和國城市維護建設稅暫行條例》) which was last amended on January 8, 2011 and Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (《國家稅務總局關於城市維護建設稅徵收問題的通知》), which took effect on March 12, 1994, any entity or individual liable to consumption tax, VAT and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, VAT and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. The rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town respectively.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

In accordance with the Foreign Exchange Administrative Regulations of the PRC (《中華人民共和國外匯管理條例》) which was last amended on August 5, 2008, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but are not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless prior approval/registration of the SAFE is obtained.

In accordance with the Administration Rule on the Settlement and Sale of and Payment in Foreign Exchange (《結匯、售匯及付匯管理規定》), which took effect on July 1, 1996, a foreign invested enterprise is allowed to process the settlement and sale of and payment in foreign exchange for capital account items after submitting valid commercial documents and getting approval from the SAFE. According to the Circular 13, which took effect on June 1, 2015, certain of the aforementioned approval rights of the SAFE are authorized to designated banks.

Pursuant to the Circular 19 which took effect on June 1, 2015, and the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange Settlement (《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》) which took effect on June 9, 2016, whose main business is investment, are allowed to make equity investment in PRC using the Renminbi funds converted from its registered capital. Meanwhile, the use of such Renminbi funds converted cannot be:

- directly or indirectly used for the payment beyond the business scope of the enterprises or any payment prohibited by national laws and regulations;
- unless otherwise provided by laws and regulations, directly or indirectly used or investment in securities or other financial products investment (except the bank capital-protection products);
- granting loans to non-related enterprises unless permitted under the scope of business; or

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- for construction or purchase of real estate not for self-use, save for real estate enterprises.

In October 2019, the SAFE released the Notice on Further Promoting the Facilitation 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》), which, among others, canceled the restrictions on the domestic equity investment by non-investment foreign-funded enterprises with their capital funds and non-investment foreign-funded enterprises are allowed to make domestic equity investment with their capital funds in accordance with the law on the premise that the existing special administrative measures (Negative List) for foreign investment access are not violated and the projects invested thereby in China are true and legitimate.

In addition, foreign invested enterprises are allowed to settle foreign exchange capitals on a discretionary basis; the foreign invested enterprises may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis. The SAFE may adjust the foregoing percentage as appropriate based on prevailing international balance of payments.

In accordance with the Circular 37 which took effect on July 4, 2014, a “special purpose vehicle” means an overseas enterprise directly established or indirectly controlled by a domestic resident (including domestic institutions and domestic individual residents) for the purpose of engaging in investment and financing with the domestic enterprise assets or interests he legally holds, or with the overseas assets or interests he legally holds. Domestic residents establishing or taking control of a special purpose vehicle abroad which makes round-trip investments in PRC are required to file foreign exchange registration with the local foreign exchange bureau. According to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies, the initial foreign exchange registration for establishing or taking control of a special purpose company by domestic residents can be filed with a designated bank, instead of the local foreign exchange bureau.

Pursuant to the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》) (the “**Circular 3**”) which took effect on January 26, 2017, stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities shall hold income to account for previous years’ losses before remitting profits. Moreover, pursuant to SAFE Circular 3, domestic entities shall make detailed

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explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

As of the Latest Practicable Date, the ultimate individual shareholders of the Company had completed the foreign exchange registrations pursuant to Circular 37 and Circular 13 in relation to their offshore investments as PRC residents.

LAWS AND REGULATIONS RELATING TO OVERSEAS DIRECT INVESTMENT

The Administrative Measures for Overseas Investment Management (《境外投資管理辦法》) was promulgated by the MOFCOM on September 6, 2014 and came into effect on October 6, 2014. As defined by the Measures for Overseas Investment Management, overseas investment means that the enterprises legally incorporated in the PRC own the non-financial enterprises or obtain the ownership, control and operation management rights of the existing non-financial enterprises in foreign countries through incorporation, merger and acquisition and other means. If the overseas investments involve sensitive countries and regions or sensitive industries, they shall be subject to the approval of competent authorities. For other overseas investments, they shall be subject to filing administration. Local enterprises shall be filed with the provincial commercial administration authorities where they are located. The qualified enterprises will be put into record and granted with Overseas Investment Certificate for Enterprise by the relevant provincial commercial administration authorities.

On December 26, 2017, NDRC issued the Administrative Measures for the Overseas Investment of Enterprises (《企業境外投資管理辦法》), which took effect on March 1, 2018. Under the Measures, sensitive overseas investment projects carried out by PRC enterprises either directly or through overseas enterprises under their control shall be approved by NDRC, and non-sensitive overseas investment projects directly carried out by PRC enterprises shall be filed with NDRC or its local branch at provincial level. In the case of the large-amount non-sensitive overseas investment projects with the investment amount of USD300 million or above carried out by PRC enterprises through the overseas enterprises under their control, such PRC enterprises shall, before the implementation of the projects, submit a report describing the details about such large-amount non-sensitive projects to NDRC. Where the PRC resident natural persons make overseas investments through overseas enterprises under their control, the Measures shall apply mutatis mutandis. Subsequently on January 31, 2018, NDRC issued the Catalogue of Sensitive Overseas Investment Industry (2018 Version) (《境外投資敏感行業目錄(2018年版)》) effective from March 1, 2018 under which enterprises shall be restricted from making overseas investments in certain industries including without limitation real estate and hotel.

As of the Latest Practicable Date, the ultimate PRC corporate shareholders of our Company, had completed the overseas direct investment registration with the local MOFCOM and NDRC pursuant to the Overseas Direct Investment Rules in relation to their offshore investments as domestic enterprises.

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LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal law governing dividend distributions by our PRC Subsidiaries is the PRC Company Law, while the dividend distribution by wholly foreign-owned enterprises (“WFOE”) is further governed by Foreign Investment Law and its implementation regulations. According to the above laws and regulations, Chinese companies (including foreign-owned enterprises) may only pay dividends based on the accumulated profits calculated in accordance with PRC accounting principles.

In addition, in accordance with the PRC Company Law, when a company distributes their after-tax profits for a given year, they shall allocate 10% of after-tax its profits to their statutory common reserve. Companies shall no longer be required to make allocations to their statutory common reserve once the aggregate amount of such reserve exceeds 50% of their registered capital unless the provisions of laws regarding foreign investment otherwise provided. If a company’s statutory common reserve is insufficient to make up its losses of the previous years, such losses shall be made up from the profit for the current year prior to making allocations to the statutory common reserve pursuant to the preceding paragraph. Such reserved cash cannot be distributed as cash dividends.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

Our Group’s history can be traced back to the establishment of Beijing Joyspreader in October 2008. Mr. Zhu has been the controller of Beijing Joyspreader since its establishment¹. During the period from Beijing Joyspreader’s establishment to 2017, we were principally engaged in the business of digital marketing services. In July 2014, Beijing Wuyou was established by Mr. Zhu and Mr. Zhang and later commenced business mainly in the mobile gaming industry. Starting from 2017, we adjusted our business strategy and focused on provision of performance-based marketing services. For details of the background and relevant experience of Mr. Zhu, see the section headed “Directors and Senior Management” in this document.

In order to support our business growth as well as to obtain alternative financing, Beijing Joyspreader listed its shares on the NEEQ in October 2016. In November 2018, in anticipation for the [REDACTED] on the Main Board of the Stock Exchange, the shares of Beijing Joyspreader were delisted from the NEEQ. As such, we have undergone corporate restructuring and incorporated our Company in the Cayman Islands on February 19, 2019. For details of our corporate restructuring before the [REDACTED], see “Reorganization” in this section. Upon completion of the restructuring, our Company became the holding company of our Group.

OUR BUSINESS MILESTONES

The following sets out our major milestones in our development:

Timeline	Milestone
October 2008	• Beijing Joyspreader was established and started conducting business in digital marketing services
June 2013	• We launched monetization services for we-media publishers
July 2014	• Beijing Wuyou was established in the PRC
November 2014	• We commenced business of provision of performance-based marketing services
June 2015	• Beijing Wuyou commenced business in the distribution of Html 5 mobile games
October 2016	• Beijing Joyspreader listed its shares on the NEEQ
March 2017	• Horgos Yaoxi and Horgos Wuyou were established in the PRC
November 2018	• Beijing Joyspreader delisted its shares from the NEEQ
January 2019	• We commenced the expansion of our short-form video monetization service and started developing Beauty Connector (美接平台), a technology platform that aims to serve marketers and we-media publishers on short-form video platforms

¹ From October 9, 2008 to May 21, 2012, Ms. Xing Jing (邢靜), a friend of Mr. Zhu and an Independent Third Party, held the initial registered capital of Beijing Joyspreader as trustee of Mr. Zhu.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OUR GROUP

Our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on February 19, 2019, with an authorized share capital of HK\$50,000 divided into 50,000,000 Shares with par value of HK\$0.001 each. On the same day, one Share was issued and transferred to ZZN. Ltd., which is a BVI company wholly owned by Mr. Zhu.

For information and shareholding changes of our Company, principal subsidiaries and Consolidated Affiliated Entities, see “Our Group — Our Principal Subsidiaries and Consolidated Affiliated Entities” below and the section headed “Statutory and General Information — A. Further Information about Our Group — 2. Changes in share capital of our Company” and “— 3. Changes in share capital of our subsidiaries and Consolidated Affiliated Entities” in Appendix IV to this document.

Our Principal Subsidiaries and Consolidated Affiliated Entities

Beijing Joyspreader

Establishment and earlier development

Beijing Joyspreader was established in the PRC as a limited liability company on October 9, 2008. It is the former holding company of our Group prior to our pre-[REDACTED] corporate restructuring.

After its establishment, Beijing Joyspreader commenced business in the provision of digital marketing services. From 2017, Beijing Joyspreader started to provide performance-based marketing services.

The initial registered capital of Beijing Joyspreader was RMB1.0 million and the entire equity interests were held by Ms. Xing Jing (邢靜), a friend of Mr. Zhu and an Independent Third Party, acting as trustee of Mr. Zhu. On May 21, 2012, Ms. Xing Jing entered into an equity transfer agreement with Mr. Zhu, pursuant to which she transferred her entire equity interests in Beijing Joyspreader back to Mr. Zhu at nil consideration. Later Mr. Zhu entered into an equity transfer agreement with his wife, Ms. Wang Jin (王瑾, “**Ms. Wang**”), on July 9, 2012, pursuant to which he transferred 1% of his equity interests in Beijing Joyspreader to Ms. Wang at nil consideration as a gift.

During January 2016 to May 2019, Beijing Joyspreader entered into several equity transfer and subscription agreements among Beijing Joyspreader, Mr. Zhu and our Pre-[REDACTED] Investors. For further details, please refer to the sub-section headed “Pre-[REDACTED] Investments” below.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On July 15, 2016, Beijing Joyspreader entered into a share subscription agreement with Beijing Zinan and Friends, pursuant to which Beijing Joyspreader issued 10% of its shares to Beijing Zinan and Friends for a consideration of RMB1,666,667. The consideration was determined based on arm’s length negotiation taking into account the contribution to Beijing Joyspreader made by Mr. Zhu and Mr. Zhang and was fully settled on August 11, 2016.

On December 5, 2019, Mr. Zhu entered into a share transfer agreement with Jiaxing Guangda, pursuant to which Jiaxing Guangda transferred 711,111 shares in Beijing Joyspreader to Mr. Zhu for a consideration of RMB19,498,079.15. The consideration was determined based on the amount of Jiaxing Guangda’s initial investment plus accrued interests up to the date of such share repurchase agreement and was fully paid on December 3, 2019. Jiaxing Guangda was established as a limited partnership under the laws of the PRC on August 28, 2015. The general partner of Jiaxing Guangda is Jiaxing Guangda Merrill Investment Management Co., Ltd. (嘉興光大美銀投資管理有限公司), which is owned by Everbright Capital Investment Co., Limited (光大資本投資有限公司) and Merrill Oriental (Beijing) Capital Management Co., Ltd. (美銀東方(北京)資本管理有限公司) as to 56.7% and 43.3%, respectively. Everbright Capital Investment Co., Limited is a wholly-owned subsidiary of Everbright Securities Company Limited (stock code: 601788; 6178.HK). China Everbright Group is indirectly owned and controlled by the State Council.

Pursuant to a valuation adjustment mechanism agreement (“**Daoyoudao VAM Agreement**”) entered into between Mr. Zhu and Beijing Daoyoudao on May 24, 2016, Beijing Daoyoudao agreed to transfer 35% of the total equity interests in Beijing Joyspreader it held to Mr. Zhu at nil consideration upon achievement of certain financial targets. The Daoyoudao VAM Agreement was entered into after arm’s length negotiations between Beijing Daoyoudao and Mr. Zhu. Given all the conditions contemplated under the Daoyoudao VAM Agreement had been satisfied, Mr. Zhu and Beijing Daoyoudao entered into an equity transfer agreement on December 3, 2019, pursuant to which Beijing Daoyoudao transferred 3.41% equity interests, which equals to 35% of the total equity interests it held in Beijing Joyspreader at the time of transfer, to Mr. Zhu at nil consideration. Save as disclosed in this section, there has been no other agreement, arrangement or understanding between Beijing Daoyoudao and Mr. Zhu, or any of their respective associates, in relation to the [REDACTED], ownership or management of our Group, nor did the Company become aware of any plan of Beijing Daoyoudao to dispose of its remaining equity interests in Beijing Joyspreader, as of the Latest Practicable Date.

Conversion into a joint stock company and listing of the shares of Beijing Joyspreader on the NEEQ

Pursuant to the shareholders’ resolutions passed on April 1, 2016, Beijing Joyspreader was converted into a joint stock company with limited liability on April 19, 2016, with its registered capital converted into 1,000,000 shares with a nominal value of RMB1.00, each attributable to the then shareholders in proportion to their respective shareholdings. To support our business growth and obtain alternative financing, the then shareholders of Beijing Joyspreader resolved to list its shares on the NEEQ on April 19, 2016. On October 28, 2016, Beijing Joyspreader successfully listed its shares on the NEEQ (stock code: 839460).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

De-listing from the NEEQ

Pursuant to the shareholders’ resolutions passed on October 8, 2018, Beijing Joyspreader delisted its shares from the NEEQ on November 16, 2018. Our Directors are of the view that the de-listing of the shares of Beijing Joyspreader from the NEEQ and the [REDACTED] of our Shares on the Stock Exchange would be in the best interests of our Group for the following reasons:

- the NEEQ is only open to qualified investors and currently has a low trading volume, which inhibited our ability to publicly raise funds, in equity or debt, to continuously support our business growth, and execute substantial on-market disposals by shareholders to realize value;
- the low trading volume makes it difficult to identify and establish the fair value of Beijing Joyspreader reflecting the underlying quality of its assets and management;
- the Shanghai and Shenzhen Stock Connect programs between the PRC and Hong Kong may also allow mainland investors, who are familiar with our business and operation, to invest in us through such programs after the [REDACTED];
- as Hong Kong is a gateway between the PRC and the international market, [REDACTED] on the Stock Exchange would give us a platform to be widely approached by international investors in the global market while we could still maintain our business operations in the PRC; and
- we could further raise our brand awareness, broaden the financing channels in the capital market to support our increasing financing needs for our further business expansion and strengthen the corporate governance of our Group should our Shares be [REDACTED] on the Stock Exchange, which is regarded as a competitive and established exchange and with an established reputation as one of the leading stock exchanges globally.

As advised by our PRC Legal Advisors, Beijing Joyspreader had been in compliance with all relevant PRC securities laws and regulations and rules and regulations of the NEEQ in all material respects and Beijing Joyspreader had not been subject to any penalties or disciplinary regulatory measures imposed by the NEEQ during the period of its listing on the NEEQ and its de-listing from the NEEQ has fulfilled the required procedures. Our Directors confirm, and the Joint Sponsors concur, that there are no other matters in relation to Beijing Joyspreader’s previous listing on the NEEQ that should be brought to the attention of Stock Exchange or our Shareholders.

Beijing Wuyou

Beijing Wuyou was established in the PRC as a limited liability company on July 30, 2014. The initial registered capital of Beijing Wuyou was RMB1.0 million and was held by Mr. Zhu and Mr. Zhang as to 88.37% and 11.63%, respectively.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

In November 2014, Beijing Wuyou commenced provision of performance-based marketing services. Later in June 2015, Beijing Wuyou started business in the distribution of Html 5 mobile games in association with certain leading game developers. Beijing Wuyou recalled all mobile games in 2017 and along with the adjusted business strategy of the Group, Beijing Wuyou ceased to conduct publication and operation of mobile games and started to focus on provision of performance-based marketing services from 2017.

On April 17, 2015, Mr. Zhu entered into certain equity transfer agreements with Beijing Daoyoudao, Ms. Zhang Yue (張玥) and Mr. Chen Liang (陳亮), pursuant to which Mr. Zhu transferred 10%, 2% and 2% of the equity interests in Beijing Wuyou to Beijing Daoyoudao, Ms. Zhang Yue and Mr. Chen Liang at considerations of RMB1,500,000, RMB300,000, RMB300,000, respectively. The considerations were determined based on arm’s length negotiations between the parties. Payments for the considerations were fully settled on April 17, 2015.

On January 5, 2016, Mr. Zhu, Mr. Zhang, Ms. Zhang Yue, Mr. Chen Liang and Beijing Daoyoudao transferred their equity interests in Beijing Wuyou to Beijing Joyspreader at an aggregate consideration of approximately RMB10.7 million. The consideration was determined based on arm’s length negotiations between the parties and the payments for the consideration was fully settled on February 3, 2016. Following the completion of the above equity transfers, Beijing Wuyou became a wholly-owned subsidiary of Beijing Joyspreader.

Horgos Yaoxi and Horgos Wuyou

Each of Horgos Yaoxi and Horgos Wuyou was established in the PRC as a limited liability company on March 19 and March 20, 2017, respectively. Both of them are wholly-owned subsidiaries of Beijing Joyspreader and are currently engaged in performance-based marketing service business.

SUBSCRIPTION OF THE EQUITY INTERESTS IN BEIJING YINGYI

On December 24, 2018, Beijing Joyspreader entered into a subscription agreement (the “**Yingyi Subscription Agreement**”) with Ms. Wang Fangyue (王方悦) and Mr. Xie Hanshuo (解寒碩), who are Independent Third Parties and then shareholders of Beijing Yingyi, to subscribe for 19.90% of the equity interests in Beijing Yingyi at a total consideration of RMB6 million. The financial results of Beijing Yingyi will not be consolidated into the results of our Company. The principal business of Beijing Yingyi is production and operation of short-form videos. Beijing Yingyi holds the License for Production and Distribution of Radio or Television Programs (《廣播電視節目製作經營許可證》). According to the Negative List, foreign-invested enterprises are not allowed to engage in the business permitted under such license.

The consideration for the subscription was determined based on arm’s length negotiations after taking into account the experience of Beijing Yingyi’s management team and the potential synergies with our business. The payment of the consideration has been fully settled on December 24, 2018.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Our Directors believe that the subscription of equity interests in Beijing Yingyi is in the interest of our Company and the Shareholders as a whole. The subscription of equity interests in Beijing Yingyi represents a strategic investment opportunity as the industry experience and expertise of its management team would create synergies with our existing performance-based marketing service business: (a) Beijing Yingyi will be able to customize the short-form videos in production based on the products to be distributed by the Company to platforms such as *Taobao TaoLive* and *Douyin*, which will help to enhance the Company’s ability to provide more valuable services to the customers; (b) the Company shares information with Beijing Yingyi, through which Beijing Yingyi is able to identify and produce the most popular professional generated content (“PGC”) with monetization potential that may be connected to the products to be distributed by the Company and in turn enhance the monetization ability of the Company; and (c) such investment will enable the Company to be access to better monetization opportunities through top-end qualifications held by Beijing Yingyi on platforms such as *Taobao TaoLive* and *Douyin* and enjoy the high-quality resources provided by such platforms, and the high-quality short-form videos produced by Beijing Yingyi would help to accumulate users and traffic for our Company on such platforms and in turn enhance the monetization ability of the Company.

CONCERT PARTY AGREEMENT

Mr. Zhu and Mr. Zhang have entered into the Concert Party Agreement, pursuant to which Mr. Zhu and Mr. Zhang confirmed that they had been acting in concert since the signing of the Concert Party Agreement and agreed that they would continue to act in concert by aligning their votes at shareholders meetings of the Company and Beijing Joysreader. The Concert Party Agreement has a term of three years subject to further extension of another three years unless terminated by either party prior to the expiration.

SHARE SUBDIVISION

We will conduct the Share Subdivision before the [REDACTED] pursuant to which each Share with par value HK\$0.001 in our issued and unissued share capital will be subdivided into 100 Shares with par value HK\$0.00001 each, following which our issued share capital will consist of 1,631,263,200 Shares with par value of HK\$0.00001 each.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

PRE-[REDACTED] INVESTMENTS

Overview

During the period from January 2016 to May 2019, Beijing Joyspreader underwent certain rounds of financing activities raising a total amount of approximately RMB251 million, the purpose of which was to improve our working capital and fund our needs of operation and business development in the PRC. Set forth below is a table that illustrates the shareholding structure of Beijing Joyspreader immediately before the Pre-[REDACTED] Investments:

<u>Shareholder</u>	<u>Equity Interests in Beijing Joyspreader</u>	<u>Shareholding in Beijing Joyspreader</u>
Mr. Zhu	RMB990,000	99%
Ms. Wang	RMB10,000	1%
Total	RMB1,000,000	100%

Series A-1 Financing

On January 23, 2016, each of Beijing Daoyoudao, Mr. Zhang, Ms. Zhang Yue (張玥), Mr. Chen Liang (陳亮) and Ms. Zhang Wenyan (張文妍) entered into an equity transfer agreement with Mr. Zhu, pursuant to which he agreed to transferred 10%, 10%, 2%, 2% and 1% equity interests in Beijing Joyspreader to Beijing Daoyoudao, Mr. Zhang, Ms. Zhang Yue, Mr. Chen Liang and Ms. Zhang Wenyan, at considerations of RMB1,071,400, RMB1,071,400, RMB214,280, RMB214,280 and RMB107,140, respectively. On the same day, Ms. Wang transferred her 1% equity interests in Beijing Joyspreader to Ms. Zhang Wenyan at a consideration of RMB107,140 (the “Series A-1 Financing”). The considerations were determined after arm’s length negotiations taking into account the paid-in capital and capital reserve of Beijing Joyspreader. Set forth below is a table that illustrates the shareholding structure of Beijing Joyspreader upon completion of the Series A-1 Financing:

<u>Shareholder</u>	<u>Equity Interests in Beijing Joyspreader</u>	<u>Shareholding in Beijing Joyspreader</u>
Mr. Zhu	RMB740,000	74%
Beijing Daoyoudao	RMB100,000	10%
Mr. Zhang	RMB100,000	10%
Ms. Zhang Yue	RMB20,000	2%
Mr. Chen Liang	RMB20,000	2%
Ms. Zhang Wenyan	RMB20,000	2%
Total	RMB1,000,000	100%

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Series A-2 Financing

On May 24, 2016, Mr. Zhu and Beijing Joyspreader entered into a share subscription agreement with Beijing Daoyoudao, Mr. Chen Liang, Mr. Zhang, Ms. Zhang Yue and Ms. Zhang Wenyan, pursuant to which Beijing Daoyoudao and Mr. Chen Liang increased their shareholdings in Beijing Joyspreader to approximately 15.90% and 5.78% at considerations of RMB7 million and RMB4 million, respectively (the “**Series A-2 Financing**”). On June 6, 2016, Beijing Joyspreader increased its registered share capital from RMB1,123,596 to RMB10,000,000, and further increased to RMB11,111,111 on August 29, 2016. The considerations were determined after arm’s length negotiations after taking into account the timing of the investments and the status of our business at that time. Set forth below is a table that illustrates the shareholding structure of Beijing Joyspreader upon completion of the Series A-2 Financing and the increase of its registered share capital on August 29, 2016, respectively:

Shareholder	Equity Interests in Beijing Joyspreader upon completion of the Series A-2 Financing	Shareholding in Beijing Joyspreader upon completion of the Series A-2 Financing	Equity Interests in Beijing Joyspreader after the increase of its registered share capital on June 6, 2016	Equity Interests in Beijing Joyspreader after the increase of its registered share capital on August 29, 2016	Shareholding in Beijing Joyspreader upon increase of its registered share capital on August 29, 2016
Mr. Zhu	RMB740,000	65.86%	RMB6,586,000	RMB6,586,000	59.28%
Beijing Daoyoudao	RMB178,652	15.90%	RMB1,590,000	RMB1,590,000	14.31%
Beijing Zinan and Friends	–	–	–	RMB1,111,111	10.00%
Mr. Zhang	RMB100,000	8.90%	RMB890,000	RMB890,000	8.01%
Mr. Chen Liang	RMB64,944	5.78%	RMB578,000	RMB578,000	5.20%
Ms. Zhang Yue	RMB20,000	1.78%	RMB178,000	RMB178,000	1.60%
Ms. Zhang Wenyan	RMB20,000	1.78%	RMB178,000	RMB178,000	1.60%
Total	RMB1,123,596	100%	RMB10,000,000	RMB11,111,111	100%

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Series B-1 Financing

During July and August 2017, Mr. Zhu and Beijing Joyspreader entered into a share subscription agreement with each of Jiaxing Guangda, Shanghai Jinjia, Mr. Guo Zhiwei (國治維), Ms. Xue Xiaoli (薛曉黎) and Nantong Pinghengchuangye, respectively, pursuant to which Jiaxing Guangda, Shanghai Jinjia, Mr. Guo Zhiwei, Ms. Xue Xiaoli and Nantong Pinghengchuangye subscribed for 711,111, 259,979, 222,222, 140,000 and 888,888 shares of Beijing Joyspreader for considerations of RMB15,999,997.5, RMB5,849,527.5, RMB4,999,995, RMB3,150,000 and RMB19,999,980, respectively, (the “**Series B-1 Financing**”). On January 5, 2018, Beijing Joyspreader increased its registered share capital from RMB11,111,111 to RMB13,333,311. The considerations were determined after arm’s length negotiations taking into account the listing status of Beijing Joyspreader on the NEEQ. Set forth below is a table that illustrates the shareholding structure of Beijing Joyspreader upon completion of the Series B-1 Financing and the increase of its registered share capital on January 5, 2018:

Shareholder	Equity Interests in Beijing Joyspreader upon completion of the Series B-1 Financing and the increase of its registered share capital on January 5, 2018	Shareholding in Beijing Joyspreader upon completion of the Series B-1 Financing and the increase of its registered share capital on January 5, 2018
Mr. Zhu	RMB6,586,000	49.395%
Beijing Daoyoudao	RMB1,590,000	11.925%
Beijing Zinan and Friends	RMB1,111,111	8.333%
Mr. Zhang	RMB890,000	6.675%
Nantong Pinghengchuangye	RMB888,888	6.667%
Jiaxing Guangda	RMB711,111	5.333%
Mr. Chen Liang	RMB578,000	4.335%
Shanghai Jinjia	RMB259,979	1.950%
Mr. Guo Zhiwei	RMB222,222	1.667%
Ms. Zhang Yue	RMB178,000	1.335%
Ms. Zhang Wenyan	RMB178,000	1.335%
Ms. Xue Xiaoli	RMB140,000	1.050%
Total	RMB13,333,311	100%

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Series B-2 Financing

On April 16, 2018, Mr. Zhu and Beijing Joyspreader entered into a share subscription agreement with each of Shenzhen Nanhai Chengzhangtongying, Nantong Pinghengchuangye and Nanjing Pingheng Capital, respectively, pursuant to which Shenzhen Nanhai Chengzhangtongying, Nantong Pinghengchuangye, and Nanjing Pingheng Capital subscribed for 1,246,104, 299,065 and 74,766 shares of Beijing Joyspreader for considerations of RMB50,000,047.61, RMB12,000,013 and RMB2,999,994, respectively (the “**NEEQ Subscription**”). On June 25, 2018, Beijing Joyspreader increased its registered share capital from RMB13,333,311 to RMB14,953,246.

During the period from May to September 2018, Mr. Zhang sold his 222,500 shares in Beijing Joyspreader through NEEQ for a total consideration of RMB8,900,000, and Ms. Zhu Xifen (朱錫芬), Mr. Xiong Chi (熊遲) and Ms. Huang Huijuan (黃慧娟) acquired 100,000, 92,500 and 30,000 shares through NEEQ for a consideration of RMB4,000,000, RMB3,700,000 and RMB1,200,000, respectively (the “**NEEQ Transfers**”, together with the NEEQ Subscription, the “**Series B-2 Financing**”). The considerations were determined after arm’s length negotiations between the parties taking into account the listing status of Beijing Joyspreader and the prevailing price of the shares of Beijing Joyspreader quoted on the NEEQ at the time of the transaction. Set forth below is a table that illustrates the shareholding structure of Beijing Joyspreader upon completion of the Series B-2 Financing:

Shareholder	Equity Interests in Beijing Joyspreader upon completion of the Series B-2 Financing	Shareholding in Beijing Joyspreader upon completion of the Series B-2 Financing
Mr. Zhu	RMB6,586,000	44.044%
Beijing Daoyoudao	RMB1,590,000	10.633%
Shenzhen Nanhai Chengzhangtongying	RMB1,246,104	8.333%
Nantong Pinghengchuangye	RMB1,187,953	7.944%
Beijing Zinan and Friends	RMB1,111,111	7.431%
Jiaxing Guangda	RMB711,111	4.756%
Mr. Zhang	RMB667,500	4.464%
Mr. Chen Liang	RMB578,000	3.865%
Shanghai Jinjia	RMB259,979	1.739%
Mr. Guo Zhiwei	RMB222,222	1.486%
Ms. Zhang Yue	RMB178,000	1.190%
Ms. Zhang Wenyan	RMB178,000	1.190%
Ms. Xue Xiaoli	RMB140,000	0.936%
Ms. Zhu Xifen	RMB100,000	0.669%
Mr. Xiong Chi	RMB92,500	0.619%
Nanjing Pingheng Capital	RMB74,766	0.500%
Ms. Huang Huijuan	RMB30,000	0.201%
Total	RMB14,953,246	100%

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Series C Financing

On March 29 and April 9, 2019, Mr. Zhu and Beijing Joyspreader entered into a share subscription agreement with each of Nanjing Pingheng Capital and Jiaxing Baozheng, respectively, pursuant to which Nanjing Pingheng Capital and Jiaxing Baozheng subscribed for 271,877 and 1,087,509 shares of Beijing Joyspreader for considerations of RMB24,999,987 and RMB100 million, respectively (the “**2019 Subscription**”).

On April 8, 2019, Mr. Zhu entered into an equity transfer agreement with Nanjing Pingheng Capital, pursuant to which Mr. Zhu agreed to transfer 380,628 shares of Beijing Joyspreader to Nanjing Pingheng Capital for a consideration of RMB24,999,990. The consideration was determined based on arm’s length negotiations between Mr. Zhu and Nanjing Pingheng Capital and was fully settled on April 15, 2019 (the “**2019 Transfer**”, together with the 2019 Subscription, the “**Series C Financing**”).

The considerations were determined after arm’s length negotiations between the parties after taking into consideration the timing of the investments and the status of our business at that time. On June 12, 2019, Beijing Joyspreader increased its registered share capital from RMB14,953,246 to RMB16,312,632. Set forth below is a table that illustrates the shareholding structure of Beijing Joyspreader upon completion of the Series C Financing:

Shareholder	Equity Interests in Beijing Joyspreader upon completion of the Series C Financing	Shareholding in Beijing Joyspreader upon completion of the Series C Financing
Mr. Zhu	RMB6,205,372	38.040%
Beijing Daoyoudao	RMB1,590,000	9.747%
Shenzhen Nanhai		
Chengzhangtongying	RMB1,246,104	7.639%
Nantong Pinghengchuangye	RMB1,187,953	7.282%
Beijing Zinan and Friends	RMB1,111,111	6.811%
Jiaxing Baozheng	RMB1,087,509	6.667%
Nanjing Pingheng Capital	RMB727,271	4.458%
Jiaxing Guangda	RMB711,111	4.359%
Mr. Zhang	RMB667,500	4.092%
Mr. Chen Liang	RMB578,000	3.543%
Shanghai Jinjia	RMB259,979	1.594%
Mr. Guo Zhiwei	RMB222,222	1.362%
Ms. Zhang Yue	RMB178,000	1.091%
Ms. Zhang Wenyan	RMB178,000	1.091%
Ms. Xue Xiaoli	RMB140,000	0.858%
Ms. Zhu Xifen	RMB100,000	0.613%
Mr. Xiong Chi	RMB92,500	0.567%
Ms. Huang Huijuan	RMB30,000	0.184%
Total	RMB16,312,632	100%

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Principal terms of the Pre-[REDACTED] Investments

	Series A-1 Financing	Series A-2 Financing	Series B-1 Financing	Series B-2 Financing	Series C Financing
Date of settlement	January 23, 2016	May 18, 2016	September 28, 2017	(i) April 25, 2018 ⁽⁴⁾ (ii) September 26, 2018 ⁽⁵⁾	(i) April 15, 2019 ⁽⁶⁾ (ii) May 30, 2019 ⁽⁷⁾
Cost per Share ⁽¹⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Post-investment Valuation ⁽²⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Discount over mid-point of the indicative [REDACTED] (assuming the [REDACTED] is not exercised) ⁽³⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Use of proceeds	We have utilized approximately 90% of the proceeds from the Pre-[REDACTED] Investments to fund the general working capital of our Group.				
Strategic benefits of the Pre-[REDACTED] Investment brought to our Group	Our Group would benefit from the additional capital injected by the Pre-[REDACTED] Investors in our Group, their business resources, knowledge and experience, potential business opportunities and benefits that may be provided by them, and their investments demonstrate their commitment and confidence in the business performance and operations, strengths and long-term prospects of our Group.				
Lock-up Period	The Shares held by the Pre-[REDACTED] Investors will be subject to lock-up for a maximum period for six months commencing on the [REDACTED] upon request by the Company or the [REDACTED].				

Notes:

- (1) The aggregate consideration divided by the number of Shares (assuming the Share Subdivision and the [REDACTED] has been completed) subscribed or transferred in each round.
- (2) Equals the total consideration paid by the respective Pre-[REDACTED] Investor divided by the shareholding percentage of it immediately following his/her/its investment.
- (3) Assuming the [REDACTED] is fixed at HK\$[REDACTED], being the mid-point of the indicative [REDACTED], and based on the number of Shares in issue upon the completion of the Share Subdivision and the [REDACTED], assuming the [REDACTED] is not exercised.
- (4) Referring to the NEEQ Subscription.
- (5) Referring to the NEEQ Transfers.
- (6) Referring to the 2019 Transfer.
- (7) Referring to the 2019 Subscription.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Special Rights Granted to the Pre-[REDACTED] Investors

Certain special rights were granted to some of the Pre-[REDACTED] Investors upon their investments. Pursuant to the shareholders’ agreement entered into between the Shareholders on December 11, 2019, all special rights granted to the Pre-[REDACTED] Investors were terminated on the same day.

Information regarding the Pre-[REDACTED] Investors

Beijing Daoyoudao

Beijing Daoyoudao is established under the laws of the PRC on June 12, 2007 and listed on the NEEQ (stock code: 832896). It is principally engaged in the provision of mobile internet advertising services. Beijing Daoyoudao mainly invests in the sector of mobile internet advertising service. The largest shareholder of Beijing Daoyoudao is Mr. Zhou Jianxiu (周建修), who is the founder and chairman of the board of directors of Beijing Daoyoudao and owns approximately 33.14% of it. Mr. Zhou Jianxiu is an Independent Third Party who from time to time participates in investment opportunities for different target companies encompassing various business sectors.

Jiaxing Baozheng

Jiaxing Baozheng is a private equity investment fund established as a limited partnership under the laws of the PRC on May 9, 2017. Jiaxing Baozheng has approximately RMB100 million under management and mainly focuses on investment in Internet technology and emerging industries. Shenzhen Zhongmin Capital Management Co., Ltd (深圳中民資本管理有限公司) is its general partner and China Railway Fiduciary Co., Ltd (中鐵信託有限責任公司) is its limited partner, holding approximately 0.94% and 99.06% of its equity interests, respectively. As of the Latest Practicable Date, Beijing Huashan Capital, LP (北京華山投資管理中心(有限合夥)) held approximately 99.9% equity interest in Shenzhen Zhongmin Capital Management Co., Ltd. and Mr. Yu Taixiang (于太祥) is the general partner of Beijing Huashan Capital, LP.

Nanjing Pingheng Capital and Nantong Pinghengchuangye

Nanjing Pingheng Capital was established as a general partnership under the laws of the PRC on March 6, 2013. Nanjing Pingheng Capital has approximately RMB4 billion under management and is primarily engaged in equity investment. Mr. Lv Xueqiang (呂學強) is its managing partner holding approximately 92% of its equity interest.

Nantong Pinghengchuangye is a private equity investment fund established as a limited partnership under the laws of the PRC on June 11, 2015. Nantong Pinghengchuangye has approximately RMB102 million under management and mainly invests in small and medium-sized enterprises in advanced manufacture, bio-tech, clean energy, electronic information sectors. Its general partner is Nantong Pingheng Capital Management Centre (Limited

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Partnership) (南通平衡資本管理中心(有限合夥)) (“**Nantong Pingheng Capital**”), holding 1% of the equity interest in Nantong Pinghengchuangye. The general partner of Nantong Pingheng Capital is Nanjing Pingheng Capital, holding approximately 60% of its equity interests. The largest limited partner of Nantong Pinghengchuangye is Nantong Luhai Tongchou Growth Fund Co., Ltd (南通陸海統籌發展基金有限公司), holding approximately 40% of its equity interests.

Shanghai Jinjia

Shanghai Jinjia is a limited liability company established under the laws of the PRC on February 6, 2016. It is principally engaged in asset management and equity investment. Shanghai Jinjia has approximately RMB3 billion under management and mainly focuses on investment in TMT, healthcare and high-tech sectors. Shanghai Jinjia is wholly owned by Xizang Yijuchuangye Investment Co., Ltd. (西藏益聚創業投資有限公司), which is a company owned by Mr. Zheng Xiaodan (鄭肖丹) as to 98%.

Shenzhen Nanhai Chengzhangtongying

Shenzhen Nanhai Chengzhangtongying is a private equity investment fund established as a limited partnership under the laws of the PRC on July 20, 2017. Shenzhen Nanhai Chengzhangtongying has approximately RMB3.3 billion under management and mainly focuses on investment in private companies with growth potentials. Its general partner is Cowin Jinxiu Capital Firm (深圳同創錦繡資產管理有限公司), a wholly-owned subsidiary of an NEEQ listed company Shenzhen Cowin Asset Management Co., Ltd. (深圳同創偉業資產管理股份有限公司) (stock code: 832793). The largest shareholder of Shenzhen Cowin Asset Management Co., Ltd. was Shenzhen Cowin Venture Capital Investment Co., Ltd. (深圳市同創偉業創業投資有限公司) holding approximately 35.01% as of the Latest Practicable Date. Shenzhen Cowin Venture Capital Investment Co., Ltd. is controlled by Ms. Huang Li (黃荔), an Independent Third Party.

Other individual Pre-[REDACTED] Investors

Mr. Zhang, Ms. Zhang Yue (張玥), Mr. Chen Liang (陳亮), Ms. Zhang Wenyan (張文妍), Mr. Guo Zhiwei (國治維), Ms. Xue Xiaoli (薛曉黎), Ms. Zhu Xifen (朱錫芬), Mr. Xiong Chi (熊遲) and Ms. Huang Huijuan (黃慧娟) are individual private investors who from time to time participate in investment opportunities for different target companies encompassing various business sectors. Mr. Zhu came to know Mr. Zhang, Ms. Zhang Yue, Mr. Chen Liang and Ms. Zhang Wenyan through personal acquaintances. Mr. Zhu and other senior management members were acquainted with Mr. Guo Zhiwei and Ms. Xue Xiaoli during the roadshow process for the Series B-1 Financing in 2017. Ms. Zhu Xifen, Mr. Xiong Chi and Ms. Huang Huijuan became our Pre-[REDACTED] Investors by purchasing the shares of Beijing Joyspreader through NEEQ in 2018.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

To the best knowledge of the Directors, Ms. Zhang Yue is currently a director and general manager of Shenzhen Tianji Investment Limited (深圳市天璣投資有限公司) and has equity interest in some other investment companies and funds; Mr. Chen Liang is currently a director of Yudongyuan (Beijing) Information Technology Co., Ltd. (宇動源(北京)信息技術有限公司) and has investment in some other companies that are mainly in TMT industry; Ms. Zhang Wenyan is currently the general partner of Shanghai Mijiu Investment Management Centre (上海米久投資管理中心(有限合伙)) and holds investment in some other companies that are mainly in TMT and investment sections; Mr. Guo Zhiwei is currently acting as a supervisor in certain member companies of Huapu Group (華普集團) which mainly focuses on real estate development; and Ms. Xue Xiaoli is currently the executive director and general manager of Wuxi Angao Detection Co. Ltd. (無錫安高檢測有限公司) and has equity interest in an investment company. Please refer to the section headed “Directors and Senior Management” in this document for biography of Mr. Zhang.

To our Director’s best knowledge, each of Beijing Daoyoudao, Nanhai Chengzhangtongying, Nantong Pinghengchuangye, Jiaxing Baozheng, Nanjing Pingheng Capital, Jiaxing Guangda, Mr. Chen Liang, Shanghai Jinjia, Mr. Guo Zhiwei, Ms. Zhang Yue, Ms. Zhang Wenyan, Ms. Xue Xiaoli, Ms. Zhu Xifen, Mr. Xiong Chi and Ms. Huang Huijuan is independent from the Company and its connected persons. Accordingly, Shares held by them will all be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules after the [REDACTED].

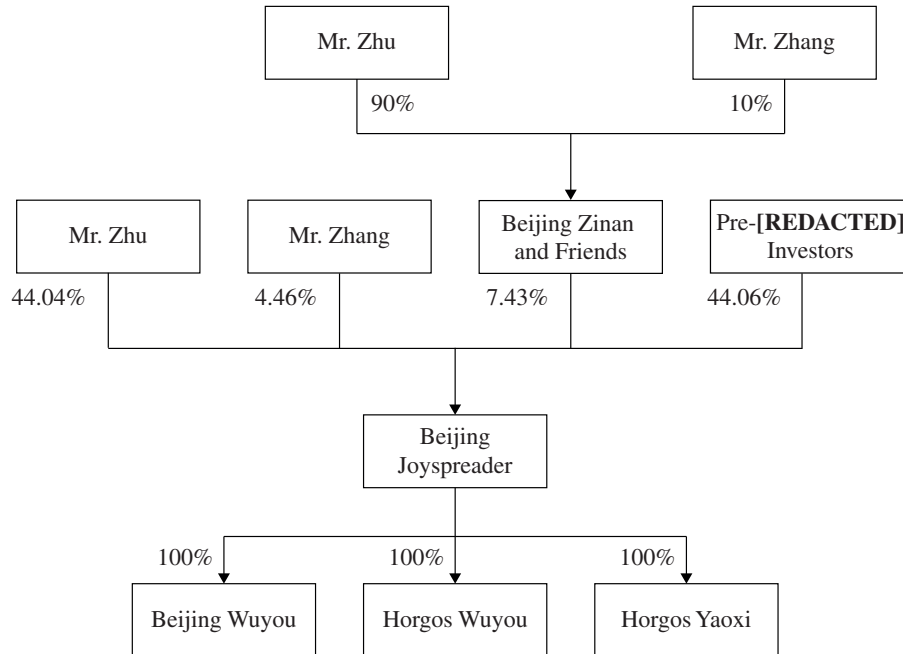
Compliance with Interim Guidance and Guidance Letters on Pre-[REDACTED] Investments

On the basis that (i) the considerations for the Pre-[REDACTED] Investments were irrevocably settled more than 28 clear days before the date of our first submission of the [REDACTED] to the Stock Exchange and (ii) the special rights granted to the Pre-[REDACTED] Investors have been terminate prior to such [REDACTED], the Joint Sponsor have confirmed that the Pre-[REDACTED] Investments are in compliance with the Interim Guidance on Pre-[REDACTED] Investment issued by the Stock Exchange on October 13, 2010 and as updated in March 2017, the Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEX-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

REORGANIZATION

The following chart sets forth the corporate structure of our Group immediately prior to our Reorganization:



We have carried out the following Reorganization steps in preparation for the [REDACTED]:

Offshore Reorganization

1. Incorporation of our Company

On February 19, 2019, our Company was incorporated in the Cayman Islands as an exempted company with limited liability and has an authorized share capital of HK\$50,000 divided into 50,000,000 shares with a nominal value of HK\$0.001 each. Upon incorporation, one share, representing the then issued share capital of our Company, was issued and transferred to ZZN. Ltd. at nominal value.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

2. Allotment and issue of Shares to offshore holding companies held by our individual shareholders and Laurence mate. Ltd.

On February 19, 2019, our Company allotted and issued a total of 9,883,333 Shares to the offshore holding companies that our individual shareholders wholly owned and Laurence mate. Ltd. on a pro-rata basis with reference to their shareholdings in Beijing Joyspreader. The consideration paid by such shareholders is equivalent to the par value of their respective Shares subscribed and was settled on March 30, 2020. Upon completion, the shareholding structure of our Company is set out as follows:

Shareholder	Number of Shares	Approximate % of shareholding in our Company
ZZN. Ltd. ⁽¹⁾	6,586,000	66.64%
ZZD. Ltd. ⁽²⁾	667,500	6.75%
Jack Chen. Ltd. ⁽³⁾	578,000	5.85%
GZW. Ltd. ⁽⁴⁾	222,222	2.25%
Zyue. Ltd. ⁽⁵⁾	178,000	1.80%
Zweny. Ltd. ⁽⁶⁾	178,000	1.80%
XLX. Ltd. ⁽⁷⁾	140,000	1.42%
ZXF. Ltd. ⁽⁸⁾	100,000	1.01%
Xchi. Ltd. ⁽⁹⁾	92,500	0.94%
HHJ. Ltd. ⁽¹⁰⁾	30,000	0.30%
Laurence mate. Ltd. ⁽¹¹⁾	1,111,111	11.24%
Total	9,883,333	100%

Notes:

- (1) ZZN. Ltd. is wholly owned by Mr. Zhu.
- (2) ZZD. Ltd. is wholly owned by Mr. Zhang.
- (3) Jack Chen. Ltd is wholly owned by Mr. Chen Liang.
- (4) GZW. Ltd. is wholly owned by Mr. Guo Zhiwei.
- (5) Zyue. Ltd. is wholly owned by Ms. Zhang Yue.
- (6) Zweny. Ltd. is wholly owned by Ms. Zhang Wenyan.
- (7) XLX. Ltd. is wholly owned by Ms. Xue Xiaoli.
- (8) ZXF. Ltd. is wholly owned by Ms. Zhu Xifen.
- (9) Xchi. Ltd. is wholly owned by Mr. Xiong Chi.
- (10) HHJ. Ltd. is wholly owned by Ms. Huang Huijuan.
- (11) Laurence mate. Ltd. is owned as to 90% by Mr. Zhu and 10% by Mr. Zhang, respectively.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

3. Incorporation of offshore subsidiaries

On March 5, 2019, Joy Spreader Interactive Technology Holding Limited⁽¹⁾ (“**Joy Spreader BVI**”) was incorporated in the BVI as a wholly-owned subsidiary of our Company. On March 28, 2019, Joyspreader HK was incorporated in Hong Kong as a wholly-owned subsidiary of Joy Spreader BVI.

On May 16, 2019, Joy Spreader BVI transferred the entire equity interests in Joyspreader HK to our Company at a consideration of HK\$1.00, being the share capital of Joyspreader HK. Following the said transfer, Joyspreader HK became a wholly-owned subsidiary of our Company.

4. Allotment and issue of Shares to offshore holding companies held by our corporate shareholders

On December 11, 2019, our Company allotted and issued a total of 6,429,299 Shares to Jiaxing Baozheng and the offshore holding companies that our other corporate shareholders wholly owned on a pro-rata basis with reference to their shareholdings in Beijing Joyspreader. The consideration paid by each of such shareholders is equivalent to the par value of their respective Shares subscribed and was settled on March 30, 2020. Upon completion of the above reorganization steps, the shareholding structure of our Company is set out as follows:

Shareholder	Number of Shares	Approximate % of shareholding in our Company after the allotment
ZZN. Ltd.	7,472,983	45.81%
ZZD. Ltd.	667,500	4.09%
Jack Chen. Ltd	578,000	3.54%
GZW. Ltd.	222,222	1.36%
Zyue. Ltd.	178,000	1.09%
Zweny. Ltd.	178,000	1.09%
XLX. Ltd.	140,000	0.86%
ZXF. Ltd.	100,000	0.61%
Xchi. Ltd.	92,500	0.57%
HHJ. Ltd.	30,000	0.18%
Laurence mate. Ltd.	1,111,111	6.81%
DYD Holding. Ltd. ⁽¹⁾	1,033,500	6.34%
Shenzhen Nanhai Growth ⁽²⁾	1,246,104	7.64%
NT Balance Capital Ltd. ⁽³⁾	1,187,953	7.28%
SHJJ. Ltd ⁽⁴⁾	259,979	1.59%
Balance Capital Group Ltd. ⁽⁵⁾	727,271	4.46%
Jiaxing Baozheng	1,087,509	6.67%
Total	16,312,632	100%

Note: (1) Joy Spreader BVI is dissolved on August 15, 2019. It was a company incorporated in the BVI and had no business since its incorporation.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Notes:

- (1) DYD Holding. Ltd. is a limited liability company incorporated in the BVI and wholly owned by Beijing Daoyoudao.
- (2) Shenzhen Nanhai Growth is a limited liability company incorporated in the BVI and wholly owned by Shenzhen Nanhai Chengzhangtongying.
- (3) NT Balance Capital Ltd. is a limited liability company incorporated in the BVI and wholly owned by Nantong Pinghengchuangye.
- (4) SHJJ. Ltd is a limited liability company incorporated in the BVI and wholly owned by Shanghai Jinjia.
- (5) Balance Capital Group Ltd. is a limited liability company incorporated in the BVI and wholly owned by Nanjing Pingheng Capital.

5. *Incorporation and transfer of Joyspreader Group HK*

On October 25, 2019, Joyspreader Group HK was incorporated in Hong Kong as a wholly-owned subsidiary of Beijing Joyspreader. Upon its incorporation, 10,000 shares were allotted and issued to Beijing Joyspreader.

Beijing Joyspreader and Joyspreader HK entered into a share transfer agreement on January 9, 2020, pursuant to which Beijing Joyspreader agreed to transfer its entire equity interests in Joyspreader Group HK to Joyspreader HK at a consideration of US\$3 million. As of the Latest Practicable Date, Joyspreader Group HK had no business since its incorporation.

Onshore Reorganization

1. *Establishment of WFOE*

On May 22, 2019, WFOE was established as a wholly-owned subsidiary of Joyspreader HK with a registered capital of RMB500,000,000.

2. *Acquisition of Hongcheng Xinglong*

On October 8, 2019, WFOE entered into an equity transfer agreement with Li Fengjun (李鳳君) and Li Fenglian (李鳳蓮), both of which are Independent Third Parties, pursuant to which Li Fengjun and Li Fenglian transferred 100% equity interests of Hongcheng Xinglong to WFOE at a consideration of RMB425,000. Such consideration was determined after arm's length negotiations taking into account the then net asset value of Hongcheng Xinglong.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

3. *Entering into the Contractual Arrangements*

On December 11, 2019, WFOE entered into various agreements that constitute the Contractual Arrangements with, among others, Beijing Joyspreader and its Registered Shareholders. Through the Contractual Arrangements, our Group is able to gain effective control over, and receive all of the economic benefits generated by, the Consolidated Affiliated Entities. For further details on the Contractual Arrangements, please refer to the section headed “Contractual Arrangements” in this document.

4. *Establishment of Zhipu Shulian*

On January 7, 2020, Zhipu Shulian was established in the PRC as a wholly-owned subsidiary of Beijing Joyspreader with a registered capital of RMB10 million. Zhipu Shulian has obtained the Online Culture Operating Permit on June 22, 2020.

5. *Establishment of Horgos Joyspreader*

On March 24, 2020, Horgos Joyspreader was established in the PRC as a wholly-owned subsidiary of WFOE with a registered capital of RMB10 million. Horgos Joyspreader is expected to conduct performance-based marketing services containing non-Internet culture products after its establishment.

Our corporate and shareholding structure after the Reorganization and immediately prior to the completion of the Share Subdivision and the **REDACTED** is as follows:

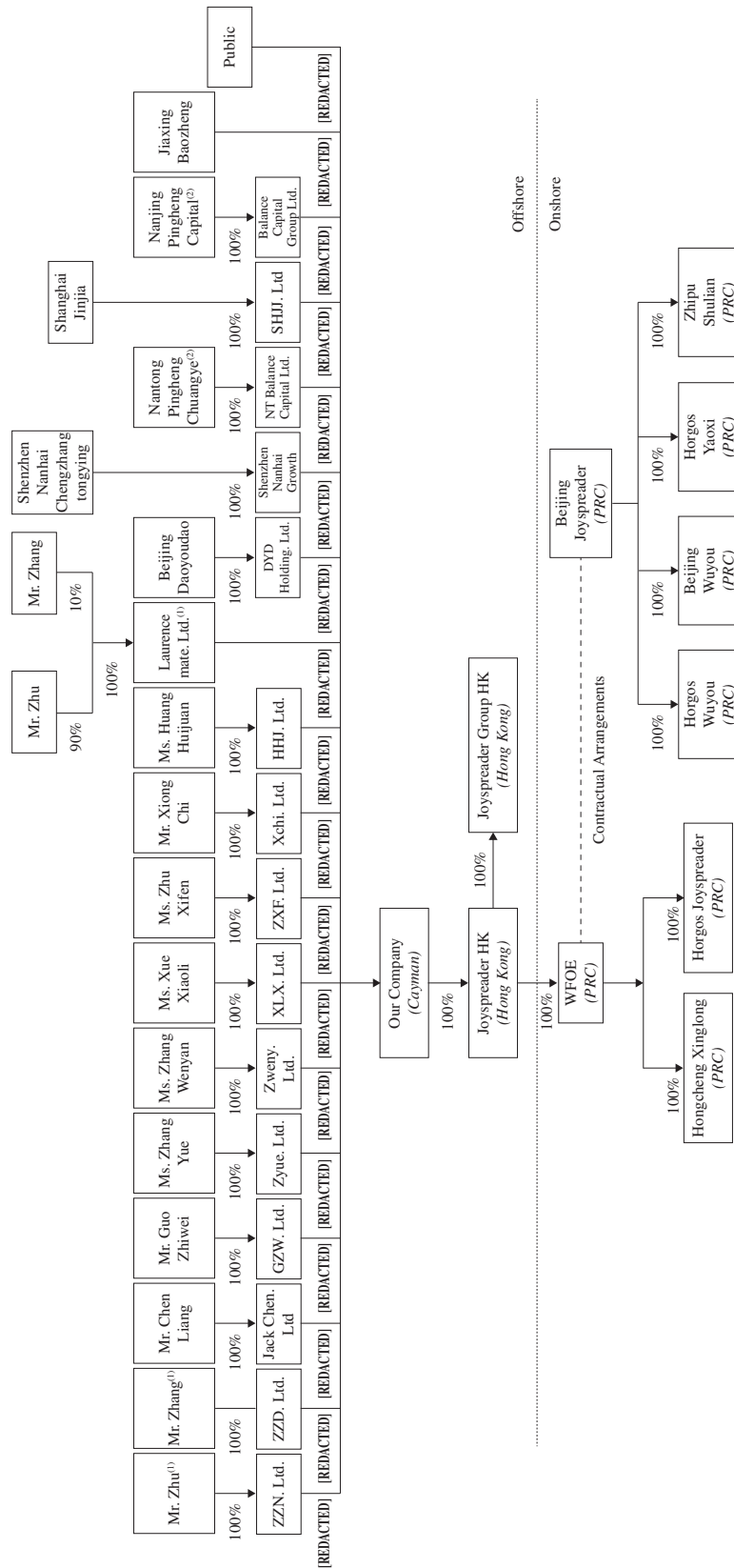


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HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CORPORATE STRUCTURE IMMEDIATELY AFTER THE SHARE SUBDIVISION AND THE [REDACTED]

The following chart sets forth our corporate and shareholding structure upon the completion of the Share Subdivision and the [REDACTED], assuming the [REDACTED] is not exercised.



Notes:

- (1) Pursuant to the Concert Party Agreement entered into between Mr. Zhu and Mr. Zhang, each of them agreed that they would act in concert by aligning their votes at shareholders' meetings of the Company and Beijing Joyspreader. The Shares held by ZZN Ltd., ZZD Ltd. and Laurence mate. Ltd. will not be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules and will be subject to lock-up arrangements in accordance with Rule 10.07 of the Listing Rules after the [REDACTED].
- (2) Nanjing Pingheng Capital is the general partner of Nantong Pingheng Capital Management Center (Limited Partnership) (南通平衡資本管理中心(有限合伙)), which is the general partner of Nantong Pinghengchuangye.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

PRC LEGAL COMPLIANCE

Our PRC Legal Advisors have confirmed that (i) all relevant approvals or filings have been obtained or made, as applicable, for the capital increases and equity transfers in the PRC in respect of our PRC subsidiaries and Consolidated Affiliated Entities mentioned above and such capital increases and equity transfers have been properly completed in accordance with relevant PRC laws and regulations in connection with the Reorganization; and (ii) the Reorganization has been properly and legally completed and has complied with all relevant PRC laws and regulations in all material aspects.

SAFE and ODI Registration

Pursuant to the Circular 37, promulgated by SAFE which became effective on July 14, 2014, a PRC resident must register with the local branch of SAFE before he or she contributes legal assets or equity interests in an overseas special purpose vehicle, which is directly established or indirectly controlled by the PRC resident for the purpose of overseas investment or financing.

Pursuant to the Circular 13, promulgated by SAFE and which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Advisors, the ultimate shareholders of our Company who are PRC residents, namely Mr. Zhu, Mr. Zhang, Mr. Chen Liang, Mr. Guo Zhiwei, Ms. Zhang Yue, Ms. Zhang Wenyan, Ms. Xue Xiaoli, Ms. Zhu Xifen, Mr. Xiong Chi and Ms. Huang Huijuan have completed the foreign exchange registrations on April 4, 2019, respectively, pursuant to Circular 37 and Circular 13.

Pursuant to the Administrative Measures for the Overseas Investment of Enterprises (《企業境外投資管理辦法》) promulgated by the NDRC and Administrative Measures for Overseas Investment Management (《境外投資管理辦法》) promulgated by the MOFCOM (the “**ODI Rules**”), a domestic institution shall undergo registration procedure for foreign investment in accordance with the provisions of the ODI Rules, which require the domestic institution to register with relevant authorities prior to its overseas direct investment and obtain relevant recordation, approval, certificate or permit.

As advised by our PRC Legal Advisors, the ultimate PRC corporate shareholders of our Company, namely Beijing Daoyoudao, Shenzhen Nanhai Chengzhangtongying, Nantong Pinghengchuangye, Shanghai Jinjia, Nanjing Pingheng Capital and Jiaying Baozheng have completed the overseas direct investment registration with the local MOFCOM and NDRC in May 2019 pursuant to the ODI Rules in relation to their offshore investments as domestic institutions.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

M&A Rules

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the SAT, SAIC, CSRC and SAFE, jointly issued the M&A Rules which became effective on September 8, 2006, and was amended on June 22, 2009. Pursuant to the M&A Rules, 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.

Our PRC Legal Advisors are of the opinion that prior CSRC approval for the [REDACTED] is not required because WFOE was established as a wholly foreign-owned enterprise without involving merger or acquisition of the equity interests or assets of a PRC domestic company as defined under the M&A Rules, which was in compliance with the M&A Rules. Other than WFOE, all of our Consolidated Affiliated Entities have been wholly owned by PRC citizens since their dates of establishment, and as such, the M&A Rules are not applicable.

CONTRACTUAL ARRANGEMENTS

BACKGROUND

We currently conduct businesses of analyzing, optimizing and distributing a wide range of products, which constitute the main part of the performance based marketing services. As advised by the PRC Legal Advisers, analyzing, optimizing and distributing products containing Internet culture content products, such as online games, videos and cartoons (the “**Restricted Businesses**”) falls within the definition of “Internet culture business” under the Provisional Regulations on the Administration of Internet Culture (《互聯網文化管理暫行規定》) and are prohibited from foreign investment (except for the provision of music) pursuant to the Negative List. Whereas, analyzing, optimizing and distributing other products such as those APPs containing no Internet cultural content (e.g. camera APPs, mobile banking APPs) and offline consumables are not prohibited or restricted from foreign investment (the “**Non-restricted Businesses**”). For further details of the business of our Group, see the section headed “Business — Our Services” in this document.

Before commencement of our Reorganization in 2019, we operated all of our business through the Consolidated Affiliated Entities. Since the Restricted Businesses are classified as foreign investment prohibited businesses under the applicable PRC laws and regulations, to comply with the prevailing PRC laws and regulations and to maintain effective control over our operations and derive economic benefits from our Consolidated Affiliated Entities, WFOE has entered into the Contractual Arrangements with Beijing Joysreader and its Registered Shareholders. The Contractual Arrangements have been narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations.

The Consolidated Affiliated Entities are Beijing Joysreader and its subsidiaries, each of which was established under PRC laws. Under the Contractual Arrangements, the Restricted Businesses are conducted by the Consolidated Affiliated Entities, while WFOE in turn asserts management control over the business operations of each of the Consolidated Affiliated Entities and derives the economic benefits from the Consolidated Affiliated Entities. Each of Beijing Joysreader, Beijing Wuyou, Horgos Wuyou, Horgos Yaoxi and Zhipu Shulian has obtained the Online Culture Operating Permit, which is essential to the operation of our business.

According to the Catalog of Telecommunications Business (《電信業務分類目錄》) and the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》), information service provided via fixed network, mobile network and internet falls within the scope of value-added telecommunications services. Operator of value-added telecommunications services shall obtain Value-added Telecommunications Business License for Provision of Internet Information Services or Value-added Telecommunications Operation License (both referred to as “**ICP License**”) from MIIT or its provincial level counterparts prior to conducting the relevant business. During the Track Record Period, the only business activity conducted by the Group that falls into the scope of value-added telecommunications services was the online games operation through the 5you website (伍遊網). As advised by the PRC Legal Advisers, such business also falls into the scope of the Restricted Businesses that requires Online Culture Operating License. Revenue generated from such business during the

CONTRACTUAL ARRANGEMENTS

Track Record Period was approximately RMB6.8 million for the year ended December 31, 2017, representing 5.16% of the total revenue of the Group during the same period. No revenue was generated in 2018, 2019 and the three months ended March 31, 2020 from such business since Beijing Wuyou ceased to conduct the online games operation from the end of 2017. As of the Latest Practicable Date, each of Beijing Joyspreader, Beijing Wuyou, Horgos Wuyou and Horgos Yaoxi has also obtained and held the ICP License to conduct or in preparation for the provision of relevant value-added telecommunications services.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP RESTRICTIONS

On February 17, 2011, the MOCT Promulgated the Provisional Regulations on the Administration of Internet Culture (《互聯網文化管理暫行規定》) (the “**Ministry of Culture Decree No. 57**”), which was last amended on December 15, 2017. According to the Ministry of Culture Decree No. 57, Internet cultural activities refer to the activities of providing Internet cultural products and services. According to the Negative List, any Internet cultural activities (except for the provision of music) is a foreign investment prohibited industry. As confirmed by our PRC Legal Advisors, according to the Negative List, the business of analyzing, optimizing and distributing Internet cultural products that our Company is currently engaged in, which falls into the Internet culture business, is considered “prohibited”.

We operate the Restricted Businesses under the Contractual Arrangements and are of the view that the Contractual Arrangements are narrowly tailored for the following reasons:

1. Beijing Joyspreader and its subsidiaries are engaged in the Restricted Businesses and each of them possesses the Online Culture Operating Permit, which is required to conduct Internet cultural business, to carry out such business.
2. On January 8, 2019, our PRC Legal Advisors and the legal advisors to the Joint Sponsors conducted an interview with the MOCT, which advised that the Online Culture Operating Permit has not been and will not be granted to any enterprise with direct or indirect foreign ownership, and the granted Online Culture Operating Permit will be revoked once such enterprise has any foreign investment. Our PRC Legal Advisors are of the view that (i) the interview was made with the competent official who has the appropriate authority, and (ii) the MOCT is the competent and ultimate authority to give the relevant confirmation. Therefore, from the perspective of operating our existing business in a manner that is in compliance with applicable PRC laws and regulations, based on the current policy of the relevant PRC government authorities and as advised by our PRC Legal Advisors, it is not feasible for us to hold any equity interest in our Consolidated Affiliated Entities to operate the Restricted Businesses.
3. As advised by our PRC Legal Advisors, the Non-restricted Businesses are not subject to any foreign investment prohibition or restriction under applicable PRC laws and regulations. Based on the advice from our PRC Legal Advisors, we

CONTRACTUAL ARRANGEMENTS

communicated with our customers, to whom we provide Non-restricted Businesses (the “**Non-restricted Businesses Customers**”), and have entered into new service contracts or supplemental service contracts with a substantial number of our customers to transfer Non-restricted Businesses from the Consolidated Affiliated Entities to WFOE. The table below sets forth the results of our communication with the Non-restricted Businesses Customers.

Type of Non-restricted Businesses Customers	Number	Revenue contribution of Non-restricted Businesses in the first quarter of 2020	Gross Profit contribution of Non-restricted Businesses in the first quarter of 2020
Non-restricted Businesses Customers who have entered into new contract with WFOE	31	• Amount: RMB20.6 million • Contribution to total revenue: 12.3% • Contribution to total Non-restricted Businesses revenue: 97.6%	• Amount: RMB10.4 million • Contribution to total gross profit: 24.6% • Contribution to total Non-restricted Businesses gross profit: 99.0%
Non-restricted Businesses Customers who have entered into supplemental contract	2 (existing contract expires after the [REDACTED]) ¹	• Amount: RMB0.5 million • Contribution to total revenue: 0.3% • Contribution to total Non-restricted Businesses revenue: 2.4%	• Amount: RMB0.1 million • Contribution to total gross profit: 0.2% • Contribution to total Non-restricted Businesses gross profit: 1.0%
Total existing Non-restricted Businesses Customers	33	• Amount: RMB21.1 million • Contribution to total revenue: 12.6%	• Amount: RMB10.5 million • Contribution to total gross profit: 24.8%

Note:

1. The latest existing contract entered into with such customers will expire on October 31, 2020.
4. As of the date of this document, the Consolidated Affiliated Entities had certain existing service contracts containing provision of Non-restricted businesses. As advised by our PRC Legal Advisors, unilateral termination of such service contracts may cause liabilities for breach of contract. Our Directors confirm that, upon the expiration of such existing service contracts between customers of Non-restricted Businesses and the Consolidated Affiliated Entities, all the Restricted Businesses and the Non-restricted Businesses of our Group will be separated and conducted by

CONTRACTUAL ARRANGEMENTS

WFOE and the Consolidated Affiliated Entities respectively. For customers that may place order for marketing services containing both Internet culture products and non-Internet culture products, our Company has or will have both WFOE and a Consolidated Affiliated Entity listed as signing parties to the service contract with each of such customers, and a proper subsidiary of the Company or a Consolidated Affiliated Entity will be assigned to perform under the relevant service contract, to ensure that our business will be conducted in compliance with the “narrowly tailored” requirements for the Contractual Arrangements. The Company undertakes that it will, as applicable and when necessary, disclose the progress or any updates to the expiration of the service contracts between customers of Non-restricted Businesses and the Consolidated Affiliated Entities in its annual/interim reports or announcements to inform the Shareholders and other investors after the [REDACTED].

On December 11, 2001, the State Council promulgated the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), amended on September 10, 2008 and February 6, 2016), according to which, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including services provided under the ICP License. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the “**Qualification Requirements**”). Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT has issued the latest guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC on March 1, 2017. According to this guidance memorandum, an applicant is required to provide, among other things, the foreign investor’s satisfactory proof of the Qualification Requirements and the project proposal plan of the applicant. The guidance memorandum does not provide any further guidance on the proof, record or document required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, the Company has taken and plans to continue to take specific steps to fulfill the Qualification Requirements, including but not limited to: (i) registration of two trademarks which are material to its business in Hong Kong as of the Latest Practicable Date; (ii) setting up subsidiaries in Hong Kong which can be readily served as overseas platforms for relevant business expansion in Hong Kong; and (iii) commencing research on the potential investments or acquisitions overseas to expand our business, which may include provision of value-added telecommunications services. The PRC Legal Advisors are of the view that the above steps taken by our Company are reasonable and appropriate for gradually building up a track record to meet the Qualification Requirements, the fulfillment of which is subject to the competent authorities’ absolute discretion.

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On July 3, 2020 and July 6, 2020, the PRC Legal Advisors and the legal advisors to the Joint Sponsors conducted interviews with the officials of the issuing authorities of our Group’s ICP Licenses, i.e. a competent officer of the Internet Management Office of Xinjiang Communication Administration (新疆維吾爾自治區通信管理局互聯網管理處) and a deputy director of the Information and Communications Management Office of Beijing Communication Administration (北京市通信管理局信息通信管理處), respectively (the “Interviews”), both of which confirmed that (i) so far there has been no applicable PRC laws, regulations or rules that provide clear guidance or interpretation on the Qualification Requirements, and foreign investors’ fulfillment of the Qualification Requirements remains subject to substantive examination by the competent authorities; (ii) the steps taken by our Company may be considered to be reasonable and appropriate to prove that the Qualification Requirements are fulfilled, subject to substantive examination by the competent authorities; and (iii) according to the interviewees, so far the relevant authorities have not granted ICP License to any sino-foreign equity joint ventures up to the date of the Interviews. The PRC Legal Advisors are of the view that (i) the Interviews were made with the competent officials who have the appropriate authorities; and (ii) the Xinjiang Communication Administration and Beijing Communication Administration are competent authorities for value-added telecommunications services.

The Company confirms that it will, as applicable and when necessary, disclose the progress or any updates to the Qualification Requirements in its annual/interim report to inform Shareholders and other investors after the [REDACTED]. It will also make periodic inquiries to relevant PRC authorities to understand any new regulatory development and consider possible measures to be taken to fulfill the Qualification Requirements.

Nevertheless, as disclosed above, even if the Company and its Shareholders have taken steps with the aim to meet the Qualification Requirements, each of the Consolidated Affiliated Entities conducting Restricted Businesses must also hold the Online Culture Operating License which prohibits foreign investments, and therefore the Company would not be able to hold any equity interest in the Consolidated Affiliated Entities. In case that in future the Company or any of the Consolidated Affiliated Entities may provide value-added telecommunications services that require ICP License only, the Company will, where necessary, consider to set up new subsidiary(ies) or transfer the relevant business to proper subsidiary(ies) in order to directly hold the maximum percentage of ownership interests permissible under the relevant PRC laws and regulations.

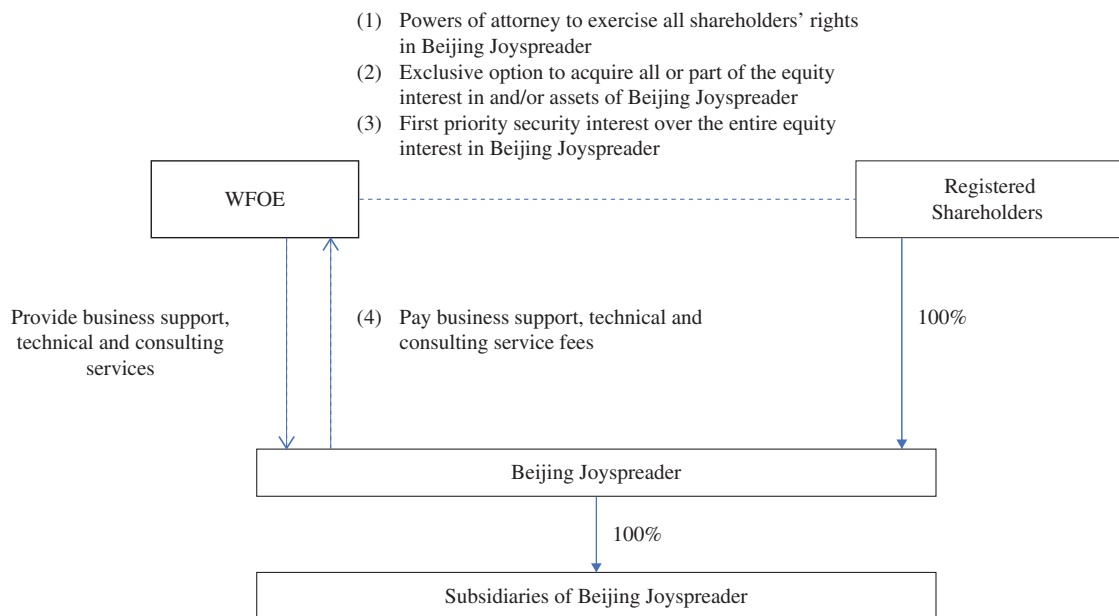
Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into among WFOE, Beijing Joyspreader and its Registered Shareholders; (ii) by entering into the Exclusive Management and Consultation Service Agreement (as defined below), our Consolidated Affiliated Entities will enjoy better economic and technical support from us, and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

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Our Group will unwind and terminate the Contractual Arrangements as soon as practicable in respect of the operation of the Relevant Businesses to the extent permissible and we will directly hold the maximum percentage of equity interests permissible under relevant PRC laws and regulations if the relevant government authority grants the relevant licenses to sino-foreign equity joint ventures or wholly foreign-owned enterprises established or to be established by our Company.

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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:



Notes:

- (1) Please refer to “Contractual Arrangements — Shareholders’ Rights Proxy Agreement” for details.
- (2) Please refer to “Contractual Arrangements — Exclusive Option Agreement” for details.
- (3) Please refer to “Contractual Arrangements — Equity Pledge Agreement” for details.
- (4) Please refer to “Contractual Arrangements — Exclusive Management and Consultation Service Agreement” for details.

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- (5) As of the Latest Practicable Date, the Registered Shareholders were the following persons who together hold the 100% equity interests of Beijing Joyspreader:

Shareholders	Number of shares	Approximate percentage of shareholding
Mr. Zhu	7,472,983	45.811%
Shenzhen Nanhai Chengzhangtongying	1,246,104	7.639%
Nantong Pinghengchuangye	1,187,953	7.282%
Beijing Zinan and Friends	1,111,111	6.811%
Jiaxing Baozheng	1,087,509	6.667%
Beijing Daoyoudao	1,033,500	6.336%
Nanjing Pingheng Capital	727,271	4.458%
Mr. Zhang	667,500	4.092%
Mr. Chen Liang	578,000	3.543%
Shanghai Jinjia	259,979	1.594%
Mr. Guo Zhiwei	222,222	1.362%
Ms. Zhang Yue	178,000	1.091%
Ms. Zhang Wenyan	178,000	1.091%
Ms. Xue Xiaoli	140,000	0.858%
Ms. Zhu Xifen	100,000	0.613%
Mr. Xiong Chi	92,500	0.567%
Ms. Huang Huijuan	30,000	0.184%
Total	16,312,632	100%

- (6) “” denotes direct legal and beneficial ownership in the equity interest and
“” denotes contractual relationship.

Exclusive Management and Consultation Service Agreement

Beijing Joyspreader and WFOE entered into an exclusive management and consultation service agreement (the “**Exclusive Management and Consultation Service Agreement**”) on December 11, 2019, pursuant to which Beijing Joyspreader agreed to engage WFOE as its exclusive provider of management and consultation services, including:

- to formulate the management mode and operation plan of the Consolidated Affiliated Entities;
- to facilitate the construction of enterprise standardization and information management system of the Consolidated Affiliated Entities;
- to formulate market expansion plan of the Consolidated Affiliated Entities;
- to provide services in relation to market research, market survey, research consultant and judgment, and to provide market information to the Consolidated Affiliated Entities;
- to assist the Consolidated Affiliated Entities in establishing complete management of business process;

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- (f) to provide management and consultant services in relation to daily operation, financial, investment, asset, credit and debt, human resource, internal informatization, and other management and consultant services;
- (g) to provide management, development, upgrading, renewal and maintenance services of office application system and network system to the Consolidated Affiliated Entities;
- (h) to formulate client maintenance plan for the Consolidated Affiliated Entities and assist them in maintaining the relationships with clients;
- (i) to provide advice and suggestion in relation to asset and business operation of the Consolidated Affiliated Entities;
- (j) to provide advice and suggestion in relation to the negotiation, execution and implementation of material contracts;
- (k) to provide advice and suggestion in relation to acquisitions and mergers and other expansion plan of the Consolidated Affiliated Entities;
- (l) to provide management of technical support;
- (m) to provide training on staff of the Consolidated Affiliated Entities and to help improve their professional skills; and
- (n) to provide other services from time to time based on the actual business requirement and its capacity.

Pursuant to the Exclusive Management and Consultation Service Agreement, the service fee shall be equivalent to the total consolidated profit after tax of Beijing Joyspreader, after offsetting the prior-year loss (if any) and statutory reserve funds (if applicable). Notwithstanding the foregoing, WFOE shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating conditions and expansion needs of the Consolidated Affiliated Entities and send the service fee invoice (**WFOE's invoice**) to Beijing Joyspreader within 10 days after receiving the fiscal documents. Beijing Joyspreader has agreed to pay the service fee within 7 days after receiving WFOE's invoice.

In addition, pursuant to the Exclusive Management and Consultation Service Agreement, without the prior written approval from WFOE, Beijing Joyspreader shall not, and shall procure the other Consolidated Affiliated Entities not to, accept the same or any similar services provided by any third party and shall not establish cooperation relationships similar to that formed by the Exclusive Management and Consultation Service Agreement with any third party.

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The Exclusive Management and Consultation Service Agreement also provides that (i) all intellectual property rights developed or created by the Consolidated Affiliated Entities during the performance of the Exclusive Management and Consultation Service Agreement, or those intellectual property invented, developed or authorised to be invented by Beijing Joyspreader based on services provided by WFOE or from any other means belong to WFOE, and (ii) WFOE is entitled to authorize the Consolidated Affiliated Entities to use such intellectual property rights, (iii) WFOE is authorized to use all existing intellectual property rights owned by Beijing Joyspreader and the Consolidated Affiliated Entities on or before the execution of the Exclusive Management and Consultation Service Agreement for free.

Our Directors consider that the above arrangement will ensure the economic benefits generated from the operations of the Consolidated Affiliated Entities will flow to WFOE and hence, our Group as a whole.

The Exclusive Management and Consultation Service Agreement shall remain effective unless being terminated (a) in writing by both parties; or (b) all the equity interest and/or assets of Beijing Joyspreader has been legally transferred to WFOE or the nominee(s) designated by WFOE. Nonetheless, WFOE shall always have the right to terminate this agreement by giving a prior written notice of termination 30 days in advance.

Exclusive Option Agreement

WFOE, Beijing Joyspreader and the Registered Shareholders entered into an exclusive option agreement (the "**Exclusive Option Agreement**") on December 11, 2019, pursuant to which the Registered Shareholders jointly and severally granted irrevocably to WFOE the rights to require the Registered Shareholders to transfer any or all their equity interests and/or assets in Beijing Joyspreader to WFOE and/or a third party designated by it, in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations. If not explicitly specified in PRC laws and regulations, the transfer price shall be the nominal price, i.e. RMB1.00. The Registered Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, if the consideration is over RMB1.0, they will return to WFOE any consideration that over RMB1.0 they receive in the event that WFOE exercises the options under the Exclusive Option Agreement to acquire the equity interests and/or assets in Beijing Joyspreader.

Pursuant to the Exclusive Option Agreement, the Registered Shareholders and Beijing Joyspreader have undertaken to perform certain acts or refrain from performing certain other acts unless they have obtained prior approval from WFOE, including but not limited to the following matters:

- (1) Without the prior written consent of WFOE, Beijing Joyspreader shall not in any manner supplement, change or alter its constitutional documents or increase or decrease its registered capital or change the structure of its registered capital in other manner;

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- (2) Beijing Joyspreader shall prudently and effectively operate its business and transactions in accordance with the good financial and business standards to avoid its liquidation, dissolution and bankruptcy;
- (3) Beijing Joyspreader shall not sell, transfer, create encumbrances or otherwise dispose of any assets, business, legal or beneficial interest of its income or allow any guarantee or security to be created on its assets;
- (4) Beijing Joyspreader shall not terminate or procure the management team to terminate the Contractual Agreements entered into with WFOE, or enter into any contracts or agreements that conflict with the Contractual Agreements without WFOE's prior written consent;
- (5) Beijing Joyspreader shall not incur, take up, guarantee or allow any indebtedness other than those in the ordinary course of business and having been disclosed to and consented by WFOE in writing;
- (6) Beijing Joyspreader shall operate its business in order to maintain its asset value or not allow any acts or omission which adversely affects its business or assets value;
- (7) Without the prior written consent of WFOE, Beijing Joyspreader shall not enter into any material contracts with a value above RMB10 million, except the contracts executed in the ordinary course of business;
- (8) Without the prior written consent of WFOE, the Consolidated Affiliated Entities shall not incur, take up, guarantee any form of indebtedness to any third party nor pledge or allow the encumbrance thereon of any security interest on the shares or any asset of the Consolidated Affiliated Entities;
- (9) Beijing Joyspreader and its affiliates shall provide its labor, operation and financial information to WFOE or its designated person upon WFOE's request;
- (10) when necessary, Beijing Joyspreader and its affiliates shall only purchase insurances from insurance companies that WFOE recognizes, and the amounts and categorizes of the insurances shall maintain the same with the companies having similar businesses or assets in the same field;
- (11) Beijing Joyspreader and its affiliates shall not separate, or merge, or enter into joint operation agreements with other entities, or acquire or be acquired by other entities, or invest in any entities;
- (12) Beijing Joyspreader shall immediately inform WFOE if its assets, business or income involved in any disputes, litigations, arbitrations or administrative proceedings, and take all necessary measures upon WFOE's requests;

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- (13) Beijing Joyspreader shall sign all necessary and appropriate documents, take all necessary and proper acts, bring up all necessary and proper requests, or provide necessary and proper defenses against claims to maintain Beijing Joyspreader and its affiliates' ownership for all the assets;
- (14) if the Registered Shareholders or Beijing Joyspreader fails to perform the tax obligations under applicable laws and results in obstacles for WFOE to exercise its exclusive option right, Beijing Joyspreader or the Registered Shareholders shall pay the taxes or pay the same amount to WFOE so WFOE may pay the taxes instead; and
- (15) Beijing Joyspreader shall not distribute any dividend to its shareholders without WFOE's written consent. Each Registered Shareholder shall inform and transfer all distributable dividends, capital dividend and other asset receivable by him at nil consideration to WFOE or a third party designated by it within 3 days of receiving such interests.

The Exclusive Option Agreement commenced on December 11, 2019, being the date of the agreement, until it is terminated (i) in writing by all parties, or (ii) upon the transfer of the entire equity interests held by the Registered Shareholders and/or the transfer of all the assets of Beijing Joyspreader to WFOE or its designated person. Nonetheless, WFOE shall always have the rights to terminate this agreement by giving a prior written notice of termination 30 days in advance.

Equity Pledge Agreement

WFOE, Beijing Joyspreader and the Registered Shareholders entered into an equity pledge agreement (the "**Equity Pledge Agreement**") on December 11, 2019, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in Beijing Joyspreader to WFOE as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements.

Under the Equity Pledge Agreement, Beijing Joyspreader represents and warrants to WFOE that appropriate arrangements have been made to protect WFOE's interests in the event of death, bankruptcy or divorce of the Registered Shareholders to avoid any practical difficulties in enforcing the Equity Pledge Agreement and shall procure any successors of the Registered Shareholders to comply with the same undertakings as if they were parties to the Equity Pledge Agreement. If Beijing Joyspreader declares any dividend during the term of the pledge, WFOE is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests, if any. If any of the Registered Shareholders or Beijing Joyspreader breaches or fails to fulfill the obligations under any of the aforementioned agreements, WFOE, as the pledgee, will be entitled to dispose of the pledged equity interests, entirely or partially and WFOE will be paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interests upon notice to the Registered Shareholders. In addition, pursuant to the Equity Pledge Agreement, each of the Registered Shareholders has undertaken

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to WFOE, among other things, not to transfer his equity interests in Beijing Joyspreader and not to create or allow any pledge thereon that may affect the rights and interest of WFOE without its prior written consent.

The Equity Pledge Agreement takes effect upon the execution date and shall remain valid until (i) all the obligations under the Contractual Arrangements (other than the Equity Pledge Agreement) have been fulfilled; (ii) each of the Registered Shareholders has transferred his equity interests in Beijing Joyspreader in accordance with the Exclusive Option Agreement; (iii) all the agreements underlying the Contractual Arrangements have been terminated; (iv) Beijing Joyspreader has transferred all of its assets in accordance with the Exclusive Option Agreement; and (v) the Equity Pledge Agreement has been unilaterally terminated by WFOE with a prior written notice of termination 30 days in advance.

The registration of the Equity Pledge Agreement as required by the relevant laws and regulations has been completed in accordance with the terms of the Equity Pledge Agreement and PRC laws and regulations.

Shareholders' Rights Proxy Agreement

Each of Beijing Joyspreader, the Registered Shareholders and WFOE entered into a shareholders' rights proxy agreement (the **"Shareholders' Rights Proxy Agreement"**) on December 11, 2019, pursuant to which, each Registered Shareholder irrevocably appoints WFOE or its designated person, as his attorney-in-fact to exercise such shareholder's rights in Beijing Joyspreader, including without limitation to, the rights to (i) to attend shareholders' meetings of Beijing Joyspreader and to execute any and all written resolutions and meeting minutes in the name and on behalf of such shareholder; (ii) to prompt appointed directors to attend board meetings of Beijing Joyspreader and to execute any and all written resolutions and meeting minutes; (iii) to exercise all shareholder's rights and shareholder's voting rights in accordance with law and articles of association of Beijing Joyspreader; (iv) to sell and transfer the equity interests of Beijing Joyspreader held by Beijing Joyspreader Registered Shareholders and to execute and take any action necessary for such sale or transfer; (v) to dispose any or all of the assets in Beijing Joyspreader; (vi) to nominate or appoint directors and supervisors of Beijing Joyspreader; (vii) to determine and take actions for winding-up and dissolution of Beijing Joyspreader; and (viii) exercise other shareholders rights as specified in other applicable laws and regulations and the articles of association of Beijing Joyspreader (and its amendments from time to time).

The Shareholders' Rights Proxy Agreement have an indefinite term and will be terminated in the event that (1) the Shareholders' Rights Proxy Agreement is unilaterally terminated by all parties in writing; or (2) all the equity interest or assets has been legally and effectively transferred to WFOE and/or a third party designated by it. Nonetheless, WFOE shall always have the rights to terminate this agreement by giving a prior written notice of termination.

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Spousal Consent Letters

The spouse of each of the Registered Shareholders, where applicable, has signed an undertaking (the “**Spousal Consent Letter**”) to the effect that (i) he/she acknowledges and consents that the respective Registered Shareholders enter into the Contractual Arrangements and the amendments and termination of the Contractual Arrangements do not require his/her further consents under the Contractual Arrangements; (ii) he/she has no right to or control over such interests of the respective Registered Shareholder and will not have any claim on such interests of the respective Registered Shareholders and Contractual Arrangements; and (iii) he/she undertakes to be bound by the agreements under the Contractual Arrangements (as amended from time to time) in the event that he/she for any reason obtains any equity interests in Beijing Joyspreader as the relevant Registered Shareholder’s spouse.

CONFIRMATIONS FROM THE REGISTERED SHAREHOLDERS

Each of the Registered Shareholders undertakes to WFOE that, in the event of death, divorce, bankruptcy, liquidation or other circumstances regarding the Registered Shareholders which may affect the exercise of its/his/her direct or indirect equity interests in Beijing Joyspreader, the Registered Shareholder’s respective spouse, successor, liquidator, and any other person/entity which may as a result of the above events obtain the equity interest or relevant rights directly or indirectly shall not prejudice or hinder the enforcement of the Contractual Arrangements.

DISPUTE RESOLUTION

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of our Beijing Joyspreader or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of Beijing Joyspreader; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC and the places where the principal assets of WFOE or Beijing Joyspreader are located for interim remedies or injunctive relief.

However, our PRC Legal Advisors have advised that a arbitral tribunal normally would not grant such kind of injunctive relief or 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 Beijing

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Joyspreader or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner. For further details, please refer to the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” in this document.

CONFLICT OF INTEREST

The Shareholders’ Rights Proxy Agreement provides that, in order to avoid potential conflicts of interest, where the Registered Shareholders are related to the directors or personnel of WFOE or our Company, the power of attorney is granted in favor of other unrelated directors or personnel of our Company. And any director or personnel of our Company who are related to the Registered Shareholders shall not participate in the decisions in relation to the Contractual Arrangements.

LOSS SHARING

Under the relevant PRC laws and regulations, neither our Company nor WFOE is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. WFOE intends to continuously provide or assist our Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through our Consolidated Affiliated Entities, which hold the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group’s financial statements under the applicable accounting principles, our Company’s business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

LIQUIDATION

Pursuant to the Exclusive Option Agreement, in the event of a mandatory liquidation required by the PRC laws, the Registered Shareholders have irrevocably undertaken that, in compliance with the PRC laws, Beijing Joyspreader shall transfer all remaining asset to WFOE or its designated person, at the lowest price as permitted by the PRC laws, after deduction of payments of liquidate expenses, staff salaries, social security fee, statutory compensation, and outstanding taxes and settlement of other debts. Beijing Joyspreader shall waive any payment obligation of WFOE or its designated person arising thereon to the extent permitted by the then applicable laws of the PRC; or shall return WFOE or its designated person any income (if any) arising from such transaction to the extent permitted by the then applicable laws of the PRC.

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INSURANCE

There are certain risks involved in our operations, in particular, those relating to our corporate structure and the Contractual Arrangements. A detailed discussion of material risks relating to our Contractual Arrangements is set forth in the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” in this document. We have determined that the costs of insurance for the risks associated with business liability or disruption and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Accordingly, as of the Latest Practicable Date, our Company did not purchase any insurance to cover the risks relating to the Contractual Arrangements. For further details, see “Risk Factors — Risks Relating to Our Business and Industry — Our insurance coverage may be inadequate to cover all significant risk exposures” in this document.

OUR CONFIRMATION

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our business through our Consolidated Affiliated Entities under the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, we believe that the Contractual Arrangements are narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations. Our PRC Legal Advisors has also advised that:

- (i) WFOE, Beijing Joyspreader and each of the Registered Shareholders are legally established and validly subsisting entities or natural persons with full civil capacity. They have the qualifications and capabilities to enter into the Contractual Arrangements;
- (ii) None of the Contractual Arrangements violates any provisions of the articles of associations (or partnership agreements) of WFOE, Beijing Joyspreader;
- (iii) Each of the agreements comprising the Contractual Arrangements shall be legal, effective and binding and enforceable to all parties under the laws enacted by the NPC and its Standing Committee and the administrative regulations enacted by the State Council, save for (i) the agreeing that the ruling of the relevant arbitration institutions made under its authority to dissolve Beijing Joyspreader under the agreement may not be enforceable under existing PRC laws, (ii) the provisional remedies or other rulings of Hong Kong courts and courts of the place of incorporation of our Company in regards to the agreement may not be recognized and enforceable under existing PRC laws, (iii) the pledge of equity interests shall only have legal effect upon the completion of registration procedures for the pledge of equity interests with the relevant Administration for Market Regulation, and (iv)

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the arbitral award made by the China International Economy and Trade Arbitration Commission under the dispute settlement provisions of the Contractual Arrangements shall only be enforceable upon the rulings of the people’s court to approve the enforcement have been made;

- (iv) The pledge of equity interests under the Contractual Arrangements has been registered with the competent Administration for Market Regulation authority in the PRC; and
- (v) The Contractual Arrangements are voluntary agreements of the parties and are not entered into by fraud or coercion of any parties, and there is no violation to the provisions of Article 52 under the PRC Contract Law (中華人民共和國合同法) including the provision of “covering illegal purposes in a legal form”, the General Principles of the PRC Civil Law (中華人民共和國民法通則) and other applicable PRC laws and regulations.

Our PRC Legal Advisers are of the view that, certain Registered Shareholders are entities instead of natural persons will not compromise the level of protection afforded to the Shareholders in controlling the Consolidated Affiliated Entities and/or enforcing the Contractual Arrangements for the following reasons:

1. The signing of the agreements comprising the Contractual Arrangements by the Registered Shareholders is made through the Registered Shareholders’ internal decision or procedures. According to the provisions of Article 32 and 44 under the PRC Contract Law, the signatures and seals of the Registered Shareholders, whether entities or natural persons, are legal and effective, and the Registered Shareholders are subject to the Contractual Arrangements and each of the agreements comprising the Contractual Arrangements. Each of the agreements under the Contractual Arrangements is as effective as if the Registered Shareholders are all natural persons. And all Registered Shareholders made guarantees in such agreements that they would comply with and ensure the enforcement of the Contractual Arrangements.
2. Each of the agreements comprising the Contractual Arrangements shall be legal, effective and binding and enforceable to all parties and comply with the laws enacted by the NPC and its Standing Committee and the administrative regulations enacted by the State Council.
3. Our Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the Contractual Arrangements and our Group’s compliance with the Contractual Arrangements:
 - (i) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis; (ii) the Board will review the overall

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performance of and compliance with the Contractual Arrangements at least once a year; (iii) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our Company’s annual reports; (iv) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and the Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

4. If any Registered Shareholder breaches any agreements comprising the Contractual Arrangements, WFOE can deal with it according to the agreements under the Contractual Arrangements. For example, WFOE has the right to dispose of all or part of the pledged equities held by any Registered Shareholders, and WFOE will be paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon notice to the Registered Shareholders.

On January 8, 2019, our PRC Legal Advisors and the legal advisors to the Joint Sponsors conducted an interview with a deputy director of the Internet Market Supervision Division of Market Management Department of the MOCT through telephone, which provided oral confirmation that the Contractual Arrangements do not fall within the regulatory scope of the MOCT and thus it will not require any approvals from them on such Contractual Arrangements. The officer of the MOCT also confirmed that the Contractual Arrangements will not affect the Online Culture Operating Licenses owned by us. Our PRC Legal Advisors advised that MOCT is the appropriate and competent authority for our Relevant Business, and based on the interview with the MOCT, our PRC Legal Advisors are of the view that the use of the Contractual Arrangements does not constitute a breach of the relevant PRC laws and regulations.

Based on the above analysis and advice from our PRC Legal Advisors, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. For further details, see the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” in this document.

We are aware of a PRC Supreme People’s Court (中華人民共和國最高人民法院) ruling (the “**Supreme People’s Court Ruling**”) made in October 2012 and two arbitral decisions from the Shanghai International Economic and Trade Arbitration Commission made in 2010 and 2012 which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravene the prohibition against “concealing an illegitimate purpose under the guise of legitimate acts” set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of the PRC courts and/or arbitration panels taking similar

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actions against contractual arrangements commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC; and (ii) the incentive for the registered shareholders under such contractual arrangements to renege on their contractual obligations. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. Our PRC Legal Advisors are of the view that the relevant terms of the agreements under the Contractual Arrangements do not fall within the above five circumstances. In particular, our PRC Legal Advisors is of the view that the agreements under the Contractual Arrangements would not be deemed as “concealing illegal intentions with a lawful form” such that they also do not fall within circumstance (iv) above under Article 52 of the PRC Contract Law because the agreements under the Contractual Arrangements were not entered into for illegitimate purposes.

Given that the Contractual Arrangements will constitute non-exempt continuing connected transactions of our Company upon the [REDACTED], a waiver has been sought from and [has been granted] by the Stock Exchange, details of which are disclosed in the section headed “Connected Transactions” in this document.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of Financial Results of our Consolidated Affiliated Entities

Under the Exclusive Management and Consultation Service Agreement, it was agreed that, in consideration of the services provided by WFOE, Beijing Joyspreader will pay services fees to WFOE. The services fees, subject to the WFOE’s adjustment, are equal to the entirety of the total consolidated profit of Beijing Joyspreader (net of accumulated deficit of the Consolidated Affiliated Entities in the previous financial years (if any), costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld). WFOE may adjust the services scopes and fees at its discretion in accordance with PRC tax law and practice as well as the needs of the working capital of our Consolidated Affiliated Entities. WFOE also has the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities. Accordingly, the WFOE has the ability, at its sole discretion, to extract all of the economic benefit of Beijing Joyspreader through the Exclusive Management and Consultation Service Agreement.

In addition, under the Exclusive Management and Consultation Service Agreement and the Exclusive Option Agreement, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of our Consolidated Affiliated Entities as WFOE’s prior written consent is required before any distribution can be made. In the event

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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 (subject to the relevant tax payment being made under the relevant laws and regulations) to our Company.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through WFOE and, at our Company's sole discretion, can receive 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 statements.

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 they were our Company's subsidiaries. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in note 2 to the Accountants' Report in Appendix I to this document.

Our Directors undertake that our Company will, to the extent that our Company would be required to announce such information pursuant to Part XIVA of the SFO after the [REDACTED], timely announce (i) any updates or material changes to the Foreign Investment Law; and (ii) in the event that the new foreign investment law has been promulgated, a clear description and analysis of the law, specific measures adopted by our Company to comply with the law (supported by advice from our PRC Legal Advisors), as well as its impact on our business operation and financial position.

FOREIGN INVESTMENT LAW

Background

On March 15, 2019, the Foreign Investment Law was formally passed by the 13th NPC and took effect on January 1, 2020. The Foreign Investment Law stipulates forms of foreign investment as below:

- foreign investors set up foreign invested enterprises in China severally or jointly with other investors;
- foreign investors acquire shares, equity, properties or other similar interests in any domestic enterprise;
- foreign investors invest in new projects in China severally or jointly with other investors; and
- foreign investors invest through any other methods under laws, administrative regulations, or provisions prescribed by the State Council.

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The Foreign Investment Law stipulates that the Negative List is applied in certain industry sectors. The Negative List set out in the Foreign Investment Law classified the relevant prohibited and restricted industries into the Catalog of Prohibitions and the Catalog of Restrictions, respectively. Where any foreign investor directly or indirectly holds shares, equity, properties or other interests in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalog of Prohibitions. Foreign investors are allowed to invest in sectors set out in the Catalog of Restrictions, subject to certain conditions. Foreign investors are allowed to invest in any sector beyond the Negative List and shall be managed on the same basis as domestic investments.

Where a foreign investor invests in the sectors specified in the Catalog of Prohibitions, the relevant competent departments shall order it to stop the investment activities, and dispose of the shares, properties or other necessary measures within a time limit to restore the state before the investment is implemented and the illegal income shall be confiscated (if any). Where the investment activities of a foreign investor violate the restrictive special management measures stipulated in the sectors specified in the Catalog of Restrictions, the relevant competent departments shall order it to make corrections and take necessary measures to meet the requirements for access to special management measures; where the offender refuses to make corrections, punishments are implemented according to the provisions of the preceding paragraph.

Impact and potential consequences of the Foreign Investment Law on the Contractual Arrangements

Our PRC Legal Advisors have advised that, since Contractual Arrangements are not specified as foreign investments under the Foreign Investment Law, and if future laws, administrative regulations, provisions of the State Council do not incorporate Contractual Arrangements as a form of foreign investment, the Foreign Investment Law would not apply to our Contractual Arrangements, and it does not substantially change the identification of foreign investors in the field of foreign investment and the principle of recognition and treatment of our Contractual Arrangements compared with the current PRC laws and regulations. Therefore our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be materially affected and will continue to be legal, valid and binding on the parties. Notwithstanding the above, the Foreign Investment Law stipulates that foreign investors investing through any other methods stipulated under laws, administrative regulations or provisions of the State Council may be considered as a form of foreign investment. It is therefore possible that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment. However, as of the Latest Practicable Date, it was uncertain as to how our Contractual Arrangements will be handled.

If the operation of Relevant Business is no longer falling in the Catalog of Prohibitions or certain conditions and permission of foreign investment access required under the Negative List and we can legally operate our business under PRC laws, WFOE will exercise the call option under Exclusive Option Agreement to acquire the equity interest/assets of Beijing

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Joyspreader and unwind the Contractual Arrangements subject to any applicable approvals from the relevant governmental authorities, and subject to any application or approval procedures by the relevant governmental authorities.

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:

- (1) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (2) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (3) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and
- (4) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

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OVERVIEW

We are a performance-based we-media (自媒體) marketing service provider in China with a market share of 1.5% in terms of total revenue in 2019, according to Frost & Sullivan, leveraging business intelligence technologies to serve marketers and we-media publishers. The market size of China’s performance-based we-media marketing market, as measured by total revenue, grew at a CAGR of 90.0% from RMB1.3 billion in 2014 to RMB31.8 billion in 2019, according to Frost & Sullivan. Market share of the second to fifth ranked market players in terms of total revenue in 2019 was 1.0%, 0.9%, 0.6% and 0.5%, respectively, according to the same source. We believe that being an industry leader in a fast-growing market with favorable industry trends positions us well for continued and rapid future growth.

We connect marketers and we-media publishers using proprietary technologies and platforms, providing services that address their respective needs. We provide performance-based marketing services to our marketers by analyzing and distributing their products on a high-quality and diverse we-media network, which helps marketers acquire users. For our online products other than online literature and Html 5 games (i.e. apps, online promotion activities and mini-programs), we provide recommended distribution strategies on different we-media platforms for marketers to choose. Our marketers, i.e. our customers, mainly consist of online product providers and merchants that promote their consumer goods through our performance-based marketing services. Our online product providers mainly include marketing agents, app developers, online literature providers, Html 5 game providers and mini-program developers. We cooperated with more than 145 marketers during the Track Record Period. As of March 31, 2020, we provided services to an app portfolio covering more than ten categories such as game, video and utility apps; online literature products we served included over 681 online books across 69 literary genres; and Html 5 game products we served included more than 157 Html 5 games from game genres covering RPG, strategy, action, and adventure.

We also offer monetization services to we-media publishers to help match their user-follower network traffic with suitable products leveraging our algorithm-based product recommendation technologies. We do not generate revenue from our monetization services to we-media publishers. The monetization services we provided to we-media publishers contribute to our high-quality and diverse we-media network, which in turn bring us traffic resources for our performance-based marketing services to marketers. We benefit from data collected through our monetization services, which increase the accuracy and efficiency of our algorithms and may in turn bring us more customers and increased income. For online literature and Html 5 games, we present a list of recommended products to we-media publishers that register on our platforms, from which they can choose the product to be marketed at their own discretion. We differentiate our monetization services from those of our competitors by offering a cross-media and cross-platform online product portfolio that mainly consists of apps, online literature, Html 5 games and mini-programs. During the Track Record Period, a majority of the we-media publishers we served and empowered have accounts on some of the largest we-media platforms in China, such as WeChat Official Accounts (微信公眾號). It is common in the industry for small- to mid-sized we-media publishers to monetize their user traffic through agents of large we-media platforms, according to Frost & Sullivan. As a result, we acquire user traffic from we-media publishers through these agents, who are our suppliers. Our we-media publisher base had a cumulative total of approximately 22,960 WeChat Official Accounts we served and approximately 229,610 user traffic entry points during the Track Record Period. On March 31, 2020, the last day of the Track Record Period, the number of WeChat Official Accounts we served was 3,806⁽¹⁾, through which we were able to reach more than 733.0 million followers. We also serve a diverse network of next-generation we-media

(1) This number only represented the number of WeChat Official Accounts we served on that day.

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publishers across a number of we-media platforms which are rapidly gaining popularity and user base in China. We strategically focus on serving small- to mid-sized we-media publishers to which substantially all of the performance-based we-media marketing expenditure in the market goes and have developed a we-media network that covers popular genres such as games, novels and humor and with highly active follower bases.

Our success is built on our ability to optimize the performance of our services and satisfy the needs of marketers and we-media publishers. As an algorithm-based and technology-driven company, we are able to offer a tailored product portfolio to target audiences through we-media publishers. Our we-media publisher base had a cumulative total of approximately 22,960 WeChat Official Accounts we served and approximately 229,610 user traffic entry points during the Track Record Period. On March 31, 2020, the last day of the Track Record Period, the number of WeChat Official Accounts we served was 3,806, through which we were able to reach more than 733.0 million followers. We have accumulated substantial anonymized user behavioral data, including approximately 1.5 billion clicks we accumulated through our services during the Track Record Period, which has enabled us to build a significant and valid data collection, strong data analysis capabilities and powerful technology platforms empowered by our proprietary business intelligence technologies. Our proprietary business intelligence technologies include data collection, data tagging, machine-based product analysis, distribution strategy and product recommendation. We believe that by leveraging the proprietary business intelligence technologies applied in our data collection, data analysis and technology platforms, we are able to effectively and efficiently recommend products based on internal performance test results. We further believe that these technologies enable us to accurately simulate the actual performance of marketing campaigns, and, in turn, ensure our profitability. Benefiting from these technologies, we have also been able to enhance our productivity and achieve an industry-leading profit per employee⁽¹⁾ of RMB1.7 million in 2019, compared to the industry average of RMB0.7 million in the we-media marketing market, according to Frost & Sullivan.

In addition, we are a first mover in the short-form video we-media monetization market, which has demonstrated strong growth due to its effective monetization capabilities, and as a result, it has been in high demand by we-media publishers in recent years. The short-form video we-media monetization market has been and is expected to continue to be a high-growth segment in the overall we-media monetization services market. We have begun to lay our foundation in this segment. Our experience in offering tailored products to targeted audiences through we-media publishers on text-based we-media gives us an advantage over competitors in developing algorithms and technology platforms for short-form video we-media publishers. Leveraging our rich experience in applying business intelligence technologies to text-based we-media monetization services, we are developing Beauty Connector (美接平台), a technology platform that aims to serve marketers and we-media publishers on short-form video platforms. In 2018, we launched a marketing campaign for a well-known 3C digital accessories brand on the largest short-form video platform in China, through which we are able to collect

(1) Profit per employee is calculated by dividing gross profit for certain period by total number of employees at the end of such period. It is a commonly used key performance indicator evaluating the productivity of market participants in China’s we-media marketing market, according to Frost & Sullivan.

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data for data tagging and product analysis purposes, which we believe will benefit the optimization of our proprietary product recommendation algorithms for short-form video platforms. We also entered into a strategic cooperation agreement for a term of three years with Beijing Yingyi, a professional short-form video production company with a significant we-media network that we strategically invested in at its early stages. We believe that our cooperation and investment in Beijing Yingyi will provide us with synergies in developing our own we-media publishers and priority access to premium short-form video production resources and monetization opportunities, as well as enable us to secure monetization opportunities through top-end qualifications held by Beijing Yingyi.

Our revenue increased by 93.9% from RMB135.3 million for the year ended December 31, 2017 to RMB262.3 million for the year ended December 31, 2018. Our revenue increased by 80.6% from RMB262.3 million for the year ended December 31, 2018 to RMB473.6 million for the year ended December 31, 2019. Our revenue increased by 71.5% from RMB97.5 million for the three months ended March 31, 2019 to RMB167.3 million for the three months ended March 31, 2020. Our net profit increased by 41.8% from RMB32.1 million for the year ended December 31, 2017 to RMB45.5 million for the year ended December 31, 2018. Our net profit increased by 48.1% from RMB45.5 million for the year ended December 31, 2018 to RMB67.4 million for the year ended December 31, 2019. Our net profit increased by 91.9% from RMB10.7 million for the three months ended March 31, 2019 to RMB20.5 million for the three months ended March 31, 2020.

COMPETITIVE STRENGTHS

One of the leading performance-based we-media marketing service provider in China enjoying first-mover advantages and rapid growth

We are a performance-based we-media marketing service provider in China with a market share of 1.5% in terms of total revenue in 2019, according to Frost & Sullivan, leveraging business intelligence technologies to serve marketers and we-media publishers. The market size of China’s performance-based we-media marketing market, as measured by total revenue, grew at a CAGR of 90.0% from RMB1.3 billion in 2014 to RMB31.8 billion in 2019, according to Frost & Sullivan. Market share of the second to fifth ranked market players in terms of total revenue in 2019 was 1.0%, 0.9%, 0.6% and 0.5%, respectively, according to the same source. We believe that being an industry leader in a fast-growing market with favorable industry trends positions us well for continued and rapid future growth.

We connect marketers and we-media publishers using proprietary technologies and platforms, providing services that address their respective needs. We provide performance-based marketing services to marketers by analyzing and distributing their products on a high-quality and diverse network of we-media, which helps marketers acquire users. By doing so, we also offer monetization services to we-media publishers to help match their user-follower network traffic with suitable products leveraging our algorithm-based product recommendation technologies. We do not generate revenue from our monetization services to we-media publishers. The monetization services we provided to we-media publishers

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contribute to our high-quality and diverse we-media network, which in turn bring us traffic resources for our performance-based marketing services to marketers. We benefit from data collected through our monetization services, which increase the accuracy and efficiency of our algorithms and may in turn bring us more customers and increased income. We differentiate our monetization services from those of our competitors by offering a high-quality, cross-media and cross-platform online product portfolio that mainly consists of apps, online literature, Html 5 games and mini-programs. As an algorithm-based and technology-driven company, we are able to offer a tailored product portfolio to target audiences through we-media publishers based on our algorithm-based data tagging and product analysis results.

We serve and empower we-media publishers on some of the largest we-media platforms in China, such as WeChat Official Accounts. Unlike mobile apps and other media formats such as portal websites, we-media has grown rapidly since its emergence in 2013 and has become an important part of the current media landscape, fueled by the fragmented-reading boom and increasing personalization of mobile content, according to Frost & Sullivan.

We believe that our rapid growth during the Track Record Period was largely attributable to our first-mover advantages in the we-media space. As early as 2015, we identified we-media as the next big driver in digital marketing and began to offer performance-based we-media marketing services to our marketers. We have enjoyed rapid growth as a first-mover and pioneer in the market and believe that demand for performance-based we-media marketing services will remain substantial in the future as it grows to a RMB110.7 billion market by 2024 with a CAGR of 28.3% from 2019 to 2024.

Substantial data collection, strong data analysis capabilities and powerful technology platforms empowered by our proprietary business intelligence technologies

Our success is built on our ability to optimize the performance of our services and satisfy the needs of marketers and we-media publishers. We believe that we are able to do so by leveraging the proprietary business intelligence technologies applied in our substantial data collection, strong data analysis capabilities and powerful technology platforms to effectively and efficiently recommend products based on internal performance test results. See “—Research and Development.” We further believe that these technologies enable us to accurately simulate the actual performance of marketing campaigns and provide performance-based marketing services with high conversion rates, and, in turn, ensure our profitability. Details of our business intelligence data collection, data analysis and technology platforms are set out below:

- *Substantial and valid data collection.* We have accumulated substantial anonymized user behavioral data through our services. During the Track Record Period, we accumulated approximately 1.5 billion clicks through our services. The data that we collect from marketers and we-media publishers include click-throughs, geographical locations and types of mobile device. We apply text mining technologies in our data collection, through which we are able to automatically

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transform unstructured text information published by marketers and we-media publishers into valid data that have been processed into data libraries and can be readily applied in internal performance tests to simulate actual performance.

- *Strong data analysis capability.* Our data analysis capability is our core competitiveness. We have developed collaborative filtering algorithms (協同過濾算法) for our product recommendation engine, which enables automatic and intelligent identification and recommendation of marketing campaign and we-media publisher matches. We have continued to enhance and optimize these algorithms using data libraries that we have built. Based on the results of our data analysis and algorithms, we are able to recommend suitable products that satisfy the needs of marketers and we-media publishers.
- *Proprietary technology platforms.* Using our business intelligence technologies, we have developed algorithm-based technology platforms to efficiently process and analyze our accumulated behavioral data and increase the accuracy and user-friendliness of our performance-based marketing services. These proprietary technology platforms have also provided us with industry insights and advantages over peers when extending our services into new markets, such as the short-form video market, which has empowered our strategic business expansion.

Benefitting from these technologies, capabilities and platforms, we have achieved relatively high click-through rates compared to other types of we-media marketing. Moreover, we have been able to enhance our productivity and achieve an industry-leading profit per employee of RMB1.7 million in 2019, compared to the industry average of RMB0.7 million in the we-media marketing market, according to Frost & Sullivan.

High-quality, cross-media and cross-platform product portfolio

We offer we-media publishers a comprehensive portfolio of monetization products that meet their various and evolving needs, mainly consisting of online products, including mobile apps, online literature, Html 5 games and mini-programs, as well as consumer goods. We believe that our cross-media and cross-platform product portfolio positions us well for success, considering the popularity of products such as mobile apps, online literature, Html 5 games and mini-programs in the text-based we-media monetization market, which dominated China’s we-media monetization market with a 91.8% market share in 2019 in terms of we-media publisher revenue. Through our high-quality product portfolio, we are able to provide cross-media monetization services that target the followers of we-media publishers.

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During the Track Record Period, we cooperated with more than 145 marketers. As of March 31, 2020, we provided services to an app portfolio covering more than ten categories and an online literature portfolio of over 681 online books across 69 literary genres. In addition, as of the same date, we provided services to an accumulated Html 5 game portfolio of more than 157 games from genres covering RPG, strategy, action and adventure, which accounted for approximately 57% of all government-approved Html 5 games in China, according to Frost & Sullivan. Since early 2018, online game publication approvals required for games to lawfully be launched and generate revenue in China have become more difficult to obtain in practice as relevant laws and regulations become increasingly stringent, creating an entry barrier for many Html 5 games.

We offer we-media publishers a wide range of popular and well-known products that are in high demand, such as the Ctrip app and Toutiao app. In order to maintain a high-quality product portfolio, we have maintained strong and long-term business relationships with well-known marketing agents, online literature providers and game providers, such as Palmar Link (掌聯). Many of these business partners regularly place orders with an aggregate value of over RMB100.0 million each year with us, providing us with a robust and sustainable product portfolio.

High-quality and diverse we-media network

We believe that a high-quality and diverse we-media network is crucial to our business.

- *Partnership with numerous we-media market leaders.* During the Track Record Period, a majority of the we-media publishers we served have accounts on some of the largest we-media platforms in China, such as WeChat Official Accounts. Our we-media publisher base had a cumulative total of approximately 22,960 WeChat Official Accounts we served and approximately 229,610 user traffic entry points during the Track Record Period. On March 31, 2020, the last day of the Track Record Period, the number of WeChat Official Accounts we served was 3,806, through which we were able to reach more than 733.0 million followers.
- *Next-generation we-media resources.* Vlogs, live stream and short-form videos are the next-generation media formats, according to Frost & Sullivan. We serve a diverse network of next-generation we-media publishers across a number of we-media platforms, which primarily cater to these new media formats and are rapidly gaining popularity and user base in China. We believe that our focus on these next-generation we-media publishers will benefit us in our business expansion in the future.
- *Strategic we-media coverage with highly active follower base.* According to Frost & Sullivan, around 90.0% of the active we-media publishers on WeChat and Douyin are small- to mid-sized we-media accounts. Performance-based marketing is attractive to small- to mid-sized we-media publishers because of the availability of diverse product offerings and monetization opportunities. We strategically focus on

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serving these we-media publishers to which substantially all of the performance-based we-media marketing expenditure in the market goes and have developed a we-media network that covers popular genres such as games, novels and humor and with highly active follower bases. Leveraging our proprietary business intelligence technologies and extensive experience in performance-based we-media marketing, we are able to identify we-media publishers with active followers. The active follower bases of these we-media publishers enable us to provide performance-based we-media marketing services with strong conversion rates and profitability compared to other we-media marketing services.

A first-mover in the fast growing short-form video monetization services market

First emerging in late 2016, short-form videos have grown rapidly as a media format since 2017, as a result of the popularization of 4G wireless networks and public Wi-Fi. Compared to text-based we-media, short-form video we-media conveys more information in the same length of time and is more entertaining, enabling it to attract user attention and effectively occupy users’ fragmented leisure time. In the past few years, short-form videos has demonstrated strong monetization capabilities, and as a result, we-media publishers are increasingly using short-form video platforms to accumulate significant traffic and users. The short-form video we-media monetization market has been and is expected to continue to be a high-growth segment in the overall we-media monetization services market. According to Frost & Sullivan, the market size of short-form video monetization services was RMB10.9 billion in 2019, and is expected to reach RMB57.8 billion by 2024, representing a CAGR of 39.6% from 2019 to 2024. The MAU of short-form video platforms increased from 226.9 million in 2017 to 627.1 million in 2019, and is expected to reach 842.9 million by 2024, according to the same source. As the market grew, monetization services providers serving we-media publishers on short-form video platforms gradually appeared from 2017 and 2018. E-commerce monetization is becoming more and more popular recently and is considered as one of the most important monetization segment for we-media publishers. Douyin initiated its e-commerce monetization business in 2018, according to Frost & Sullivan. We, as a first-mover in this market segment, took responsive actions and commenced to provide monetization services to we-media publishers on short-form video platform in August 2018. According to Frost & Sullivan, we are also one of the pioneers in the industry in (i) providing monetization services to small- to mid-sized we-media publishers, (ii) providing a product portfolio that meet the various and evolving needs of we-media publishers on short-form video platforms, and (iii) cooperating with MCNs to improve service. We have begun to lay the foundation for our future growth.

- *Algorithms and technology platforms.* Our experience in offering tailored products to targeted audiences through we-media publishers on text-based we-media gives us an advantage over our competitors in developing algorithms and technology platforms for short-form video we-media publishers. Leveraging our rich experience in applying business intelligence technologies to text-based we-media monetization services, we are developing Beauty Connector, a technology platform that aims to serve marketers and we-media publishers on short-form video platforms. Since entering the short-form video market, we have collected anonymized user behavioral

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data from short-form video platforms to profile users and build our data library, which we believe will enable us to continue to optimize our proprietary product recommendation algorithms serving we-media publishers on short-form video platforms and identify the most valuable we-media publishers for potential business cooperation.

- *A pioneer in serving small- to mid-sized short-form video we-media publishers.* Recognizing the business potential of user-follower network traffic, we, as one of the pioneers in the industry, are currently focused on developing our we-media network on the largest short-form video platform in China. In August 2018, we launched our first marketing campaign for a well-known 3C digital accessories brand through mid-sized we-media publishers on the largest short-form video platform in China, which attracted 18.3 million views and 0.3 million likes. For the years ended December 31, 2018 and 2019 and the three months ended March 31, 2020, our revenue from promoting consumer goods on short-form video platforms amounted to RMB3.8 million, RMB23.0 million and RMB10.5 million, respectively.
- *Short-form video we-media network.* To develop our own we-media publishers on short-form video platforms, access premium short-form video production resources and secure monetization opportunities on major short-form video platforms, we entered into a strategic cooperation agreement with Beijing Yingyi for a term of three years, a professional short-form video production company with a significant we-media network that we strategically invested in at its early stage. With a production team holding extensive industry experience in movie production and animation production, we believe that our cooperation and investment in Beijing Yingyi will provide us with synergies in developing our own we-media publishers and priority access to premium short-form video production resources and monetization opportunities. Beijing Yingyi prioritizes the production of short-form video production request from us. We also have priority right to launch marketing campaigns on short-form video we-media accounts owned by Beijing Yingyi. To facilitate their production of popular professional-generated content (“PGC”), we share our data library with Beijing Yingyi, through which Beijing Yingyi is able to identify the most popular content types with monetization potential. Since its incorporation in December 2018, Beijing Yingyi has been focusing on the development and operation of we-media publishers catering to audiences with specific interests, such as games, fashion and food review. Beijing Yingyi is one of the few MCNs that holds the License for Production and Distribution of Radio or Television Programs (廣播電視節目製作經營許可證), Taobao TaoLive and PGC qualification and is able to upload up to 15-minute long videos on Douyin. As of the Latest Practicable Date, Beijing Yingyi had at least 24 Douyin accounts with approximately 22.4 million followers, including some top accounts such as Magician Arthur.

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Visionary and experienced management team

Since our incorporation, Mr. Zhu, our founder and chief executive officer, has set the strategic direction of our operations. Through his extensive experience in the internet and media industries spanning more than 14 years, he has been able to anticipate major industry trends and market developments, spearheading our growth. Mr. Zhu’s vision is executed by an experienced and loyal management team, the majority of which has more than five years of experience in the media industry. Mr. Zhang, our Director and general manager, has approximately nine years of experience in the internet and online gaming industries. Other members of our management team have extensive and complementary experiences in a wide range of fields, covering internet technology, media and digital marketing. We believe that our experienced management team plays a vital role and will continue to be our guiding light as we navigate towards greater success in the performance-based we-media marketing industry in China.

BUSINESS STRATEGY

Capture market share as a first-mover in short-form video we-media monetization services

We believe that short-form video we-media monetization will be a high growth segment in China’s we-media monetization services market, increasingly accounting for a larger proportion of the overall we-media monetization services market from 8.2% in 2019 to 17.1% in 2024, according to Frost & Sullivan. We endeavor to leverage our first-mover advantage to expand our monetization product offerings, develop our own user traffic and increase our international presence, thereby increasing our profitability and enabling sustained growth.

- *Expand our monetization product offerings.* To solidify our leading position in the industry, satisfy the large unmet monetization needs of short-form video we-media publishers and capture monetization opportunities on large short-form video platforms, we plan to extend our portfolio of online products, such as apps, online literature and Html 5 games, from text-based we-media to we-media publishers on short-form video platforms. We plan to further strengthen our online product offering by entering into exclusive product licensing arrangements with high-quality domestic online product providers, including web game providers, animation and comic product providers, literature providers and e-sports organizations, to distribute these high-quality products through we-media publishers. We plan to develop new forms of online products through our collaboration with overseas product providers. We also intend to increase our collaboration with direct customers to expand our consumer goods portfolio. In addition, to capture opportunities in the short-form video market, we intend to collaborate with the two largest short-form video platforms in China to develop new monetization strategies and algorithms for performance-based marketing.

BUSINESS

- *Develop self-owned user traffic.* Taking advantage of our substantial data collection and strong data analysis capability, we plan to expand our self-owned user traffic. We plan to strategically invest in more PGC production companies similar to Beijing Yingyi which possess professional content production ability and high growth potential. Through these strategic investments, we intend to develop self-owned short-form video we-media with high monetization potential and explore enhanced monetization strategies for short-form videos for our future growth. Moreover, we plan to invest in or acquire talent agency companies in South Korea and Southeast Asia and launch international talent agency services through we-media platforms in China. We believe that there are many idol trainees in South Korea and Southeast Asia that would diversify the short-form video we-media content on China’s short-form video platforms. In addition, we also plan to leverage our idol trainees resources to develop more popular short-form video we-media accounts with over a million followers in order to develop our own user traffic and increase the profitability of our performance-based marketing services.
- *Increase international presence.* We intend to increase our international market presence initially through international short-form video platforms, and then by establishing new overseas offices and building an international sales and marketing team. See “Future Plans and [REDACTED]” We plan to leverage our experience on the largest short-form video platform in China to become one of the first players in the short-form video we-media monetization market in Asia.

Continue to enhance our business intelligence technologies and technology platforms

We plan to continue to develop and optimize our business intelligence technologies and strengthen our technology platforms through the following measures:

- *Continue to build a strong team.* We plan to engage talented and experienced personnel, including algorithm optimization engineers, database architects, and enhance our research and development, technical and operation team capabilities by increasing their headcount. Moreover, we believe that a high quality and dedicated management team and technical personnel are the backbone to our success. As such, we plan to improve our compensation and promotion system to incentivize employees and focus on employee training and development.
- *Short-form video business intelligence platform.* As our short-form video monetization services business grows, we plan to further enhance the capabilities of our technology platform – Beauty Connector, including its user interfaces, data collection capability and recommendation accuracy. We also will consider working with professional programming companies to improve our platform efficiency.

BUSINESS

- *AI technology and advanced machine learning algorithms.* We intend to increasingly incorporate AI technologies into our services. Over the next five years, we plan to develop robotic programs to conduct preliminary screening of content (including text and implied content (引申内容)) and to gather and analyze short-form video content. Moreover, we intend to incorporate AI technology and deep learning algorithms in our product recommendation algorithms. We intend to improve our data storage and broadband capacities, and utilize supercomputers that can engage in complex mass data analysis, which will be crucial to our big data capability. Moreover, we intend to develop and optimize recommendation algorithms for short-form videos.

Expand our we-media resources

We plan to strengthen our capabilities in providing performance-based we-media marketing services by continuing to expand our we-media resources through the following measures:

- We plan to increase collaboration with and acquire user traffic of popular WeChat Official Accounts in order to capture high-quality we-media resources. We also plan to establish strategic cooperation with upstream and downstream industry participants, such as agents of large we-media platforms.
- We plan to diversify the types of we-media publishers we serve. In particular, we plan to develop specific-interest we-media resources, such as the large number of high potential we-media publishers we have served on a leading video-sharing platform focusing on animation, comics and games and a female online community. We aim to provide personalized product portfolio to meet the needs of these specific-interest we-media publishers and reach more high-quality consumers.
- We will continue to expand our we-media coverage of we-media publishers with a strong follower base in third-tier and lower-tier cities, which we believe have strong growth potential in the future. The growth rate of consumption expenditure of urban residents and rural residents in 2019 was 7.5% and 9.9%, respectively, and the growth rate of disposable income of urban residents and rural residents in 2019 was 7.9% and 9.6%, respectively, according to Frost & Sullivan. Around 60% of the new users of short-form video platforms in 2019 were from third-tier and lower-tier cities in China, according to the same source. We believe that the expansion and increasing demand of the short-form video consumer base in third-tier and lower-tier cities will become a major source of growth for the short-form video marketing market.

To provide high-quality performance-based marketing services to a wide range of marketers, we plan to continue to optimize our own platform, algorithms and data analysis capabilities.

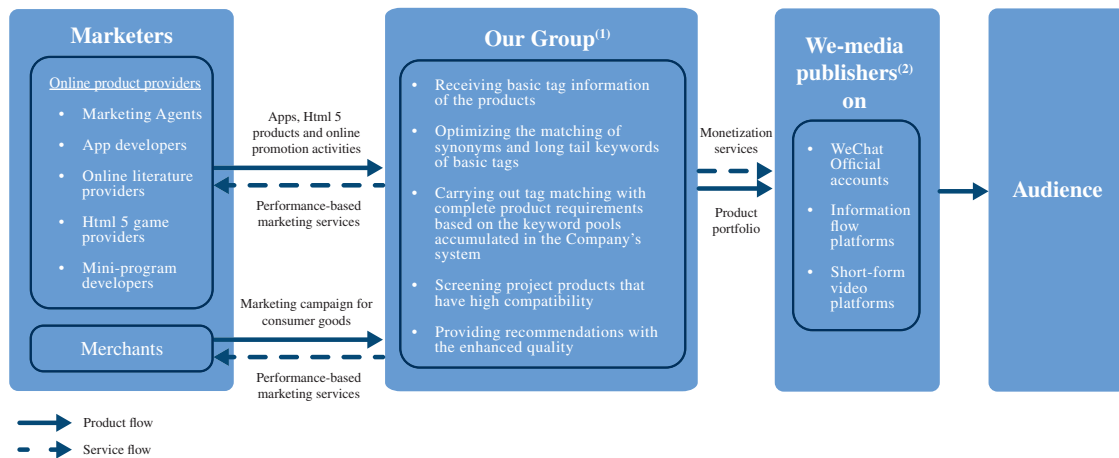
BUSINESS

Strategically pursue acquisition and investment opportunities

As part of our overall growth strategy, we plan to pursue acquisition and investment opportunities to strengthen our market position and enhance our competitiveness. We intend to focus on (i) technology companies with strong research and development capabilities in recommendation algorithm development and optimization; (ii) companies with robust user traffic and short-form video producers; and (iii) talent agency companies with strong talent resources in South Korea and Southeast Asia, to expand our we-media network. In selecting acquisition and investment opportunities, we will take into account a number of considerations, including our strategic goals, market position, management experience, valuation, track record and financial performance. As of the Latest Practicable Date, we have not identified any investment or acquisition targets.

OUR BUSINESS MODEL

We provide performance-based marketing services to marketers, and monetization services to we-media publishers. The following flowchart illustrates our product and service flows.



(1) For more details of our platforms and technologies, see “— Our Platforms and Technologies.”

(2) We generally conduct settlement with we-media publishers through agents, with whom we enter into contracts. According to Frost & Sullivan, such arrangement is consistent with industry practice.

Marketers

Marketers we serve consist of online product providers and merchants that promote their consumer goods through our performance-based marketing services. Our online product providers mainly include:

- marketing agents of app developers and brands;

BUSINESS

- app developers that launch mobile applications;
- online literature providers, primarily agents of online literature platforms that own a vast library of literary works available for distribution and monetization through paid online reading;
- Html 5 game providers, primarily game developers and game publishers that are licensed to publish, commercialize, market and promote Html 5 games; and
- mini-program developers that develop WeChat mini-programs.

We provide performance-based marketing services to our marketers by analyzing and distributing products that they provide on suitable we-media to help marketers acquire users. We have built a high-quality and diverse we-media network covering accounts on some of the largest we-media platforms in China. Through our performance-based marketing services, we are able to identify and distribute tailored product portfolio to targeted audiences through we-media publishers. See “— Our Services.”

We-media Publishers

During the Track Record Period, a majority of we-media publishers we served operate accounts on major we-media platforms in China, such as WeChat Official Accounts. We generally conduct settlement with we-media publishers through agents, with whom we enter into contracts. The active follower base of these we-media publishers enables us to provide performance-based we-media marketing services with strong conversion rates and profitability compared to other we-media marketing services. We-media publishers we serve range from general interest we-media to specific-interest we-media in genres such as games, novels and humor spaces, using media formats ranging from text to short-form videos. Starting from late 2018, we have been expanding our we-media network by providing services to we-media publishers on leading platforms with specific-interest audiences such as animation, comics, games and female community.

Rather than acting as an agent that simply purchases traffic inventories from we-media publishers and selling them to our marketers, we provide one-stop monetization services and a product portfolio from our marketers to we-media publishers where they can effectively monetize their user traffic. We help match we-media publishers’ user-follower network traffic with suitable products leveraging our algorithm-based product recommendation technologies. We recommend suitable products, such as online literature and Html 5 games, to we-media publishers, who can choose those that target their followers. We do not charge we-media publishers for our monetization services. We pay traffic acquisition costs to we-media publishers for their available traffic inventories through agents of we-media platforms. The monetization services we provided to we-media publishers contribute to our high-quality and diverse we-media network, which in turn bring us traffic resources for our performance-based

BUSINESS

marketing services to marketers. We benefit from data collected through our monetization services, which increase the accuracy and efficiency of our algorithms and may in turn bring us more customers and increased income.

We provide value-added monetization services to we-media publishers rather than merely acting as an agent, considering that (i) for a we-media publisher that is registered on our platform and seeking monetization services through online literature and Html 5 games, we will conduct analyses of the we-media publisher’s content and follower base using our proprietary algorithms and present the we-media publisher with a list of recommended products ranked by user engagement opportunities, and the we-media publisher is able to select preferred online literature and Html 5 games that targets its followers, thereby enabling more effective monetization; (ii) our algorithm-based product recommendation engine analyzes and recommends suitable products with the highest monetization and user engagement potential to we-media publishers which is highly valuable to we-media publishers as they enable we-media publishers to effectively monetize their traffic; and (iii) as advised by Frost & Sullivan, companies that act only as agents do not possess a significant data collection nor the processing and analysis capabilities enabled by, advanced technologies and algorithms to be able to conduct efficient recommendation and provide the type of value-added monetization services that we provide to we-media publishers.

We believe that the quality of our monetization services is crucial for us to maintain long-term relationships with we-media publishers (and their agents) and to maintain a stable customer base for our performance-based marketing services. To increase the effectiveness and efficiency of our monetization services, we have applied proprietary business intelligence technologies in data collection, data tagging, machine-based product analysis, distribution strategy and product recommendation. To provide better user experience and serve various monetization needs of we-media publishers, we have also developed intuitive interfaces and user-friendly platforms for we-media publishers. We-media publishers seeking monetization services through online literature and Html 5 products are able to connect their accounts to our technology platforms, publish and adjust their distribution of our recommended products easily. These we-media publishers are also able to optimize their monetization strategies with the help of our product recommendation engine. See “— Our Platforms and Technologies.”

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OUR SERVICES

We provide performance-based marketing services to our marketers. Through our performance-based marketing services, we provide our marketers with access to a substantial user-follower network traffic accumulated by we-media publishers. During the Track Record Period, our product portfolio primarily included online products and, to a lesser extent, consumer goods. Our online products primarily included apps, Html 5 products (i.e. online literature, games and mini-programs) and online promotion activities. In 2017, we also provided game co-publishing services to game publishers. The following table sets forth a breakdown of our revenue generated from our performance-based marketing services by product type for the period indicated.

	For the year ended December 31,						For the three months ended			
	2017		2018		2019		March 31, 2019		March 31, 2020	
	(RMB in thousands, except for percentages)									
	(Unaudited)									
Online products	131,954	97.6%	256,313	97.7%	448,675	94.7%	89,736	92.0%	156,276	93.4%
Consumer goods	–	–	3,774	1.5	23,022	4.9	7,565	7.8	10,481	6.3
Others ⁽¹⁾	3,303	2.4	2,168	0.8	1,868	0.4	211	0.2	517	0.3
Total	135,257	100.0%	262,255	100.0%	473,565	100.0%	97,512	100.0%	167,274	100.0%

(1) Others mainly refer to non-performance-based marketing campaigns we provided to customers during the Track Record Period.

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Online Products

We maintain a high-quality, cross-media and cross-platform online product portfolio mainly consisting of apps and Html 5 products. The following table sets forth a breakdown of our performance-based marketing revenue from online products by product type for the period indicated.

	For the year ended December 31,						For the three months ended			
							March 31,			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except for percentages)						(Unaudited)			
Apps	69,232	52.5%	132,919	51.9%	329,809	73.5%	72,901	81.2%	134,865	86.3%
Html 5 products										
– Online literature	26,215	19.8	37,801	14.7	17,167	3.8	2,946	3.3	7,661	4.9
– Html 5 games	23,491	17.8	31,939	12.5	11,905	2.7	884	1.0	7,901	5.1
– Mini-programs	–	–	10,034	3.9	7,165	1.6	1,367	1.5	3,774	2.4
<i>Total revenue from</i>										
<i>Html 5 products</i>	49,706	37.6	79,774	31.1	36,237	8.1	5,197	5.8	19,336	12.4
Online promotion										
activities	13,016	9.9	43,620	17.0	82,629	18.4	11,638	13.0	2,075	1.3
Total	131,954	100.0%	256,313	100.0%	448,675	100.0%	89,736	100.0%	156,276	100.0%

BUSINESS

Apps

As of March 31, 2020, we provided services to an app portfolio covering more than ten categories, such as game, video and utility apps. These apps were provided by both marketing agents and app developers. In particular, we have established long-term business relationships with well-known marketing agents in China that offer us a wide range of popular apps from various categories and regularly place orders with a value of over RMB100.0 million per year with us. In addition, we also work with app developers directly. We generated performance-based marketing revenue from apps of RMB69.2 million, RMB132.9 million, RMB329.8 million and RMB134.9 million for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, respectively.

The following table sets forth a breakdown of our performance-based marketing revenue by type of apps for the period indicated.

	For the year ended December 31,						For the three months ended March 31,	
	2017		2018		2019		2020	
<i>(RMB in thousands, except for percentages)</i>								
Game	15,840	22.9%	18,329	13.8%	170,630	51.7%	105,380	78.1%
Video	6,775	9.8	16,187	12.2	43,375	13.2	2,849	2.1
Culture and literature	232	0.3	6,766	5.1	33,886	10.3	17,973	13.3
Finance	9,509	13.7	2,768	2.1	21,399	6.5	1,934	1.4
Utility	26,829	38.8	68,369	51.4	18,991	5.8	1,154	0.9
News	1,637	2.4	10,662	8.0	16,722	5.1	4,490	3.3
Shopping	7,585	11.0	5,434	4.1	13,010	3.9	–	–
Others ⁽¹⁾	825	1.1	4,404	3.3	11,796	3.5	1,085	0.9
Total	69,232	100.0%	132,919	100.0%	329,809	100.0%	134,865	100.0%

(1) Others include music, social and education apps.

Our performance-based marketing services for apps are primarily provided through the following. Initially, we enter into framework service agreements with our customers for a term of one year. Upon entering the framework service agreement and receiving service request from our customer, we perform analyses of the customer’s products and recommend suitable we-media platforms and must-have features (such as age group, gender, and geographical area) of we-media publishers with targeted follower bases to our customers. See “— Our Platforms and Technologies — Our Platforms — Internal Management and Analysis Platforms.”

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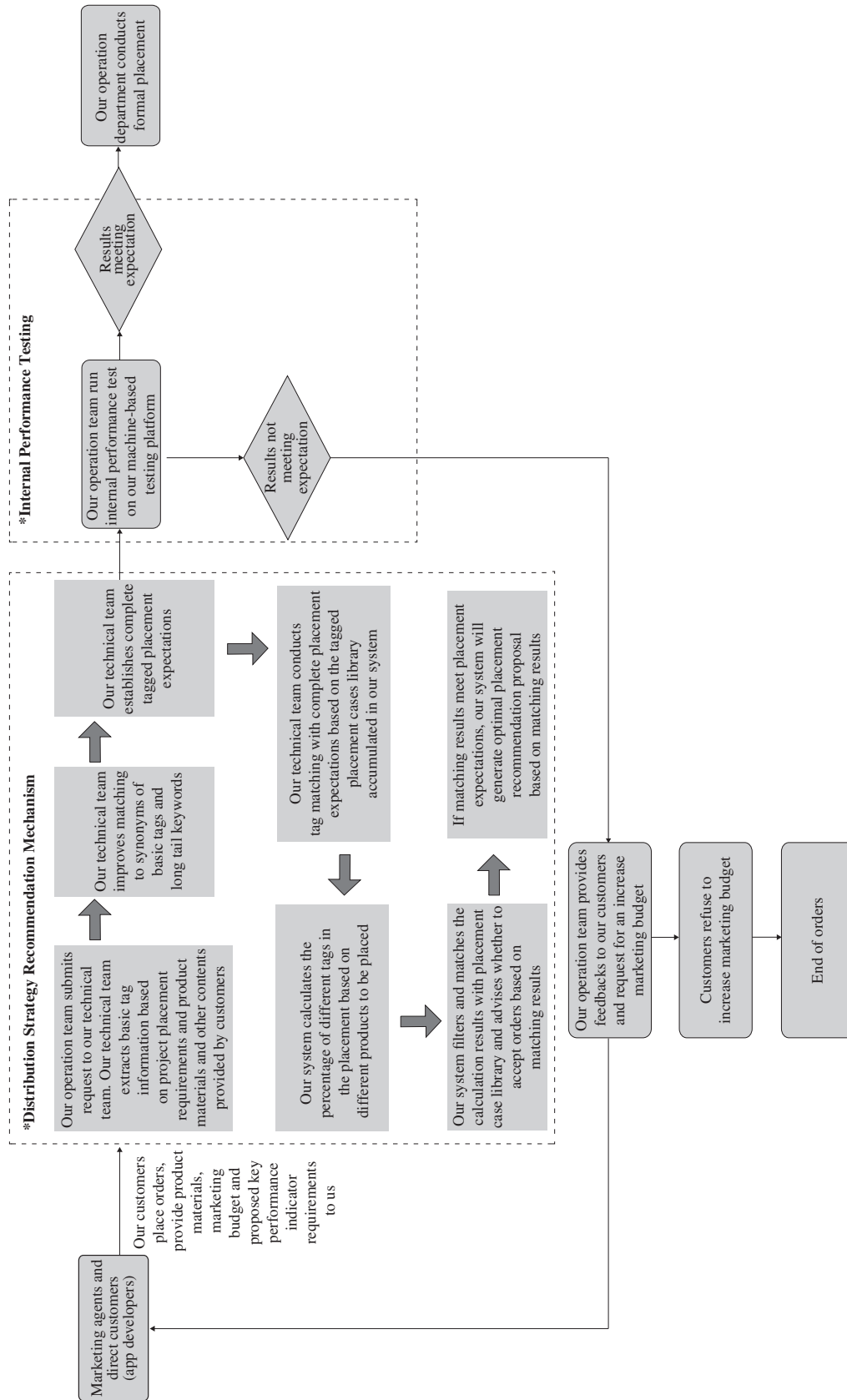
Initial marketing budgets for each marketing campaign are provided by the marketers and the traffic acquisition price charged by suppliers are determined by we-media platforms. We manage our profitability by conducting internal performance tests before accepting service requests from customers. When the customer has an app that seeks our performance-based marketing service, we run internal performance test based on our data analysis and initial we-media platform recommendations. Before running the test, we enter certain basic information of the marketing campaign to our test system, including product type, type of we-media platform, marketing duration and marketing budget. Taken such parameters into consideration, our test system searches for similar product on similar we-media platform with similar marketing duration based on historical data from our data collection and calculate its historical traffic acquisition cost. Based on such historical traffic acquisition cost, our test system produces an estimated traffic acquisition cost to be used in our internal performance test for such product. If the internal performance test yields results that meet the customer’s performance expectations, we will accept the service request from such marketer for our performance-based marketing service. If the internal performance test does not yield results that meet the customer’s performance expectations (such as the number of chargeable clicks) within its estimated marketing budget or our internal cost requirement, we will adjust our algorithms and parameters in order to improve the testing results during a trial period and renegotiate the marketing budget with the potential customer before we turn down the service request.

The customer will usually specify the marketing campaign duration, preferred types of we-media platform, type of marketing (such as banner advertisements, interstitial advertisements or text and image advertisements) and pricing model. Once a customer places an order with us, we will run another internal performance test where three sets of distribution strategies are recommended to the customer. We will then launch the marketing campaign through third-party we-media platforms chosen by the customer. We will monitor the performance of the marketing campaign and make adjustments to the distribution strategy as needed.

Achievable click-rate for a particular app product by end-users is not considered during the internal performance test. Estimated click-through rate, representing the ratio of internet audiences who click to the number of total internet audiences who view the marketing campaign, is a calculation result produced by the our algorithm during the internal performance test after entering certain parameters, such as product type, type of we-media platform, marketing duration and marketing budget, into the system. Through the calculation of estimated click-rate, we can better manage the traffic cost and profitability.

BUSINESS

The following flowchart sets forth our business process of performance-based marketing service for apps:



BUSINESS

Case Study

App X, a well-known short-form video platform, engaged us for performance-based marketing through its marketing agent in June 2019 for a one-month period with a marketing budget of RMB3.5 million. Through our algorithm-based technology platform, we were able to achieve an average click-through rate of 3.93%, which was significantly higher than the industry average of 2.0% for performance-based we-media marketing, according to Frost & Sullivan.

Pricing Models

We charge our customers for our performance-based marketing services for apps based on several pricing models, primarily including:

- Cost per click (CPC), based on the number of clicks on the marketing campaign, typically, a unit price is charged for each click;
- Cost per action (CPA), based on number of actions performed by the user, typically, a unit price is charged for each download or each registration; and
- Cost per sales (CPS), based on the amount of actual sales.

We charge our customers under one pricing model per transaction. Traffic acquisition cost for our performance-based marketing services for apps are based on real-time bidding on third-party we-media platforms. To participate in the real-time bidding on third-party we-media platform, we enter initial bidding price into the third-party we-media platform with reference to the recommended price range of distribution strategies produced by our algorithm-based product recommendation engine based on marketer’s marketing budget and certain parameters. The higher the bidding price we propose within the recommended price range, the more likely our marketing campaign will be delivered by the real-time bidding system on the third-party we-media platform. Our bidding price will be adjusted over time based on the bidding results of the immediate preceding day. Traffic acquisition price charged by suppliers are determined by we-media platforms and vary by traffic characteristics such as time slot, followers’ geographic location and distribution duration.

Fee Determination and Settlement

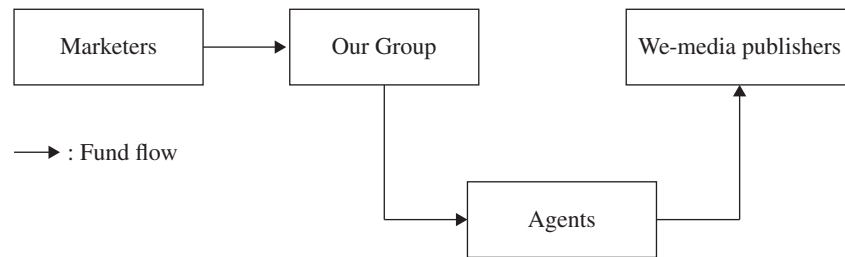
Each month, we would provide our customers with an invoice, setting out mutually agreed information, including the pricing model, unit price, number of effective clicks, actions or sales, as applicable, as well as the total invoiced amount for each marketing campaign, for their confirmation.

We measure and maintain the performance and collect data for each marketing campaign through third-party we-media platforms. We generally use mutually agreed performance data as the basis for our fee settlement with our customers. For marketing campaigns distributed

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through large we-media platforms, such as WeChat, we use performance data recorded on their platforms as the basis for our fee settlement with our customers. For marketing campaigns distributed through other third-party platforms, with the permission of our marketers, we embed our APIs into the distribution pages to collect clicks of our marketing campaigns in real-time. Our operation personnel collects data on a daily basis and our business manager submits weekly data analysis reports based on daily data report. Our department manager summarizes and reviews all data analysis reports every month. We conduct periodic and random tests to verify the accuracy of data we collected. We generally use our internal data reports as reference when evaluating the accuracy of the performance data from our customers and suppliers.

The following diagram illustrates the fund flow for our performance-based marketing services for apps.



Html 5 Products

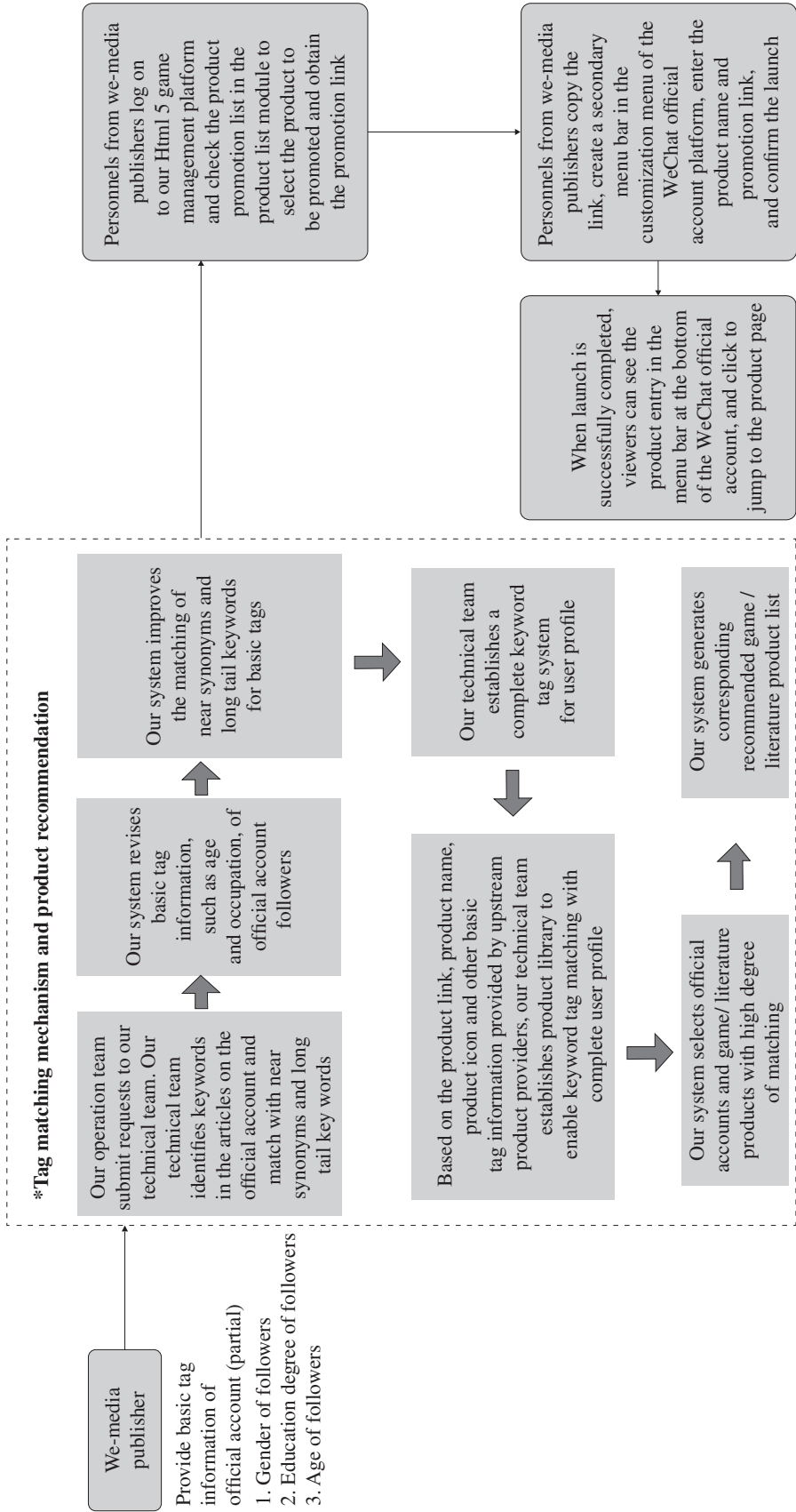
Literature

We started to provide performance-based marketing services for online literature in March 2017, and have since amassed a wide-ranging portfolio of literature products. As of March 31, 2020, we provided services to a literature portfolio included over 681 online books across 69 literary genres. We have entered into a cooperation arrangement with the agent of a leading online reading platform in China, to enable us to offer popular literature products.

We developed an online technology platform to better serve we-media publishers seeking monetization services through online literature products. Typically after we enter into agreements with agents of online literature platforms, they first provide us with online literature products of online literature platforms and specifications with respect to the type of media platforms and potential pricing model. We connect the online literature products to our literature platform and conduct data analysis. We-media publishers from whom we acquire user traffic through agents are able to register on our platform. When a registered we-media publisher initiates a monetization service request on our literature platform, our product recommendation engine will match suitable online literature products to the we-media account based on our data analysis result and generate a list of online literature product recommendations for the we-media publisher to choose from. Online literature products that are chosen will be displayed as an item in a drop-down menu of the we-media account. See “— Our Platforms and Technologies — Our Platforms — Html 5 Product Platforms.”

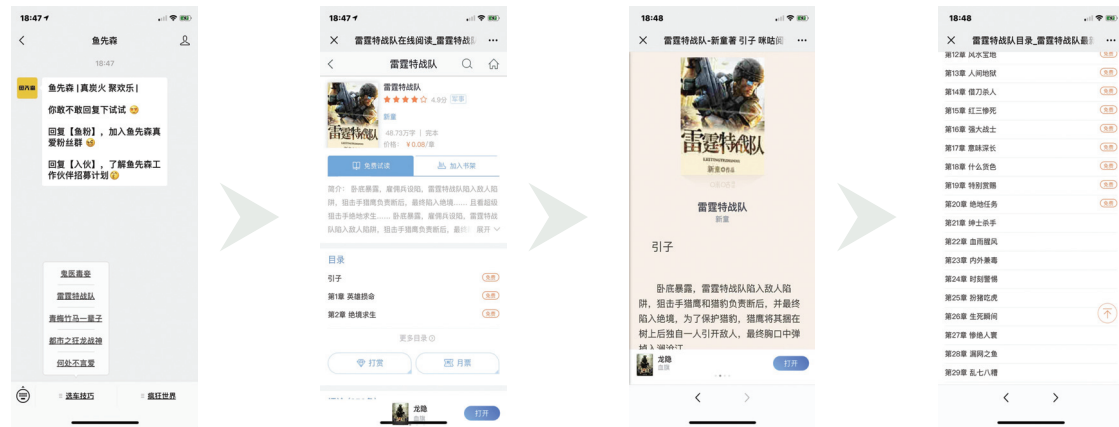
BUSINESS

The following flowchart sets forth our business process for online literature and Html 5 game products:



BUSINESS

The following diagram illustrates our performance-based marketing services for online literature products.



Pricing Model and Fee Settlement

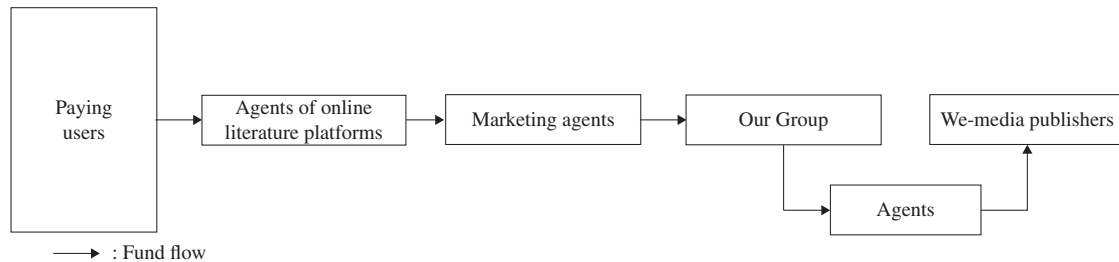
We mainly charge customers for our performance-based marketing services for online literature products under a CPC model. We charge our customers under one pricing model per transaction. We issue invoices to our customers on a monthly basis for their confirmation. Generally, we obtain the number of clicks from our own platform and the agent of the we-media publisher platform and settle fees based on an invoice setting out the mutually agreed number of clicks, the price per action and total invoiced amount. For marketing campaigns distributed through large we-media platforms such as WeChat, we use performance data recorded on their platforms as the basis for our fee settlement with our customers. For marketing campaigns distributed through other third-party platforms, with the permissions of our marketers, we embed our APIs into the distribution pages to collect clicks of our marketing campaigns in real-time. Our operation personnel collects data on a daily basis and our business manager submits weekly data analysis reports based on daily data report. Our department manager summarizes and reviews all data analysis reports monthly. We conduct periodic and random tests to verify the accuracy of data we collect. We generally use our internal data reports as reference when evaluating the accuracy of the performance data from our customers and suppliers.

Based on our customer's marketing budget and historical data of similar types of we-media publishers for online literature from our data collection, our algorithm produces an estimated price range of traffic acquisition cost by analyzing information of we-media publishers that introduced by agents to register on our platform. Based on the estimated price range, we negotiate with our suppliers to determine the traffic acquisition cost for our performance-based marketing services for online literature.

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Regarding recommendation for our online literature products to we-media publishers, features of both we-media accounts and online literature products are considered by the algorithm and the algorithm matches popular online literature products with suitable we-media accounts.

The following diagram illustrates the fund flow for our performance-based marketing services for online literature products.



Html 5 Games

We realized early in 2012 that Html 5 technology will gain popularity among digital media developers and become the next mainstream web page programming language in the market. Recognizing the potential of Html 5 technology, we were one of the first websites in China to launch Html 5 games. Unlike game apps that requires downloading and installation before playing, Html 5 games enable players to play by clicking a link and are more attractive to players as they are time-saving and occupy less storage space in mobile devices. As of March 31, 2020, we provided services to a large portfolio of Html 5 games that accounted for approximately 57% of all government-approved Html 5 games in China, according to Frost & Sullivan. We have entered into distribution agreements with renowned Html 5 game providers such as Palmar Link to continue to bolster our Html 5 game pipeline since 2018.

In 2017, we provided game co-publishing services to game providers, including game developers and game publishers. We co-published games through our 5you website (www.5you.cc) and partnered with Palmar Link, a mobile game and app developer and a renowned Html 5 game publisher to co-publish games on Android distribution channels. Palmar Link was Customer I, one of our top five customers during the Track Record Period and an Independent Third Party during the Track Record Period and up to the Latest Practicable Date. We began to cooperate with Palmar Link in November 2014, when we entered into a distribution cooperation agreement with it for game co-publishing. We became business partners with Palmar Link through Mr. Zhu, who became acquainted with a former director and shareholder of Palmar Link, through his past working experience.

Under our cooperation with Palmar Link in 2017, we were mainly responsible for providing games to be marketed and published through Palmar Link’s distribution channels and Palmar Link was mainly responsible for providing Android distribution channels to us. As a game co-publisher, we provided value-added services to game providers, including game developers and game publishers. We were mainly responsible for marketing and distributing

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games on media platforms or distribution channels we selected. We use SDK in games we published to collect daily operation data. Based on collected data, we provided data analysis and feedbacks to game developers and game publisher. We used third-party payment channels, such as WeChat Pay, to process in-game purchases. Game publishing revenue generated from 5you website were recognized on a gross basis. Revenue generated from publishing games on third-party Android distribution channels in 2017 were recognized on a net basis. See “Financial Information — Description of Major Components of Our Results of Operations — Revenue — Online Products — Html 5 Products — Html 5 Games.”

We ceased to provide game co-publishing services by the end of 2017. Starting from the beginning of 2018, we began to provide performance-based marketing services for Html 5 games. Under our performance-based marketing services, we market and distribute Html 5 games through text-based we-media publishers such as WeChat Official Accounts. Revenue generated from such services were recognized on a gross basis.

We developed an online technology platform to better serve we-media publishers that seek monetization services through our Html 5 game products. Typically, the Html 5 game providers provide us with their games without specifications with respect to the type of media platforms. We connect the games to our Html 5 game platform and conduct data analysis on the Html 5 game products. We-media publishers from whom we acquire user traffic through agents we cooperated with are able to register on our platform. When a we-media publisher initiates a monetization service request on our Html 5 game platform, our product recommendation engine matches suitable Html 5 game to the we-media account. Our Html 5 game platform also generate a list of Html 5 game recommendations for the we-media publisher to choose from. Games that are chosen will be displayed as an item in a drop-down menu of the we-media account. See “— Our Platforms and Technologies — Our Platforms — Html 5 Product Platforms.”

BUSINESS

The following table sets forth the key operational data of the games we co-published through Android distribution channels in 2017.

Game	In-game purchase amount	Active users	Number of paying users	DAU	DPU	ARPPU
	<i>RMB'000</i>					
Game A	9,180.5	3,597,594	1,007,326	9,856	2,759	9.1
Game B	7,501.5	3,228,481	903,974	8,845	2,476	8.3
Game C	7,005.2	1,406,567	393,838	3,853	1,079	17.8
Game D	6,739.5	1,705,354	477,498	4,672	1,308	14.1
Game E	5,760.4	2,479,499	694,260	6,793	1,902	8.3
Game F	4,876.8	1,213,655	339,823	3,325	931	14.4
Game G	2,608.0	585,947	164,066	1,605	449	15.9
Game H	1,824.4	470,847	131,838	1,289	361	13.8
Game I	1,814.9	1,799,068	503,739	4,928	1,380	3.6
Game J	1,743.9	187,334	52,457	513	143	33.2
Game K	1,602.7	271,948	76,145	745	208	21.0
Game L	1,527.4	1,719,178	481,372	4,710	1,318	3.2
Game M	1,485.3	635,473	177,932	1,741	487	8.3
Game N	1,483.8	282,958	79,229	775	217	18.7
Game O	1,443.9	823,776	230,656	2,256	631	6.3
Game P	1,366.5	314,302	88,004	861	241	15.5
Game Q	1,337.8	794,697	222,514	2,177	609	6.0
Game R	1,192.9	688,392	192,750	1,886	528	6.2
Game S	1,053.3	1,166,229	326,544	3,195	894	3.2
Game T	1,009.8	602,483	168,695	1,650	462	6.0
Game U	975.9	190,789	53,421	522	146	18.3
Game V	957.1	216,516	60,624	593	166	15.8
Game W	251.8	150,380	42,107	412	115	6.0
Game X	219.6	125,050	35,014	342	95	6.3
	<u>64,963</u>	<u>24,656,517</u>	<u>6,903,826</u>			

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The following table sets forth the key operational data of the games we co-published through our 5you website in 2017.

Game	In-game purchase amount	Number of paying users ⁽¹⁾	DPU ⁽¹⁾	ARPPU
	<i>RMB'000</i>			
Game B	873.1	61,717	184	14.1
Game E	718.2	47,879	143	15.0
Game F	568.6	38,532	115	14.8
Game G	560.2	36,701	109	15.3
Game H	522.0	35,434	106	14.7
Game I	454.8	31,556	94	14.4
Game J	406.1	28,194	84	14.4
Game K	390.7	30,794	92	12.7
Game L	377.3	28,287	84	13.3
Game M	317.6	22,850	68	13.9
Game O	283.9	25,148	75	11.3
Game P	271.6	23,740	71	11.4
Game Q	250.8	18,755	56	13.4
Game R	243.0	23,127	69	10.5
Game S	227.7	21,034	62	10.8
Game U	220.4	19,501	58	11.3
Game V	175.7	19,000	56	9.2
Game W	163.2	17,272	51	9.5
Game X	93.1	12,589	37	7.4
	<u>7,118</u>	<u>542,110</u>		

(1) Calculated in terms of 11 months because we ceased to provide game co-publishing services through 5you website on November 25, 2017.

The revenue, gross profit and gross profit margin attributable to our co-publishing services through our 5you website in 2017 were RMB6.8 million (5.0% of our total revenue), RMB1.2 million (2.6% of our total gross profit) and 17.8%, respectively.

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The following diagram illustrates the user interfaces when Html 5 games are recommended on we-media accounts through our performance-based marketing services.



Pricing and Settlement

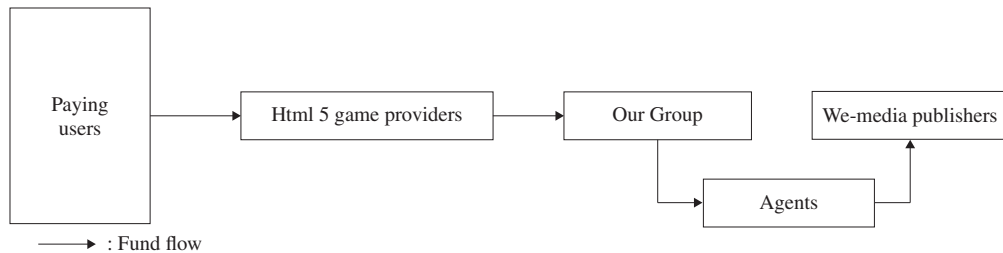
During the Track Record Period, we generally had two pricing and settlement models for Html 5 games.

- *Game co-publishing.* We generated revenue from in-game sales of virtual items. We shared billings generated from games with game providers, co-publisher and payment channels. As the 5you website was operated by us, we recognized the amounts paid by the game players for games published through our 5you website as revenue, and the fees that we paid to game providers and co-publishers, traffic acquisition cost and third-party payment channel fees as costs. For revenue from games published through third-party Android distribution channels, as we were not the operator of such channels and were only acting as an agent, we recognized the commissions that we received from the Android distribution channel operators as our revenue and did not recognize any costs.
- *Performance-based marketing services.* We generally charge Html 5 game providers for our performance-based marketing services on a CPC basis. We charge our customers under one pricing model per transaction. After an Html 5 game is launched on we-media accounts through our services, we receive monthly reports from the Html 5 game provider setting out the pricing model, the performance of games and the total value generated each month. The total value generated each month is calculated based on the number of clicks and price per action. We issue invoices to our customers on a monthly basis based on mutually agreed performance data for their confirmation. The business process for Html 5 games is the same as that of online literature products. See “— Literature.”

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Based on our customer’s marketing budget and historical data of similar types of we-media publishers for Html 5 games from our data collection, our algorithm produces an estimated price range of traffic acquisition cost by analyzing information of we-media publishers that introduced by agents to register on our platform. Based on the estimated price range, we negotiate with our suppliers to determine the traffic acquisition cost for our performance-based marketing services for Html 5 games. Regarding recommendation for our Html 5 game products to we-media publishers, features of both we-media accounts and Html 5 game products are considered by the algorithm and the algorithm matches popular Html 5 game products with suitable we-media accounts.

The following diagram illustrates the fund flow for our performance-based marketing services for Html 5 games.



Mini-programs

Starting from May 2018, we began to offer performance-based marketing services for mini-programs. Our mini-programs were sourced from WeChat mini-program developers. We mainly charge our customers for our performance-based marketing services on a CPC or CPA basis. The business process of performance-based marketing services for mini-programs is similar to that of apps. See “— Apps.”

Online Promotion Activities

Online promotion activities we offered were mainly performance-based marketing services for marketing campaigns for shopping holidays and credit card promotions from well-known marketing agents and brands. We mainly charge our customers for our performance-based marketing services on a CPC or CPM basis. We charge our customers under one pricing model per transaction. Traffic acquisition cost for our performance-based marketing services for online promotion activities are based on real-time bidding on third-party we-media platforms. See “— Apps — Pricing Models.” Traffic acquisition price charged by suppliers are determined by we-media platforms and vary by traffic characteristic such as time slot, followers’ geographic location and distribution duration. The business process of online promotion activities is similar to that of apps.

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Key Performance Data for Online Products

The following table sets forth key indicators of our performance-based marketing services for online products for the period indicated.

	For the year ended December 31,			For the three months ended March 31,
	2017	2018	2019	2020
<i>Apps</i>				
Number of clicks ⁽¹⁾				
(million)	200.7	255.9	502.5	105.9
– CPC	200.7	252.8	485.9	105.9
– CPA	–	0.4	16.1	–
– CPM	–	2.7	0.5	–
Average price per click ⁽²⁾				
(RMB)	0.17	0.47	0.55	1.24
Impressions ⁽³⁾ (million)	N/A	11,829.4	24,657.2	5,022.8
Click-through rate ⁽⁴⁾	N/A	2.2%	2.0%	2.1%
<i>Html 5 products</i>				
Number of clicks ⁽¹⁾				
(million)	11.6 ⁽⁵⁾	99.2	48.6	27.8
– CPC	11.6	99.2	48.6	27.8
– CPA	–	–	–	–
– CPM	–	–	–	–
Average price per click ⁽²⁾				
(RMB)	2.26 ⁽⁵⁾	0.70	0.73	0.70
<i>Online promotion activities</i>				
Number of clicks ⁽¹⁾				
(million)	28.8	35.2	31.4	0.4
– CPC	28.8	34.8	31.3	0.4
– CPA	–	–	–	–
– CPM	–	0.3	0.09	–
Average price per click ⁽²⁾				
(RMB)	0.3	0.54	1.84	4.41
Impressions ⁽³⁾ (million)	N/A	891.1	1,865.4	35.3
Click-through rate ⁽⁴⁾	N/A	3.9%	1.7%	1.2%

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- (1) Clicks on our marketing campaigns with data of impressions. Marketing campaigns without data of impressions were not included.
- (2) Average price per click is calculated as dividing revenue for the period by number of clicks for the same period. This number is presented for illustration purpose only.
- (3) Impressions are the total number of page views of our marketing campaign recorded by third-party platform.
- (4) Click-through rate is calculated as the total number of chargeable clicks recorded by third-party platform divided by the total number of impressions recorded by third-party platform.
- (5) Only includes performance data of literature in 2017. In 2017, we provided game co-publishing services to game publishers, the performance indicators of game co-publishing services were different from our performance-based marketing services for Html 5 games. In 2017, our average DAU was 67,552, average DPU was 18,914, and ARPPU was RMB8.88. We commenced our performance-based marketing services for Html 5 games in the beginning of 2018. We began to offer performance-based marketing services for mini-programs from May 2018.

For our performance-based marketing services for apps, the number of clicks and impressions had been increasing from 2017 to 2019, primarily reflecting the rapid growth of our business. Our average price per click increased from RMB0.17 in 2017 to RMB0.47 in 2018, and remain relatively stable with a slight increase to RMB0.55 for the year ended December 31, 2019, primarily due to increased traffic acquisition cost. Our average price per click further increased to RMB1.24 for the three months ended March 31, 2020, primarily due to an increase in proportion of revenue from game apps, which have relative higher price per click compared to other types of apps, and our enhanced algorithm and data analysis capabilities.

For our performance-based marketing services for Html 5 products, the number of clicks decreased from 99.2 million in 2018 to 48.6 million for the year ended December 31, 2019, which was primarily due to a decrease in available Html 5 products and stricter oversight by the PRC government since early 2018 on copyrights and online game publication approvals. As advised by our PRC Legal Advisors, products without copyrights and game products without online game publication approvals may not be lawfully launched and operated online. We believe that the PRC government’s stricter oversight has led to stricter internal oversight on online products, including games, on WeChat accounts. According to Frost & Sullivan, because the life cycle of games is usually a few months, stricter oversight and limit over new game approval since early 2018 was considered to have had an adverse effect on the overall game market from the later period of 2018 and thereafter. Prior to early 2018, more than 9,000 online game publications were approved in 2017, and since then, the number of online game publications approved in 2018 and 2019 were around one fifth of the online game publications approved in 2017. As a result, our revenue from Html 5 products was indirectly affected, decreasing from RMB79.8 million for the year ended December 31, 2018 to RMB36.2 million for the year ended December 31, 2019, and our gross profit from Html 5 products decreasing from RMB28.7 million for the year ended December 31, 2018 to RMB12.4 million for the year ended December 31, 2019. Our average price per click remained relatively stable at RMB0.70, RMB0.73 and RMB0.70 for the years ended December 31, 2018 and 2019 and the three months ended March 31, 2020, respectively.

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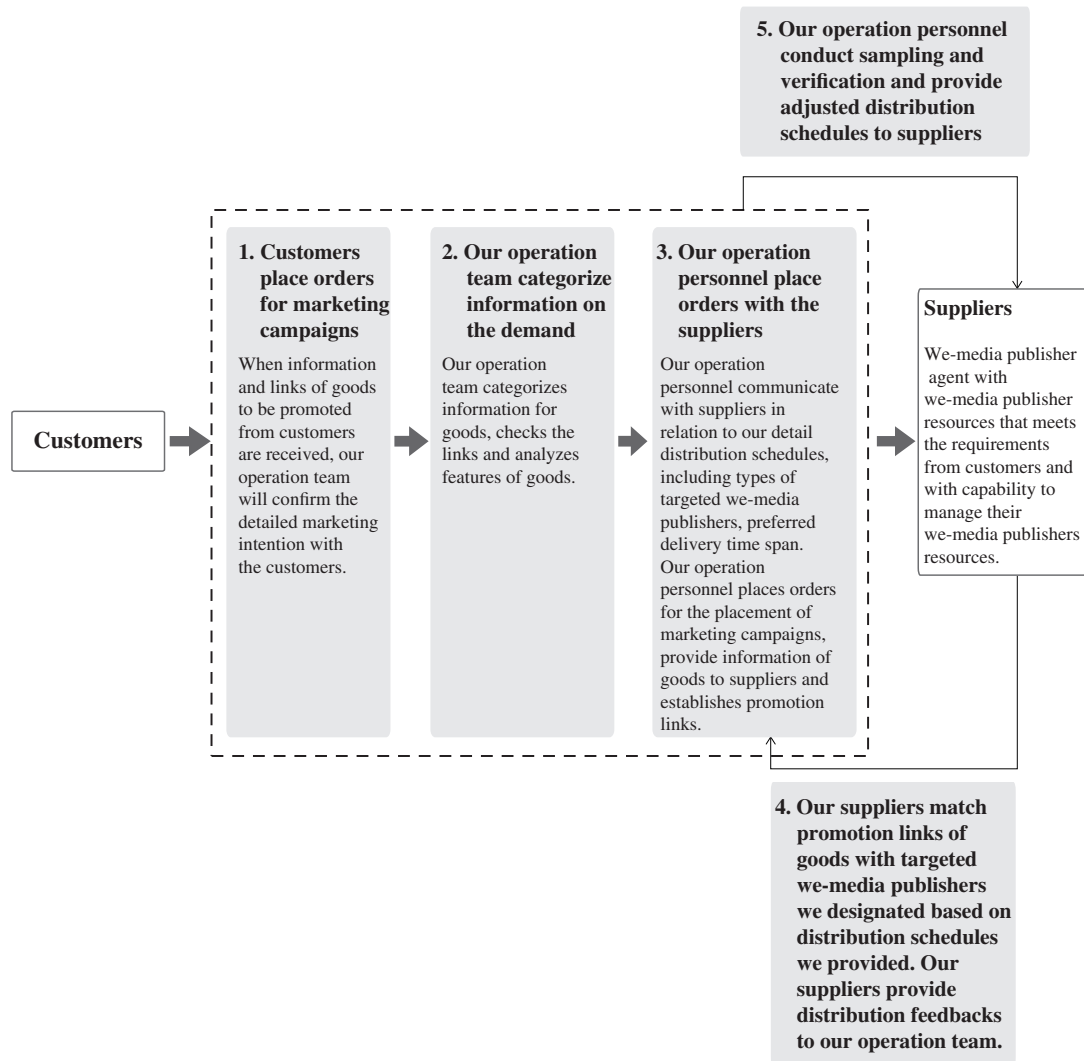
For our performance-based marketing services for online promotion activities, the number of clicks increased from 28.8 million in 2017 to 35.2 million in 2018, primarily due to the rapid growth of our business, while the average price per click increased from RMB0.3 in 2017 to RMB0.54 in 2018; the number of clicks decreased from 35.2 million in 2018 to 31.4 million for the year ended December 31, 2019, while average price per click increased from RMB0.54 to RMB1.84, primarily due to a decrease in proportion of revenue from marketing campaigns distributing on we-media platforms with relatively low unit price in 2019. The average price per click further increased to RMB4.41 for the three months ended March 31, 2020, primarily due to a marketing campaign for credit card promotion with a high price per click of RMB12 in January 2020, the revenue from which accounting for 54.5% of our revenue from online promotion activities for the three months ended March 31, 2020.

Consumer Goods

Starting from August 2018, we began to offer consumer goods through our performance-based marketing services by launching marketing campaigns for consumer goods of a well-known 3C digital accessories brand on the largest short-form video platform in China. The marketing campaign attracted 18.3 million views and 0.3 million likes. We cooperated with this 3C digital accessories brand through its sales agents, all of whom were Independent Third Parties during the Track Record Period and up to the Latest Practicable Date. Through the marketing campaign, audiences of the short-form videos were able to directly purchase the consumer goods promoted on we-media accounts hosted on the short-form video platform. We earned a percentage ranging from 19.0% to 22.0% of the total sales of the goods as our service fee. For the years ended December 31, 2018 and 2019 and the three months ended March 31, 2020, our revenue from promoting consumer goods on short-form video platforms amounted to RMB3.8 million, RMB23.0 million and RMB10.5 million, respectively. We are also developing Beauty Connector, a technology platform that aims to serve marketers and we-media publishers on short-form video platforms. We are in the

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process of conducting internal testing of Beauty Connector and expect to officially launch the platform in the fourth quarter of 2020. The following flowchart sets forth our business process of performance-based marketing service for consumer goods:



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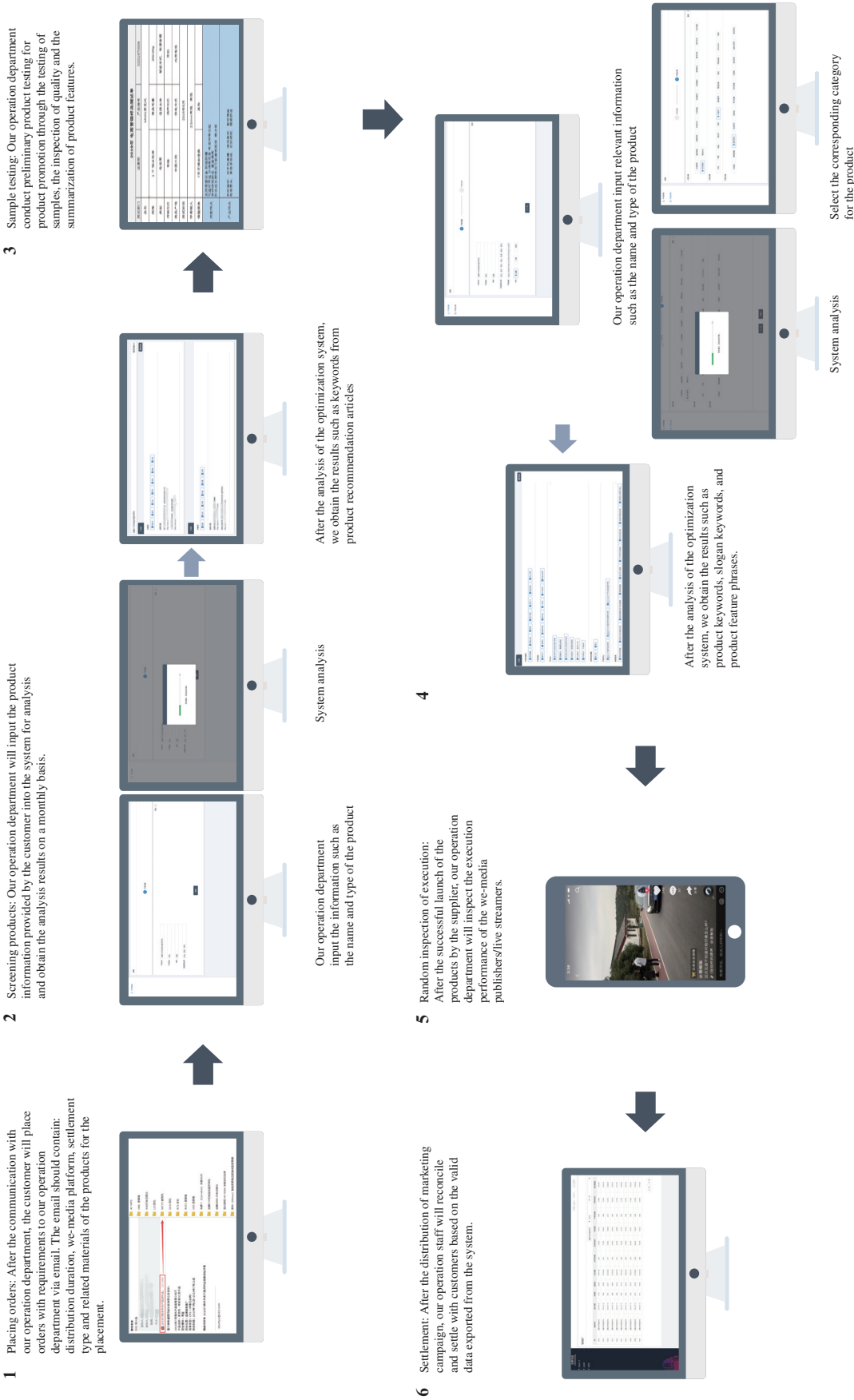
As a trial business in August 2018, we commenced our performance-based marketing services for consumer goods by launching a few marketing campaigns for goods of a well-known 3C digital accessories brand. The following diagrams illustrate the business process of our performance-based marketing services for consumer goods in 2018.



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In 2019, with more experience and market insights, we started to utilize our substantial data collection and strong data analysis capabilities to take on a more substantial role in the provision of performance-based marketing services vis-a-vis we-media platform agents. In 2019, we undertook certain responsibilities from agents, including sample testing, script writing, random inspections of execution and after-sales services coordination. We also undertook new responsibilities including coordination with 3C digital accessories brand and its sales agents for quality control and after-sales assurance relating matters, introduction of new products under famous brands and selection and introduction of hot-selling products. See “Financial Information — Description of Major Components of Our Results of Operations — Gross Profit and Gross Profit Margin.” The following diagrams illustrate the business process of our performance-based marketing services for consumer goods in 2019 and the first quarter of 2020.

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OUR PLATFORMS AND TECHNOLOGIES

Leveraging our first-mover advantages, we have developed a suite of platforms and technologies empowered by business intelligence applied to multiple interrelated functions, including data collection, data tagging and machine-based product analysis and distribution strategy and product recommendation, that use our accumulated behavioral data to effectively and efficiently recommend products. Benefitting from these technologies, capabilities and platforms, we have achieved relatively high click-through rates compared to other types of we-media marketing. Moreover, we have been able to enhance our productivity and achieve an industry-leading profit per employee of RMB1.7 million in 2019, compared to the industry average of RMB0.7 million in the we-media marketing market, according to Frost & Sullivan. Profit per employee is calculated as dividing gross profit for certain period by total number of employees at the end of such period. It is a commonly used key performance indicator evaluating the productivity of market participants in China’s we-media marketing market, according to Frost & Sullivan.

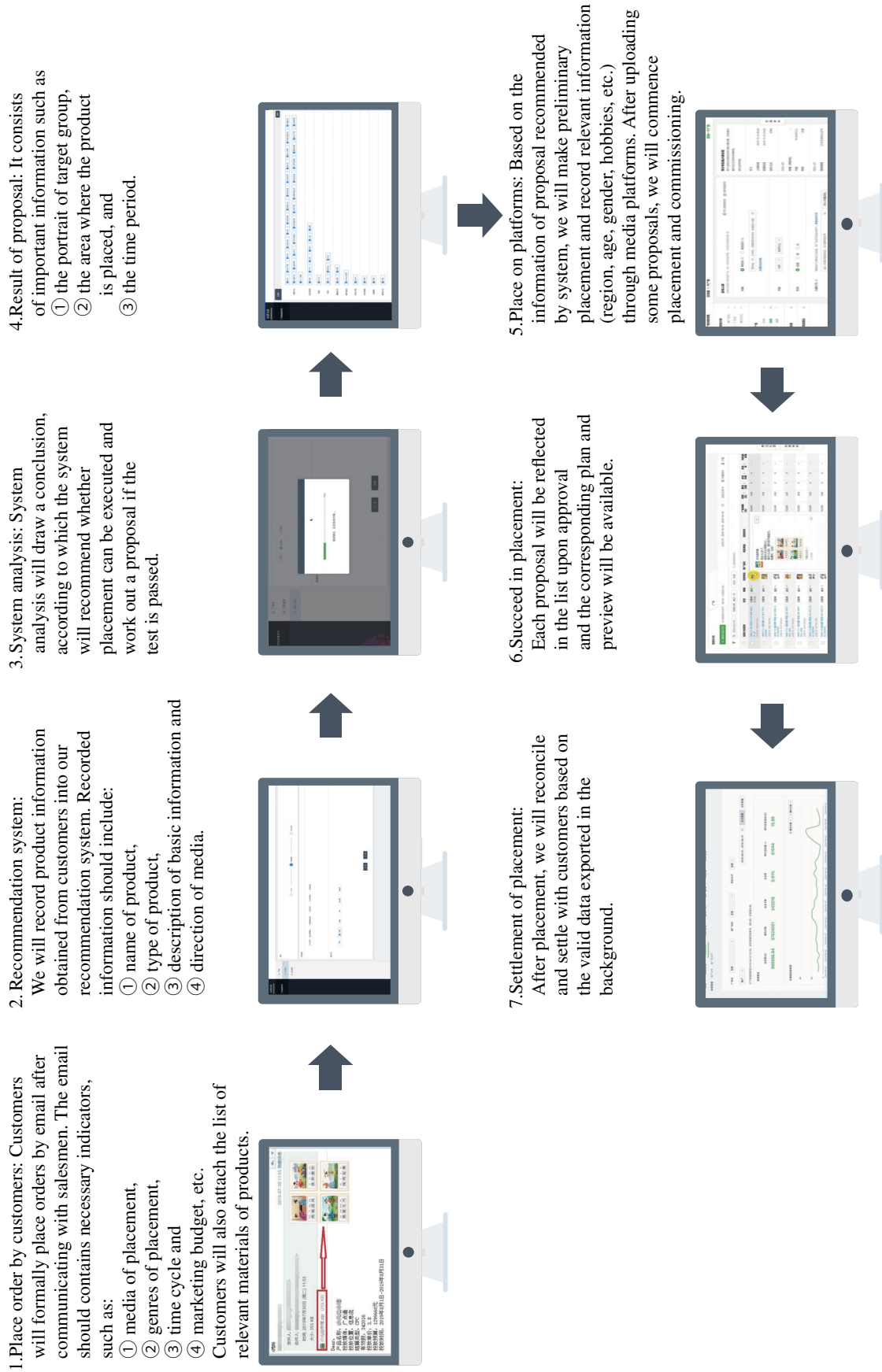
Our Platforms

Internal Management and Analysis Platforms

We developed an internal management platform to manage and monitor our online products (except for online literature and Html 5 games) and consumer goods, and a data analysis platform to run internal performance tests. See “— Our Technologies — Distribution Strategy and Product Recommendation”.

Our internal management platform enables us to efficiently manage our marketing campaigns and our data analysis platform enables us to conduct internal performance tests, enabling better performance of marketing campaigns. Apps and other online products we offer through our monetization services are primarily sourced from prominent marketing agents. We distribute marketing campaigns to we-media publishers’ accounts on large we-media platforms, such as WeChat. The following diagrams illustrate the business process of our performance-based marketing services for apps, online promotion activities and mini-programs:

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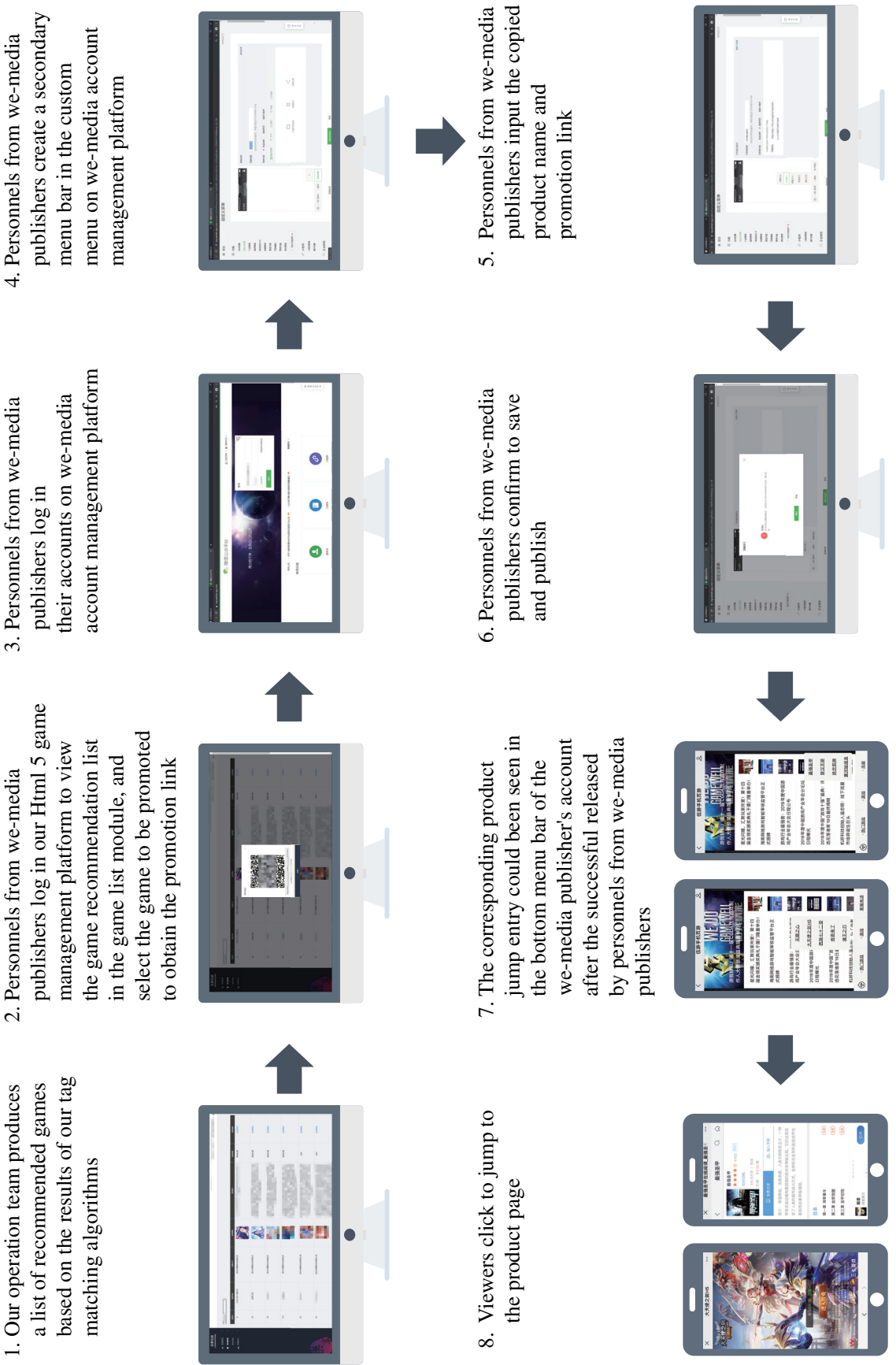


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Html 5 Product Platforms

To provide better user experience and serve the various monetization needs of we-media publishers, we have developed two similar platforms to serve we-media publishers seeking monetization services through online literature and Html 5 game products. First launched in June 2017, these two platforms enable we-media publishers seeking monetization services through online literature and Html 5 game products to register and file information regarding their accounts and find suitable online literature or Html 5 games. We-media publishers are able to submit requests for our products based on their needs. We-media publishers may also submit requests by e-mails, our operation team is responsible for uploading such requests to our technology platforms manually. The following diagrams illustrate the business process of our performance-based marketing services for online literature and Html 5 game products.

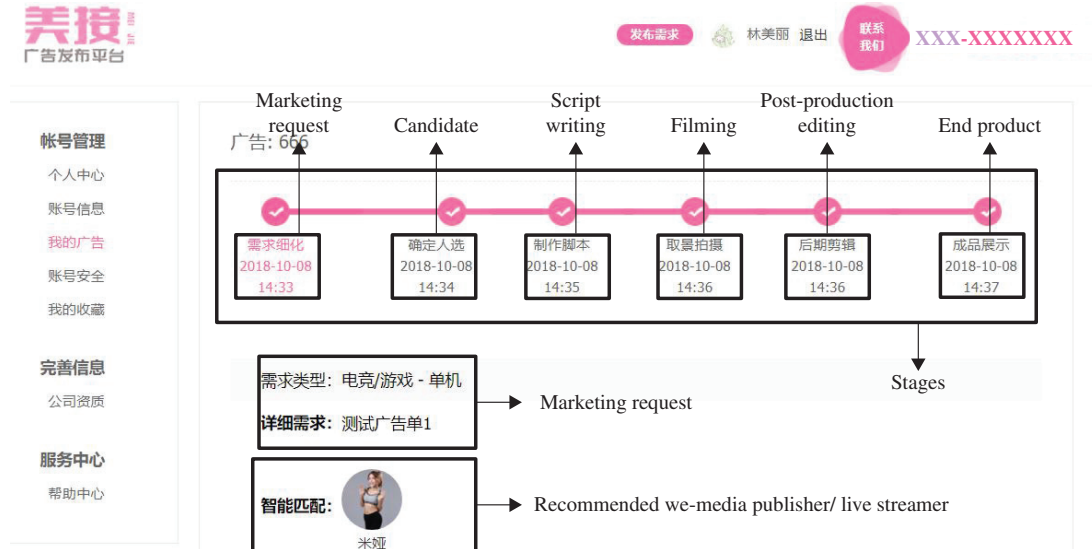
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Beauty Connector

We are developing Beauty Connector, a technology platform that aims to serve marketers and we-media publishers on short-form video platforms. We are in the process of conducting internal testing of Beauty Connector and expect to officially launch the platform in the fourth quarter of 2020. The following diagram illustrates the interface of Beauty Connector.



Interface for marketers

Interface for we-media publishers

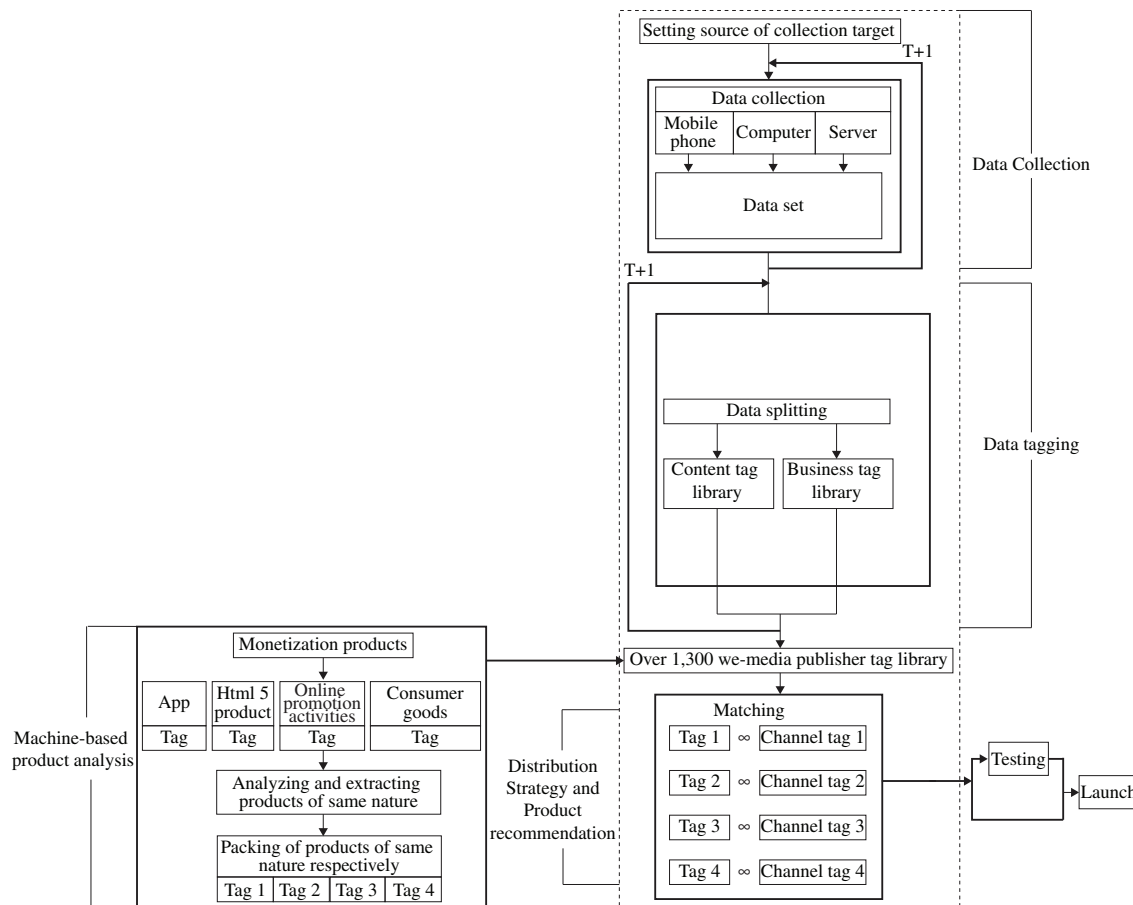
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Beauty Connector aims to help we-media publishers achieve better monetization through the following:

- *Basic information.* Beauty Connector aims to help we-media publishers to profile their followers through analyzing their age group, gender, predicted educational level and occupation.
- *Geographical area.* Beauty Connector aims to help we-media publishers to location track their followers and create opportunities for precise geographical placement of marketing campaigns.
- *Platform preference.* Beauty Connector aims to identify and recommend suitable products to we-media publishers by analyzing platform preferences of their followers.

Our Technologies

The following diagram illustrates the operation process of our technologies.



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Data Collection

We have been able to build a substantial data collection and to continuously expand it by automatically collecting information by tracking and analyzing marketing campaign distribution schedule. During the Track Record Period, we have accumulated substantial anonymized user behavioral data from approximately 1.5 billion clicks through our services. We apply text mining technologies in our data collection, through which we are able to automatically transform unstructured text information published by marketers and we-media publishers into valid data that have been processed into data libraries and can be readily applied in performance tests to simulate actual performance. Our significant and valid data library enable us to analyze different user preferences and behavior to enhance our performance-based marketing services and meet varying needs of we-media publishers.

We have been able to accumulate substantial anonymized user behavioral data, such as click-throughs, geographical areas and types of mobile device. Such information will be anonymized and labelled into different tags. We collect audience’s anonymized behavioral data stored on browsers and are not able to reach the data stored on servers unless we were granted permission by the marketers or the we-media publishers. We do not collect or store audience’s personal data, such as legal names and personal ID numbers. In addition, we have implemented data confidentiality protocols and procedures and entered into confidential agreements with each of our key employees to prevent improper use or disclosure of data. Our PRC Legal Advisors are of the opinion that based on the scope of the data we accumulated, and our confirmation that such data do not possess the capability of identifying individual users, such data do not constitute “personal ID data” under the applicable laws and regulations in the PRC.

Data Tagging

For new we-media publishers, we categorize we-media publishers by applying tags after conducting preliminary user profiling of we-media publisher’s followers based on (i) details collected from an information form filled in by we-media publishers, and (ii) user profiles of similar we-media publishers in our we-media publisher pool. Based on information provided and our user profiling results, we built a tag library with more than 1,300 tags for we-media publishers. Tags include (i) demographics information of their followers such as age group, gender, geographical area and predicted educational level; (ii) viewing interest and preference of its followers; and (iii) content nature of the we-media such as content format and categories.

Machine-based Product Analysis

For marketers that would like to promote their products through our performance-based marketing services. Our operation team reviews the original contents to ensure that the product complies with relevant laws and regulations. We identify product features such as themes, visual aids and industry sectors and create different tags for the new product. We categorized new products based on our product analysis results. All of the products with the same characteristic will be categorized by applying the same tags on them.

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Distribution Strategy and Product Recommendation

Our algorithm-based product recommendation engine optimizes distribution strategies and recommends suitable products to both marketers and we-media publishers to achieve high click-through rates and conversion rates. As we usually maintain long-term relationships with marketers, our product portfolio tends to remain relatively stable and similar over a period of time.

Distribution Strategy

For our online products other than online literature and Html 5 games, we adjust our overall distribution strategies based on the results of our algorithms. We analyze marketing campaign distribution schedules and performance of similar marketing campaigns in the same or similar industries on we-media platforms to find a suitable distribution schedule to run an internal performance test. Before commercial launch, we will run an internal performance test using our data based on data analysis results. During the internal performance test, we will simulate placement scenarios and optimize distribution schedules by adjusting factors such as targeted audience, delivery time span to achieve targeted performance indicators (such as the number of chargeable clicks). Before running the test, we enter certain basic information of the marketing campaign to our test system, including product type, type of we-media platform, marketing duration and marketing budget. Taken such parameters into consideration, our test system searches for similar product on similar we-media platform with similar marketing duration based on historical data from our data collection and calculate its historical traffic acquisition cost. Based on such historical traffic acquisition cost, our test system produces an estimated traffic acquisition cost to be used in our internal performance test for such product. If the internal performance test is successful in achieving performance indicator expectations in the trial period, we will accept the service request from such marketer. If the internal performance test does not meet performance indicator expectations (such as the number of chargeable clicks) within its estimated marketing budget or our internal cost requirements in the trial period, we will adjust our algorithms and parameters in order to improve the testing results during a trial period and renegotiate the marketing budget with the potential customer before we turn down the service request from such marketer.

Product Recommendation

For online literature and Html 5 games, we present a list of recommended products based on the results of our algorithms to we-media publishers that registered on our platform and seeking monetization services through our Html 5 products. Online literature and Html 5 games with the highest monetization and user engagement potential will be listed. For example, a we-media publisher that seeks to monetize its traffic by distributing Html 5 games can register and submit an information collection form on our Html 5 game platform with detailed information about its account and its followers, such as content features, industry sectors, media format, as well as age group, gender, geographical area, predicted education level, active time slot and viewing interest. After conducting an internal performance test, we may approve the registration request with and open an account for such we-media publisher. After

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submitting a request for games on our platform, the we-media publisher is able to pick from a list of recommended Html 5 games ranking by user engagement opportunities. When the we-media publisher selects an Html 5 game, it will receive an automatically-generated URL address that connects the Html 5 game we offered to its account on we-media platform. Such publisher is able to monitor the performance of the Html 5 game in real-time and optimize its monetization strategies by adjusting the distribution schedule, time span and other parameters of the marketing campaign.

CUSTOMERS AND SUPPLIERS

Customers

Our customers are primarily marketers to whom we provide performance-based marketing services. Our marketers consist of online product providers and merchants that promote their consumer goods through our performance-based marketing services. Our online product providers mainly include marketing agents, app developers, online literature providers, Html 5 game providers and mini-program developers. For the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, the number of paying customers amounted to 10, 70, 71 and 35, respectively. For the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, our five largest customers accounted for approximately 82.9%, 73.5%, 50.3% and 63.3% of our revenue, respectively. During the same periods, our largest customer accounted for approximately 23.0%, 25.0%, 19.6% and 22.6% of our revenue, respectively. To provide diverse and extensive product portfolio, marketing service providers generally cooperate with marketers from various industries, some of which are large marketing agents. In order to ensure the quality of the marketing campaign, many brands in the market maintain stable relationships with a selected number of large marketing agents, who receive significant marketing budgets from the market, according to Frost & Sullivan. We generally entered into framework marketing agreements with our customers. A summary of key terms of our agreements with our customers is as follows:

- *Term.* Generally 12 months.
- *Pricing.* Generally determined on a CPC, CPA, CPM or CPS basis, subject to negotiation with our customers.
- *Services.* We provide performance-based marketing services mainly for our customers' online products (mainly apps, Html 5 products and online promotion activities). Our customers provide us marketing content in their desired form (such as in a link) and compliance supporting documents for the underlying marketing product if needed.

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- *Payment.* We generally issue invoices to our customers on a monthly basis, based on invoices setting out mutually agreed information (including the pricing model, unit price, number of chargeable clicks, actions or sales, as applicable) as well as the total invoiced amount for their confirmation. Payment is usually settled by bank transfer in Renminbi.
- *Termination.* The agreement may generally be terminated only by mutual agreement.

The following table sets forth details of our five largest customers during the Track Record Period:

Customer	Transaction amount	% of total revenue	Approximate length of relationship	Background	Types of underlying products	Registered capital	Location
	RMB'000	%	Years			(RMB in millions)	
<i>Three months ended March 31, 2020</i>							
Customer Group A	37,830	22.6	Over one year	Marketing agent	Apps (including utility, game, education, culture and literature and finance) and online promotion activities	10.0	Hangzhou
Customer L	25,538	15.3	Over one year	Marketing agent	Apps (including utility, game, culture and literature and shopping) and online promotion activities	8.9	Hangzhou
Customer C	21,226	12.7	Over one year	Marketing agent (NEEQ listed in 2017)	Game apps	9.1	Beijing
Customer I	10,750	6.4	Over five years	Marketing agent and app developer	Html 5 games	1.0	Shenzhen
Customer Group E	10,481	6.3	Over one year	Marketing agent and e-commerce supply chain services provider	3C digital accessories	40.0	Beijing
Total	105,825	63.3					

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Customer	Transaction amount	% of total revenue	Approximate length of relationship	Background	Types of underlying products	Registered capital	Location
	RMB'000	%	Years			(RMB in millions)	
<i>Year ended December 31, 2019</i>							
Customer Group A	92,653	19.6	Over one year	Marketing agent	Apps (including utility, game, education, culture and literature and finance) and online promotion activities	10.0	Hangzhou
Customer B ⁽¹⁾	52,630	11.1	Over one year	Game publisher, developer and operator	Game apps	10.0	Suzhou
Customer C	41,806	8.8	Over one year	Marketing agent (NEEQ listed in 2017)	Game apps	9.1	Beijing
Customer Group D	28,302	6.0	Over one year	Marketing agent (wholly-owned subsidiary of a PRC listed company)	Video apps and utility apps	10.0	Tianjin
Customer Group E	23,022	4.9	Over one year	Marketing agent and e-commerce supply chain services provider	3C digital accessories	40.0	Beijing
Total	238,413	50.4					

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Customer	Transaction amount	% of total revenue	Approximate length of relationship	Background	Types of underlying products	Registered capital	Location
	RMB'000	%	Years			(RMB in millions)	
<i>Year ended December 31, 2018</i>							
Customer Group F	65,614	25.0	Over three years	Marketing agent (subsidiary of a PRC listed company)	Apps (including utility, video, social and news) and online promotion activities	20.0	Beijing
Customer G	36,638	14.0	Over three years	Marketing agent	Apps (including utility, video, news, social and game) and online promotion activities	5.4	Beijing
Customer Group H	33,588	12.8	Over three years	Agent of online literature platform	Online literature	10.0	Nanjing
Customer I	31,875	12.2	Over five years	Marketing agent and app developer	Html 5 games	1.0	Shenzhen
Customer J	24,917	9.5	Over one year	Marketing agent	Apps (including utility, game, news, finance, culture and literature and shopping)	5.0	Beijing
Total	<u>192,632</u>	<u>73.5</u>					

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Customer	Transaction amount	% of total revenue	Approximate length of relationship	Background	Types of underlying products	Registered capital	Location
	RMB'000	%	Years			(RMB in millions)	
<i>Year ended December 31, 2017</i>							
Customer G	31,044	23.0	Over three years	Marketing agent	Apps (including utility, finance, video, game and shopping) and online promotion activities	5.4	Beijing
Customer Group H	26,215	19.4	Over three years	Agent of online literature platform	Online literature	10.0	Nanjing
Customer Group F	24,856	18.4	Over three years	Marketing agent (subsidiary of a PRC listed company)	Apps (including game, shopping, utility, music, news and finance) and online promotion activities	20.0	Beijing
Customer I	16,682	12.3	Over five years	Marketing agent and app developer	Html 5 games	1.0	Shenzhen
Customer Group K	13,213	9.8	Over three years	Marketing agent	Apps (including game, utility, culture and literature, video, news)	10.0	Shanghai
Total	112,010	82.9					

(1) Customer B and Supplier F are companies within the same group.

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During the Track Record Period, we provided short-term financial assistance to certain customers and suppliers, which we considered as our important business partners, as part of our efforts to maintain our good and long-standing business relationship with them. See “— Loans to Customers and Suppliers and Prepayments to Suppliers”.

As advised by our PRC Legal Advisors, pursuant to the General Provisions on Lending (《貸款通則》), which became effective on August 1, 1996, an institution that engages in the loan business is required to be approved by the PBOC and obtain and maintain the financial institution’s legal person license or the financial institution’s operation license issued by the PBOC. Loans granted by companies that are not licensed financial institutions are prohibited. The PBOC may impose penalties on lenders that are not licensed financial institutions in the amount equivalent to one to five times of the income generated from loan advancing activities.

As advised by our PRC Legal Advisors, the loans granted by us to the borrowers do not comply with the General Provisions on Lending. However, according to the Provisions of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the “Provisions”), which became effective on September 1, 2015 and amended on August 20, 2020, except under the circumstances as set forth in Article 52 of the PRC Contract Law (《中華人民共和國合同法》) or Article 14 of the Provisions, PRC courts shall support a claim made by the claimant by upholding the validity of a private lending contract signed among legal entities and other organizations for the purpose of production or business operation. Furthermore, the Provisions provided that where the interest rate agreed between the borrower and the lender does not exceed four times of one-year LPR at the time the lending contract is executed, PRC courts would support our request to the borrower to pay the interest based on the agreed interest rate. For lending contract executed before August 20, 2019, PRC courts shall support the lender’s request for interest based on the agreed interest rate with reference to four times of the one-year LPR at the time of the lawsuit occurred. As confirmed by the PRC Legal Advisors, (i) the procedures of entering into such loan agreements are in accordance with the Group’s relevant internal approval requirements in the articles of association at the relevant time; and (ii) since the loans granted by us to the borrower did not involve the circumstances set forth in Article 52 of the PRC Contract Law or Article 14 of the Provisions, the terms of such loan agreements are valid and legally binding to the parties, and do not violate any laws or administrative regulations of the PRC. Such loans were settled as of the Latest Practicable Date. Upon [REDACTED], we will fully comply with the [REDACTED] and relevant PRC laws and regulations when providing loans to other companies and will provide loans in compliance with the General Provisions on Lending.

None of our Directors, their associates or any shareholders which, to the knowledge of our Directors, owned more than 5% of our share capital as of the Latest Practicable Date, had any interest in any of our five largest customers during the Track Record Period and up to the Latest Practicable Date.

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Suppliers

Our suppliers mainly include agents of we-media platforms and we-media publishers. Agents of we-media platform and agents of we-media publisher both represent downstream we-media publishers. When we seek to reach we-media publishers through we-media platforms by implementation of our distribution strategy, we will cooperate with agents of we-media platforms. When we seek to distribute through a specific we-media publisher, we will cooperate with agents of we-media publisher. Substantially all of our costs were paid to agents of we-media platforms and we-media publishers, which is common in the industry according to Frost & Sullivan, as most we-media publishers engage agents of we-media platforms to handle their traffic resources. The following table sets forth a breakdown of our performance-based marketing revenue by type of we-media platform for the period indicated.

	For the year ended December 31,									For the three months ended March 31,		
	2017			2018			2019			2020		
	Number of suppliers			Number of suppliers			Number of suppliers			Number of Suppliers		
	RMB'000	%		RMB'000	%		RMB'000	%		RMB'000	%	
WeChat	3	26,215	19.4	18	158,715	60.5	16	364,121	76.9	5	152,474	91.1
Other text-based information flow platform ⁽¹⁾	9	77,691	57.4	19	90,311	34.4	12	82,826	17.5	1	4,130	2.5
Short-form video platform	-	-	-	1	8,491	3.2	2	26,618	5.6	1	10,670	6.4
Video platforms	-	-	-	6	4,675	1.9	-	-	-	-	-	-
Others ⁽²⁾	16	31,351	23.2	7	63	0.0	5	-	-	-	-	-
Total	135,257	100.0		262,255	100.0		473,565	100.0		167,274	100.0	

(1) Such as a information flow platform operated by a well-known mobile phone producer in China and a information flow platform operated by a leading search engine company in China.

(2) Others refer to revenue from game co-publishing services in 2017 and revenue from internal performance tests.

For the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, the number of suppliers we cooperated with amounted to 22, 35, 26 and 4, respectively. The unit price per CPC or CPA varies based on product type and we-media platform. The unit price per CPC or CPA is affected by several factors, including:

- (i) Type of we-media platform. Different we-media platforms charge differently as each platform has its own pricing policies and different market positions. Moreover, each platform has its own we-media publishers and audiences, which translates to different traffic characteristics and different unit price;

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- (ii) Product type. Products with different characteristics are attractive to different kinds of audiences, and therefore require different types of suitable we-media platforms or we-media publishers with different target audiences. One example is mid- to high-end automobile brands the target demographic for which are high net worth individuals. Traffic for such targeted audiences have highly specific characteristics such as age group, occupation and geographical region, therefore, the unit price for such traffic is high. Another example is video app, the target audiences for which are the general public. Traffic for such targeted audiences do not require traffic with detailed features, therefore, the unit price for such traffic is relatively low;
- (iii) Traffic characteristic. Traffic acquisition unit price varies by time slot when the marketing campaign is distributed, the length of time it is distributed and geographic location where the traffic was from. For example, unit price for traffic during lunch time and dinner time is relatively high;
- (iv) Marketing budgets and aggregate purchase amount. Larger marketing budgets and aggregate purchase amounts generally enables volume sales and lower unit price for traffic; and
- (v) Marketing campaign duration. The length of marketing campaign duration usually affects the unit price for traffic.

A summary of key terms of our agreements with our suppliers is as follows:

- *Term.* Generally one year. Certain agreements have built in renewal arrangements.
- *Pricing.* We generally entered into framework agreements with agents and pay traffic acquisition costs to our suppliers on a CPC or CPA basis. In certain agreements with agents of large we-media platforms, minimum purchase amounts and prepayments were required. Only a few agreements with agents of large we-media platforms include standard minimum purchase amount requirements, under which, if we fail to meet the minimum purchase amounts, our suppliers will be entitled to retain our performance deposits (if any) or to charge us an amount equal to 120% of our actual purchase amount as compensation. However, during the Track Record Period, we fulfilled all the minimum purchase amount requirements. Minimum purchase amount and prepayments enable us to secure favorable advertisement placements at a favorable price for traffic and secure user traffic in favorable time slots in advance.
- *Services.* Agents provide us with traffic resources on we-media platforms.
- *Payment and credit period.* Agents typically issue invoices to us for each marketing request, which, in practice, is on a monthly basis, based on mutually agreed performance data and we paid traffic acquisition costs accordingly. We are generally granted a credit period of 90 days on purchases of good or services.

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- *Termination.* The framework agreement may generally be terminated by one party’s prior notice to the other party within 30 business days.

We did not receive any rebates from our suppliers (including agents of we-media platforms and we-media publishers) during the Track Record Period.

For the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, our five largest suppliers⁽¹⁾ accounted for approximately 85.7%, 86.5%, 92.8% and 100.0% of our total purchase amount, respectively. During the same periods, our largest supplier accounted for approximately 31.5%, 47.6%, 34.0% and 54.3% of our total purchase amount, respectively.

The following table sets forth details of our five largest suppliers during the Track Record Period:

Supplier	Transaction amount	% of total revenue	Approximate length of relationship	Background	Registered capital	We-media platforms represented	Location
	RMB'000	%	Years		(RMB in millions)		
<i>Three months ended March 31, 2020</i>							
Supplier B	67,879	54.3	Over four years	Agent of we-media platform and game publisher	10.0	WeChat, other third-party platform ⁽²⁾	Shenzhen
Supplier Group C	34,317	27.5	Over one year	Agent of we-media platform (subsidiary of a former NEEQ listed company)	2.0	WeChat	Beijing
Supplier Group A	21,001	16.8	Over two years	Agent of we-media platform	10.0	WeChat, the Largest short-form video platform, other third-party platforms ⁽²⁾	Hubei
Supplier L	1,764	1.4	Less than one year	Agent of we-media platform (subsidiary of an A-share listed company)	6.0	WeChat, other third-party platform	Xi'an
Total	124,961	100.0					

Note: For the three months ended March 31, 2020, we only procured from four suppliers.

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Supplier	Transaction amount	% of total purchase amount	Approximate length of relationship	Background	Registered capital	We-media platforms represented	Location
	RMB'000	%	Years		RMB in millions		
<i>Year ended December 31, 2019</i>							
Supplier Group A	121,120	34.0	Over two years	Agent of we- media platform	10.0	WeChat, the largest short- form video platform, other third- party platforms ⁽²⁾	Hubei
Supplier B	116,320	32.6	Over four years	Agent of we- media platform and game publisher	10.0	Other third- party platforms ⁽²⁾	Shenzhen
Supplier Group C	68,437	19.2	Over one year	Agent of we- media platform (subsidiary of a former NEEQ listed company)	2.0	WeChat	Beijing
Supplier D	14,434	4.1	Over three years	Agent of we- media platform (a state-owned subsidiary of a PRC listed company)	100.0	WeChat, other third- party platforms ⁽²⁾	Hangzhou
Supplier E	10,188	2.9	Over two years	Game publisher and app publisher	10.0	Other third- party platforms ⁽²⁾	Shenzhen
Total	<u>330,499</u>	<u>92.8</u>					

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Supplier	Transaction amount	% of total purchase amount	Approximate length of relationship	Background	Registered capital	We-media platforms represented	Location
	RMB'000	%	Years		RMB in millions		
<i>Year ended December 31, 2018</i>							
Supplier B	93,307	47.6	Over four years	Agent of we-media platform and game publisher	10.0	WeChat, video we-media platforms and other third-party platforms ⁽²⁾	Shenzhen
Supplier Group A	33,683	17.2	Over two years	Agent of we-media platform	10.0	WeChat, the largest short-form video platform, video we-media platforms and other third-party platforms ⁽²⁾	Hubei
Supplier F ⁽¹⁾	16,981	8.7	Over one year	Agent of we-media platform	10.0	WeChat	Tianjin
Supplier G	13,650	7.0	Over two years	Distribution agent of we-media platform	5.8	WeChat	Beijing
Supplier H	11,707	6.0	Over two years	Agent of we-media platform	10.0	Other third-party platforms ⁽²⁾	Wuxi
Total	<u>169,328</u>	<u>86.5</u>					

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Supplier	Transaction amount	% of total purchase amount	Approximate length of relationship	Background	Registered capital	We-media platforms represented	Location
	RMB'000	%	Years		RMB in millions		
<i>Year ended December 31, 2017</i>							
Supplier B	28,270	31.5	Over four years	Agent of we-media platform and game publisher	10.0	WeChat, other third-party platforms ⁽²⁾	Shenzhen
Supplier I	15,080	16.8	Over three years	Game publisher	10.0	–	Beijing
Supplier J	12,160	13.5	Over two years	Online marketing services provider	10.0	WeChat, other third-party platforms ⁽²⁾	Beijing
Supplier K	12,067	13.4	Over three years	Agent of we-media platform	1.0	WeChat, other third-party platforms ⁽²⁾	Beijing
Supplier D	9,475	10.5	Over two years	Agent of we-media platform	100.0	–	Hangzhou
Total	77,052	85.7					

(1) Customer B and Supplier F are companies within the same group.

(2) Other third-party platforms mainly include text-based we-media platforms other than WeChat.

None of our Directors, their associates or any shareholders which, to the knowledge of our Directors, owned more than 5% of our share capital as of the Latest Practicable Date, had any interest in any of our five largest suppliers during the Track Record Period and up to the Latest Practicable Date.

According to SAIC public information and the filings of Beijing Joyspreader on the website of the NEEQ, prior to the beginning of the Track Record Period, from December 2011 to February 2016, Ms. Wang Jin, wife of Mr. Zhu, was the legal representative and executive director of Supplier B.

The founder of Supplier B had an intention to cooperate with Mr. Zhu in form of investment when establishing Supplier B and Ms. Wang joined Supplier B. Although Mr. Zhu contemplated investing in Supplier B in the early years as a start-up company, he decided not to invest during the preparation of previous listing of the shares of Beijing Joyspreader on the NEEQ and as a result Ms. Wang resigned from these positions in February 2016. She has not had any other relationships with Supplier B since February 2016 and after Ms. Wang ceased to be the legal representative and executive director of Supplier B, Supplier B became an Independent Third Party. The salient terms of our transactions with Lesou Technology during the Track Record Period is similar to those with other independent suppliers.

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Overlapping of Customers and Suppliers

During the Track Record Period, one of our top five customers, Customer B, and one of our top five suppliers, Supplier F, are within the same group. We provided performance-based marketing services for game apps to Customer B in 2019, and we procured user traffic of we-media publishers on large text-based we-media platforms from Supplier F in 2018. Instead of simply procuring user traffic from Supplier F directly, Customer B sought our marketing service because we were able to provide value-adding performance-based marketing services by analyzing and distributing Customer B's game apps on suitable we-media publishers with targeted audiences that were most likely to be interested in its game apps. For the years ended December 31, 2017 and 2018 and 2019 and the three months ended March 31, 2020, revenue we generated from Customer B amounted to nil, nil, RMB52.6 million and nil, respectively, accounting for nil, nil, 11.1% and nil of our total revenue, respectively. For the years ended December 31, 2017 and 2018 and 2019 and the three months ended March 31, 2020, costs we paid to Supplier F amounted to nil, RMB17.0 million, nil and nil, respectively, accounting for nil, 8.7%, nil and nil of our total cost of sales, respectively. Save as disclosed in this section, for the years ended December 31, 2017, 2018 and 2019, we did not have any top five supplier which was also our customer in the same period that accounted for 1% or more of our revenue. Conversely, save as disclosed in this section, for the years ended December 31, 2017, 2018 and 2019, we did not have any top five customer which was also our supplier in the same period that accounted for 1% or more of our purchase amounts.

Our Directors confirmed that all of our sales to Customer B and purchases from Supplier F were conducted in the ordinary course of business under normal commercial terms and on arm's length basis. Negotiation of the terms of our sales to Customer B and purchases from Supplier F were conducted on an individual basis and the sales and purchases were neither inter-connected or inter-conditional with each other.

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Loans to Customers and Suppliers and Prepayments to Suppliers

During the Track Record Period, we provided short-term loans to our customers and suppliers and their respective associates from time to time, in order to maintain good business relationships with customers and suppliers. Please find below a summary of loans we provided to our customers and suppliers during the Track Record Period.

Borrower	Loan term	Borrowing date	Settlement date	Principal amount	Revenue/Cost contribution of customer/supplier for the year ended December 31,			Revenue/Cost contribution of customer/supplier for the three months ended March 31,
					2017	2018	2019	2020
Customer								
An associate of a customer	About six months	January 2018	June 2018	RMB3.5 million	Less than 5%	Less than 1%	–	–
Customer G	Three months	February 2018	May 2018	RMB2.0 million	23.0%	14.0%	1.4%	–
A subsidiary of Customer G	Less than one month	November 2018	December 2018	RMB4.0 million				
Supplier								
Holding company of Supplier Group A	About one month	December 2018	January 2019	RMB20.0 million	–	17.2%	34.0%	16.8%
Holding company of Supplier Group A	Less than two months	December 2019	January 2020	RMB29.9 million				

In addition, during the Track Record Period, we made prepayments to certain of our large suppliers for purchase of traffic in order to secure certain favorable time slots at favorable price in advance. As of December 31, 2017, 2018 and 2019 and March 31, 2020, RMB26.1 million, RMB39.0 million, RMB105.8 million and RMB81.7 million of the balance of our prepayments for purchase of traffic were attributable to Supplier B, respectively. As of December 31, 2018 and 2019 and the three months ended March 31, 2020, RMB9.3 million, RMB64.7 million and RMB118.4 million of the balance of our prepayments for purchase of traffic were attributable to Supplier Group A, respectively. See “Financial Information — Discussion of Certain Key Consolidated Balance Sheets Items — Prepayments.”

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COMPETITION

The performance-based we-media marketing industry we operate in is highly-fragmented and competitive. We compete directly with other performance-based marketing service providers. We believe we are differentiated from our competitors based on factors such as we-media resources, data and algorithm resources, content resources and capital resources. We expect competition in the performance-based we-media marketing industry to intensify. See “Risk Factors — Risks Relating to Our Business and Industry — We face intense competition.” For details relating to competition within our industry, see “Industry Overview.”

RESEARCH AND DEVELOPMENT

Our research and development and technical personnel are mainly responsible for our product development, algorithm development and proprietary platform development. As of the Latest Practicable Date, 38.7% of such personnel held college degrees or above related to computer sciences. During the Track Record Period, we have primarily focused our research and development endeavors on (i) developing our business intelligence empowered technology platforms; (ii) developing and enhancing our product recommendation engine; and (iii) developing and enhancing our data collection and data analysis capabilities. We incurred research and development expenses of RMB2.9 million, RMB3.9 million, RMB6.8 million and RMB1.8 million in 2017, 2018 and 2019 and for the three months ended March 31, 2020. We did not capitalize any research and development expenditures during the Track Record Period. During the Track Record Period, we strengthened our research and development capabilities by recruiting senior technology development engineers and Python data engineers. In 2017 and 2018, our research and development efforts mainly focused on (i) collecting data to build our tag libraries for we-media publishers and online products, and (ii) building and continuously optimizing our distribution strategy and product recommendation algorithms, which laid the foundation for our business growth, in particular for online products, during the Track Record Period. In addition, starting from 2018, we began to focus on developing and optimizing our technologies and algorithms to apply to short-form videos and developing Beauty Connector to facilitate our short-form video we-media monetization services.

SALES AND MARKETING

We do not maintain a separate team solely for sales and marketing purposes. Our sales and marketing activities are led by two senior management members, namely Mr. Zhu and Mr. Cheng Lin. Our sales and marketing efforts are focused on increasing awareness of our brand and our performance-based marketing services through attending industry conferences and public relation activities as well as increasing social media presence.

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INTELLECTUAL PROPERTY

We have obtained key intellectual property and proprietary rights in connection with the operation of our business. As of the Latest Practicable Date, we had seven registered trademarks and 69 software copyrights in China, and two registered trademarks in Hong Kong with the Trademark Registry of the Intellectual Property Department; and had applied to register two trademarks. We also had five registered domain names, including www.adjoy.com.cn, in China. As of the Latest Practicable Date, we did not license any of our intellectual property rights to any third parties.

Our Directors confirm that we were not involved in any material disputes or pending legal proceedings in respect of, and we had not received notice of any claims of infringement of, any intellectual property rights during the Track Record Period and up to the Latest Practicable Date.

For further details of our intellectual property rights, see “Appendix IV — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights.”

LICENSES AND PERMITS

Our PRC Legal Advisors advised us that during the Track Record Period and up to the Latest Practicable Date, we had obtained all requisite licenses, approvals, permits, registration and filing from the relevant government authorities that are material for our business operations in China and such licenses, approvals, permits, registration and filing had remained in full effect. We renew all such licenses, approvals, permits, registration and filing from time to time to comply with the relevant laws and regulations.

License/Permit/Certificate	Holder	Issuing authority	First grant date	Expiry date
Online Culture Operating License (網絡文化經營許可證)	Beijing Joyspreader	Department of Culture and Tourism of Beijing	2017.12.28	2020.12.27
Value-added Telecommunications Business License for Provision of Internet Information Services (電信與信息服務業務經營許可 證)	Beijing Joyspreader	Beijing Communication Administration	2011.11.03	2021.12.13

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License/Permit/Certificate	Holder	Issuing authority	First grant date	Expiry date
Online Culture Operating License (網絡文化經營許可證)	Beijing Wuyou	Department of Culture and Tourism of Beijing	2015.06.24	2021.05.20
Value-added Telecommunications Operation License (增值電信業務經營許可證)	Beijing Wuyou	Beijing Communication Administration	2016.03.02	2021.03.02
Online Culture Operating License (網絡文化經營許可證)	Horgos Wuyou	Department of Culture and Tourism of Xinjiang	2019.05.27	2022.05.26
Value-added Telecommunications Operation License (增值電信業務經營許可證)	Horgos Wuyou	Xinjiang Communication Administration	2019.9.11	2024.9.11
Online Culture Operating License (網絡文化經營許可證)	Horgos Yaoxi	Department of Culture and Tourism of Xinjiang	2019.05.27	2022.05.26
Value-added Telecommunications Operation License (增值電信業務經營許可證)	Horgos Yaoxi	Xinjiang Communication Administration	2019.9.11	2024.9.11
Online Culture Operating License (網絡文化經營許可證)	Zhipu Shulian	Department of Culture and Tourism of Xinjiang	2020.06.22	2023.06.21

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EMPLOYEES

As of the Latest Practicable Date, we had 72 full-time employees, all of whom were based in China. The following table sets forth the number of our employees by function as of the Latest Practicable Date:

	Number of employees	% of total
Research and development and technical	31	43.1%
Operation	21	29.2%
Administration	15	20.8%
Management	5	6.9%
Total	72	100.0%

We recruit our personnel through professional search firms and recruiting websites. We have established effective employee incentive schemes to correlate the remuneration of our employees with their overall performance, and have established a merit-based remuneration awards system. Employees are promoted not only in terms of position and seniority.

During the Track Record Period, we did not experience any material labor disputes or strikes that may have a material and adverse effect on our business, financial condition or results of operations. In accordance with applicable PRC regulations, we have made contributions to social insurance funds, including pension plans, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance, and housing funds for our employees. During the Track Record Period and up to the Latest Practicable Date, we did not make in full the social insurance fund and housing provident fund contributions for all of our employees. We will endeavor to make contributions to social insurance funds and housing funds for our employees in accordance with applicable laws and regulations. See “Risk Factors — Risks Relating to Our Business and Industry — We may be subject to additional social insurance fund and housing provident fund contributions and late payments or fines imposed by relevant regulatory authorities.”

PROPERTIES

Our headquarters are located in Beijing. As of the Latest Practicable Date, we did not have any owned properties and we leased 12 properties with an aggregate gross floor area of approximately 1,504.5 square meters from Independent Third Parties. Our leased properties are primarily used as premises for our offices and the lease agreements of which have lease expiration dates ranging from July 2020 to December 2023. As of the Latest Practicable Date, we had not duly registered all of the lease agreements with the relevant regulatory authorities. During the Track Record Period, we did not experience any dispute arising out of our leased properties.

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Pursuant to the applicable PRC laws and regulations, property lease contracts must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, we had not registered for any of our leased properties. Our PRC Legal Advisors have advised us that the lack of registration of the lease contracts will not affect the validity of the lease agreements under PRC laws, and have also advised us that a maximum penalty of RMB10,000 may be imposed for non-registration of each lease. The estimated total maximum penalty is RMB120,000. During the Track Record Period and up to the Latest Practicable Date, we had not been ordered by any authorities to register any of the unregistered lease agreements.

According to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempted from compliance with the requirements of section 342(1)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which require a valuation report with respect to all our Group’s interests in land or buildings, for the reason that, as of the date of this document, we had no single property with a carrying amount of 15% or more of our total assets.

INSURANCE

We maintain insurance policies that are required under PRC laws and regulations as well as based on our assessment of our operational needs and industry practice. In line with industry practices in China, we have elected not to maintain certain types of insurances, such as business interruption insurance or key man insurance. See “Risk Factors — Risks Relating to Our Business and Industry — Failure to retain key management team or attract additional talented personnel could materially and adversely affect our business.” Our Directors consider that our existing insurance coverage is sufficient for our present operations and in line with industry practices in China.

OCCUPATIONAL, HEALTH AND SAFETY AND ENVIRONMENTAL MATTERS

Our business does not involve significant occupational, health, work safety and environmental matters, other than being in compliance with applicable PRC laws and regulations. During the Track Record Period, our PRC Legal Advisors have advised that we did not experience any material occupational, health and safety and environmental incidents and were in compliance with relevant laws and regulations in all material respects.

LEGAL PROCEEDINGS AND COMPLIANCE

We may be involved in legal proceedings in the ordinary course of business from time to time. During the Track Record Period, neither we nor any of our Directors were involved in any litigation, arbitration or administrative proceedings which could have a material adverse impact on our business, financial condition or results of operations. As of the Latest Practicable

BUSINESS

Date, we were not aware of any pending or threatened litigation, arbitration or administrative proceedings against us or our Directors which may have a material and adverse impact on our business, financial condition or results of operations.

As advised by our PRC Legal Advisors, during the Track Record Period and as of the Latest Practicable Date, we had complied with the relevant PRC laws and regulations in all material respects.

RISK MANAGEMENT AND INTERNAL CONTROL

We are subject to various risks during our operations, see “Risk Factors — Risks Relating to Our Business and Industry.” We have established a risk management system and relevant policies and procedures which we consider suitable for our business operations. Our policies and procedures are aimed at managing and monitoring our business performance.

To monitor the continuous implementation of risk management policies and corporate governance measures after the [REDACTED], we have adopted or will continue to adopt, among other things, the following risk management measures:

- establish an audit committee to review and supervise our financial reporting process and internal control system. Our audit committee consists of three members: Mr. Tang Wei, chairman of the committee, Mr. Xu Chong and Mr. Guo Sijia. For the qualifications and experiences of these members, see “Directors and Senior Management;”
- adopt various policies to ensure the compliance with the [REDACTED], including but not limited to policies in respect of risk management, connected transactions and information disclosure;
- provide regular anti-corruption and anti-bribery compliance training for senior management and employees in order to enhance their knowledge of and compliance of applicable laws and regulations; and
- arrange our Directors and senior management to attend training seminars on [REDACTED] requirements and the responsibilities as directors of a Hong Kong-[REDACTED] company.

We have appointed an internal control consultant to review the effectiveness of our internal control measures related to our major business processes, to identify the deficiencies for improvement, advise on the rectification measures and review the implementation of such measures. We have adopted corresponding internal control measures to address on certain internal control issues identified. We have implemented the recommendations made by our internal control consultant and our internal control consultant has completed follow-up procedures on internal control system for the remedial actions taken by us in May 2019 and did not find any significant deficiencies in our internal control system.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Mr. Zhu and Mr. Zhang have entered into the Concert Party Agreement, pursuant to which, they have agreed that they had and would continue to act in concert by aligning their votes at shareholders’ meetings of the Company and Beijing Joyspreader. Mr. Zhu, through ZZN. Ltd., and Mr. Zhang, through ZZD. Ltd., hold 45.81% and 4.09%, respectively, of the total issued share capital of our Company. In addition, as of the Latest Practicable Date, Laurence mate. Ltd., which is owned as to 90% by Mr. Zhu and 10% by Mr. Zhang, held 6.81% of the total issued share capital of our Company. Laurence mate. Ltd. is an entity controlled by Mr. Zhu, who is the administrator for the purpose of establishing and managing the RSU Scheme. Immediately following the completion of the Share Subdivision the [REDACTED] (assuming that the [REDACTED] is not exercised), Mr. Zhu and Mr. Zhang will be deemed to be jointly interested in approximately [REDACTED] of the total issued share capital of our Company. Accordingly, Mr. Zhu, Mr. Zhang, ZZN. Ltd., ZZD. Ltd. and Laurence mate. Ltd. will continue to be our Controlling Shareholders upon the [REDACTED].

NO COMPETITION AND CLEAR DELINEATION OF BUSINESS

Each of our Controlling Shareholders has confirmed that, as of the Latest Practicable Date, none of them or any of their respective close associates had interests in any business, other than our business, which compete, or is likely to compete, either directly or indirectly, with our business that would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage potential conflicts of interest between our Controlling Shareholders and our Group and to safeguard the interests of our Shareholders taken as a whole for the following reasons:

- a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the board meetings on matters in which such Director or any of his/her close associates has a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) that can facilitate the exercise of independent judgment. We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business and/or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial and external opinion to protect the interests of our public Shareholders. For further details of our independent non-executive Directors, please refer to the section headed “Directors and Senior Management — Directors — Independent non-executive Directors” of this document;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- in the event that any potential conflict of interest arises, i.e. where a Director has an interest in a company that will enter into an agreement with our Group, the Director(s) with an interest in the relevant transaction(s) shall be excluded from our Board deliberation process and abstain from voting and shall not be counted towards the quorum in respect of the relevant resolution(s) at such Board meeting;
- in the event any potential conflict of interest arises at the shareholders’ level, our Controlling Shareholders shall abstain from voting in the Shareholders’ meeting of our Company with respect to the relevant resolution(s);
- in the event that our independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group on the one hand and our Controlling Shareholders and/or our Directors on the other, our Controlling Shareholders and/or our Directors shall provide our independent non-executive Directors with all necessary information and our Company shall disclose the decisions of our independent non-executive Directors (including why business opportunities referred to our Company by our Controlling Shareholders were not taken up) either through our Company’s annual report or by way of announcements;
- pursuant to the Corporate Governance Code and Corporate Governance Report in accordance with Appendix 14 to the Listing Rules, our Directors, including our independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company’s costs;
- any proposed transaction between us and connected persons will be subject to Chapter 14A of the Listing Rules including, where applicable, the announcement, reporting and independent shareholders’ approval requirements of such rules; and
- we have appointed Orient Capital (Hong Kong) Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various requirements relating the directors’ duties and corporate governance.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently of our Controlling Shareholders and his/its close associates after the [REDACTED].

Management Independence

Our Board comprises three executive Directors, three non-executive Directors and three independent non-executive Directors. Our Directors and members of the senior management possess relevant management and/or industry-related experience to act as Directors or senior management of our Company. For more details, please refer to the section headed “Directors and Senior Management” in this document. As of the Latest Practicable Date, none of our Controlling Shareholders and Directors had any business which competes or is likely to compete, either directly or indirectly, with our business.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among others, that he or she must act for the benefit and in the best interests of our Company and not allow any conflict between his or her duties as a Director and his or her personal interests. In the event that there is a 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(s) shall abstain from voting on any Board resolutions approving any contract or arrangement or any other proposal in which he or she or any of his or her close associates has a material interest and shall not be counted in the quorum present at the relevant Board meeting. In addition, we believe that our independent non-executive Directors can bring independent judgment to the decision-making process of our Board. For details, please refer to the section headed “Directors and Senior Management” in this document.

The daily operation of our Group is carried out by an independent experienced senior management team. We have the capabilities and personnel to perform all essential administrative functions, including financial and accounting, human resources, business management and research and development on a standalone basis.

Based on the above, our Directors are satisfied that the Board as a whole, together with our senior management team, is able to perform the managerial role in our Group independently.

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after [REDACTED], we have full rights to make all decisions regarding, and carry out, our business operations independently. We have established our own organizational structure and each department is assigned to specific areas of responsibilities. We are also in possession of all necessary relevant licenses, approvals and certificates to carry on our business and we have sufficient operational capacity in term of capital and employees to operate and manage our business independently. We do not rely on our Controlling Shareholders or their close associates for our operations. We have independent access to our customers and suppliers and have an independent management team (including our Directors and senior management) to handle our daily operations. We have also established a set of internal control procedures to facilitate and maintain the independent operation of our business.

Based on the above, our Directors are satisfied that there is no operational dependence by us on our Controlling Shareholders and our Group is able to operate independently from our Controlling Shareholders after [REDACTED].

Financial Independence

We have established our own finance department with a team of financial staff, who are responsible for financial control, accounting, reporting, group credit and internal control function of our Company, independent from our Controlling Shareholders. We can make financial decisions independently and our Controlling Shareholders do not intervene with our use of funds. We have also established an independent and sound audit system, a standardized financial and accounting system and a complete financial management system. We have sufficient capital to operate our business independently, and have adequate internal resources

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

and a strong credit profile to support our daily operations. We have access to independent third party financing and are capable of obtaining such financing without the need to rely on any guarantee or security provided by our Controlling Shareholders or their respective close associates. Save as disclosed in “Connected Transactions”, no loans or guarantees provided by, or granted to, our Controlling Shareholders or their respective associates was outstanding as of the Latest Practicable Date.

Based on the above, our Directors are satisfied that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

CONNECTED TRANSACTIONS

Upon the [REDACTED], the following transactions between our connected persons and us will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

A. CONTINUING CONNECTED TRANSACTION

Non-Exempt Continuing Connected Transactions

We set out below a summary of the continuing connected transactions for our Group, which are subject to the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Contractual Arrangements

A waiver application from (i) strict compliance with the announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting an annual cap for the transactions under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less, for so long as our Shares are [REDACTED] on the Stock Exchange, has been submitted to and [granted] by the Stock Exchange subject to certain conditions. If any terms of the Contractual Arrangements are altered or if we enter into any new agreements with any connected persons in the future, we must comply with the relevant requirements under Chapter 14A of the Listing Rules and obtain a separate waiver from the Stock Exchange.

Background for the Contractual Arrangements

As disclosed in the section headed “Contractual Arrangements” in this document, due to regulatory restrictions on foreign ownership in the PRC, we conduct a substantial portion of business through Beijing Joyspreader and its subsidiaries, being our Consolidated Affiliated Entities. The Contractual Arrangements entered into among WFOE, Beijing Joyspreader and the Registered Shareholders enable us to (i) receive substantially all of the economic benefits from Consolidated Affiliated Entities in consideration for the services provided by WFOE to Consolidated Affiliated Entities under the Exclusive Management and Consultation Service Agreement; (ii) exercise effective control over Consolidated Affiliated Entities to conduct the relevant business; and (iii) hold an exclusive option to purchase all or any part of equity interests in Consolidated Affiliated Entities and/or assets or interests in any of the assets of Consolidated Affiliated Entities.

The transactions contemplated under the Contractual Arrangements are continuing connected transactions of our Group and are subject to reporting, announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

Principal Terms of the Transactions

The Contractual Arrangements comprise the following agreements: Exclusive Management and Consultation Service Agreement, Exclusive Option Agreement, Equity Pledge Agreement, Shareholders' Rights Proxy Agreement and Spousal Consent Letter made by the spouse of each of the individual Registered Shareholders, where applicable. See the section headed "Contractual Arrangements" in this document for detailed terms of the Contractual Arrangements.

Listing Rules Implications

The highest applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the transactions associated with the Contractual Arrangements are expected to be more than 5%. As such, the transactions will be subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

Reasons for the Waiver Application and the View of Our Directors on the Continuing Connected Transactions

Our Directors, including our independent non-executive Directors, are of the view that (i) the Contractual Arrangements are fundamental to our Group's legal structure and business operations; and (ii) the Contractual Arrangements are on normal commercial terms or on terms more favorable to our Group in the ordinary and usual course of our Group's business and are fair and reasonable or to the advantage of our Group and are in the interests of our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, 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, for all the transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement, circular and approval of independent Shareholders.

CONNECTED TRANSACTIONS

Application for and Conditions of Waiver

In relation to the Contractual Arrangements, we have applied to the Stock Exchange pursuant to Rule 14A.102 and Rule 14A.105 of the Listing Rules for, and the Stock Exchange [has granted], a waiver from (i) strict compliance with the announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting an annual cap for the transactions under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less, for so long as our Shares are [REDACTED] on the Stock Exchange subject to the following conditions:

(a) No Change without Independent Non-executive Directors’ Approval

No changes to the terms of any of the agreements constituting the Contractual Arrangements will be made without the approval of the independent non-executive Directors.

(b) No Change without Independent Shareholders’ Approval

Save as described in paragraph (d) below, no changes to the terms of any of the agreements constituting the Contractual Arrangements will be made without the approval of the 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 paragraph (e) below) will however continue to be applicable.

(c) Economic Benefits Flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through: (i) our Group’s potential right (if and when so allowed under the applicable PRC laws) to acquire the equity interests in and/or assets of the Consolidated Affiliated Entities; (ii) the business structure under which the total consolidated profit after tax of Beijing Joyspreader, after offsetting the prior-year loss (if any) and statutory reserve funds (if applicable), is substantially retained by us (such that no annual caps shall be set on the amount of services fees payable to WFOE under the Exclusive Management and Consultation Service Agreement); and (iii) our right to control the management and operation of, as well as, in substance, all of the voting rights of Consolidated Affiliated Entities.

CONNECTED TRANSACTIONS

(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and our subsidiaries in which our Company has direct shareholding, on one hand, and the Consolidated Affiliated Entities, 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 branch company) engaging in the same business as that of our Group which our 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 described under the section headed “Contractual Arrangements” in this document. 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 when justified by business expediency will, upon renewal and/or cloning of the Contractual Arrangements, however be treated as our Group’s connected persons and transactions between these connected persons and our Group other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant PRC laws, regulations and approvals.

(e) Ongoing Reporting and Approvals

We will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- (i) The Contractual Arrangements in place during each financial period will be disclosed in our annual report and accounts in accordance with the relevant provisions of the Listing Rules.
- (ii) Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our annual report and accounts for the relevant year that: (1) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (2) no dividends or other distributions have been made by Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (3) any new contracts entered into, renewed or reproduced between our Group and Consolidated Affiliated Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Company and the Shareholders as a whole.

CONNECTED TRANSACTIONS

- (iii) Our auditors 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 carried out pursuant to the Contractual Arrangements have received the approval of our Directors and that no dividends or other distributions have been made by Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned/transferred to our Group.
- (iv) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person,” the Consolidated Affiliated Entities will be treated as the Company’s wholly-owned subsidiaries, and the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the Consolidated Affiliated Entities and their associates will be treated as the Company’s “connected persons”. As such, transactions between these connected persons and our Group (including, for this purpose, the Consolidated Affiliated Entities) other than those under the Contractual Arrangements shall comply with Chapter 14A of the Listing Rules.
- (v) Beijing Joyspreader further undertakes that, for so long as the Shares are [REDACTED] on the Stock Exchange, it will provide our Group’s management and our auditors with full access to its relevant records for the purpose of procedures to be carried out by our auditors on the connected transactions.

B. DIRECTORS’ VIEWS

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 operations, have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms or better and are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors (including the independent non-executive 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, including, among others, the announcement, circular and independent shareholders’ approval requirements.

CONNECTED TRANSACTIONS

C. JOINT SPONSORS’ CONFIRMATION

Based on the documentation and data provided by the Company and the Joint Sponsors’ participation in the due diligence and discussions with the management of the Company, the Joint Sponsors are of the view that (i) the Contractual Arrangements are fundamental to the Group’s legal structure and business operations; and (ii) the continuing connected transactions set out above have been entered into in the ordinary and usual course of business of the Group on normal commercial terms or better, which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. With respect to the term of the relevant Contractual Arrangements which is of a duration longer than three years, it is a justifiable and normal business practice to ensure that (i) the financial and operational policies of the Consolidated Affiliated Entities can be effectively controlled by WFOE, (ii) WFOE can obtain the economic benefits derived from the operation of the Consolidated Affiliated Entities, and (iii) any possible leakages of assets and values of the Consolidated Affiliated Entities can be prevented both on an uninterrupted basis.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. Our Directors are elected to serve a term of three years, which is renewable upon re-election and/or re-appointment.

The following table provides certain information about our Directors:

Name	Age	Position	Time of joining our Group	Effective date of appointment as Director	Roles and responsibilities
Executive Directors					
Mr. Zhu Zinan (朱子南)	38	Chairman, executive Director	October 2008	February 19, 2019	Overall management, strategic planning and decision-making of our Group
Mr. Zhang Zhidi (張之的)	34	Executive Director	July 2014	December 27, 2019	Overseeing our daily business operations and assisting in overall management of our Group
Mr. Cheng Lin (成林)	37	Executive Director	January 2014	December 27, 2019	Overseeing our sales and marketing, media publisher relations and assisting in overall management of our Group

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Time of joining our Group	Effective date of appointment as Director	Roles and responsibilities
Non-executive Directors					
Mr. Guo Sijia (郭思嘉)	38	Non-executive Director	April 2016	December 27, 2019	Participating in formulating the Company’s corporate and business strategies
Mr. Hu Qingping (胡慶平)	42	Non-executive Director	December 2019	December 27, 2019	Participating in formulating the Company’s corporate and business strategies
Ms. Chen Yuanyuan (陳圓圓)	36	Non-executive Director	December 2019	December 27, 2019	Participating in formulating the Company’s corporate and business strategies
Independent non-executive Directors					
Mr. Xu Chong (徐翀)	44	Independent non-executive Director	August 2020	August 26, 2020	Supervising and providing independent judgment to the Board
Mr. Tang Wei (唐偉)	44	Independent non-executive Director	August 2020	August 26, 2020	Supervising and providing independent judgment to the Board
Mr. Fang Hongwei (房宏偉)	38	Independent non-executive Director	August 2020	August 26, 2020	Supervising and providing independent judgment to the Board

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhu Zinan (朱子南), aged 38, is our founder, chairman, executive Director, chief executive officer and the chairman of our nomination committee. He is responsible for the overall management, strategic planning and decision-making of our Group. He has been the chief executive officer at Beijing Joyspreader since June 2012 and was appointed as an executive director and the chief executive officer at Beijing Wuyou in July 2014.

Mr. Zhu has over 11 years of experience in the online marketing industry. Mr. Zhu served as secretary of director at the science and research department in National Education Examinations Authority (國家教育部考試中心) from October 2004 to August 2005. From August 2005 to April 2007, he was the vice president at Molong International Co., Ltd. (魔龍國際有限責任公司), a company that principally engages in the development and production of mobile games. From April 2007 to June 2012, he worked as a general manager at the business department of Phoenix Online (Beijing) Information Technology Co., Ltd (鳳凰在線(北京)信息技術有限公司), a company that principally engages in providing premium new media contents and services for the mainstream Chinese community on a seamless platform across Internet, mobile and TV network. In December 2017, Mr. Zhu was selected as one of the “Top Ten Most Outstanding People in China’s Gaming Industry” (中國遊戲產業十大新銳人物) at the China Game Industry Annual Conference (中國遊戲年會).

Mr. Zhu graduated from Beijing Administration for Industry and Commerce School (北京市工商管理學校) majoring in industrial and commercial administration in June 2000.

Mr. Zhang Zhidi (張之的), aged 34, is an executive Director and the general manager of our Group. He is responsible for overseeing our daily business operations and assisting in overall management of our Group. He also currently serves a number of positions in our Group, including the general manager of Beijing Joyspreader, the chief operating officer and a supervisor of Beijing Wuyou, an executive director and the general manager of Horgos Wuyou, an executive director and the general manager of Horgos Yaoxi.

Prior to joining our Group, Mr. Zhang served as the president of the far east region in Betwandwin (BWIN), an online gaming company from September 2010 to December 2011. From January 2012 to January 2013, he acted as the president of an online gaming company, Vera&John China. From February 2013 to June 2016, he worked at Beijing Huiqun Zhidi Technology Co. Ltd (北京慧群之地科技有限公司), a company that principally engages in the operation of computer games, as the chief operating officer.

Mr. Zhang obtained his bachelor’s degree in banking and financial management from University of Malta in January 2009 and his master’s degree of science from the University of London, London School of Economics and Political Science in November 2010, majored in media and communications.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Cheng Lin (成林), aged 37, joined our Group in January 2014, is an executive Director, vice president of our Company and the member of our remuneration committee. He is responsible for overseeing our sales and marketing, media publisher relations and assisting in the overall management of our Group. He is currently the chief operating officer, director and vice president of Beijing Joyspreader.

Mr. Cheng has over 14 years of experience in sales, marketing and operation. Prior to joining our Group, Mr. Cheng served as a business supervisor in Sony Ericsson Mobile Communications (China) Co., Ltd (索尼愛立信移動通信產品(中國)有限公司) from 2005 to 2008. From 2009 to 2011, he worked as a business supervisor in Beijing Potevio Communication Technology Co., Ltd (北京普天太力通信科技有限公司), a mobile communication products distributor and service provider. He then served as chief operation officer in Beijing Yuancai Technology Co., Ltd (北京源彩科技有限公司), an application service provider, from 2011 to 2013. He later assumed the role of the operation director in Beijing Huiqun Zhidi Technology Co., Ltd (北京慧群之地科技有限公司) from April 2013 to December 2013.

Mr. Cheng obtained an associate degree from Shenyang University (瀋陽大學) in July 2005, majoring in computer application and maintenance. In July 2010, Mr. Cheng obtained his bachelor’s degree (part-time) in business administration from the same institute.

Non-executive Directors

Mr. Guo Sijia (郭思嘉), aged 38, joined our Group in April 2016 and is our non-executive Director. He is responsible for participating in formulating the Company corporate and business strategies.

Prior to joining our Group, Mr. Guo worked as the business director in Beijing Longjitiandi Technology Co., Ltd (北京龍跡天地科技有限公司), a mobile internet and mobile games provider, from December 2004 to December 2007. From February 2008 to February 2010, he was a marketing manager in Beijing Sohu New Media Information Technology Co., Ltd (北京搜狐新時代信息技術有限公司). From March 2010 to March 2012, he worked at Phoenix Online (Beijing) Information Technology Co., Ltd (鳳凰在線(北京)信息技術有限公司) as a senior marketing manager. He then served as a marketing consultant at Baidu Online Network Technology (Beijing) Co., Ltd. (百度在線) from May 2012 to July 2015. Since July 2015, he acted as a vice president in Beijing Yibairun Investment Consulting Co., Ltd (億百潤投資顧問(北京)有限公司), an investment consulting company. Since January 2017, he has been serving as the president and chief executive officer in Beijing Zhitian Leyou Technology Co., Ltd (北京智天樂遊科技有限公司), a technology products research and development company principally engaged in the marketing of overseas healthcare, overseas asset allocation and immigration services and the trading of vending machines. In addition, he is currently an executive director of Tianjin Zhilian Wanwu Technology Co., Ltd (天津智聯萬物科技有限公司), a technology products research and development company, and Beijing Zhiwu Yunlian Technology Co., Ltd (北京智物雲聯科技有限公司), a technology products research and development company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Guo was also the general manager of Beijing Xuanyue Interactive Technology Co., Ltd. (北京玄月互動科技有限公司, “**Xuanyue Technology**”), the business license of which was revoked in December 2009. To the best knowledge of Mr. Guo, Xuanyue Technology did not have any substantive business activities from its establishment to the revocation. As confirmed by Mr. Guo, the revocation of business license of Xuanyue Technology was primarily due to an error in its registered address caused by the company’s agent and not due to any default of Mr. Guo.

Mr. Guo graduated with a college diploma in financial accounting from Beijing City University (北京城市學院) (formerly known as Haidian University (海淀走讀大學)) in July 2002 and obtained his bachelor’s degree in business administration from the Beijing Institute of Technology (北京理工大學) in June 2009 through distance learning.

Mr. Hu Qingping (胡慶平), aged 42, is our non-executive Director and is responsible for participating in formulating the Company corporate and business strategies.

He worked at China Telecommunications Corporation (Shenzhen) branch (中國電信深圳分公司) from June 2004 to January 2006. From January 2006 to August 2012, he worked in China Mobile Communications Group Co., Ltd (Guangdong) (中國移動通信集團廣東有限公司). Mr. Hu later served as operations director in People.cn Co., Ltd (人民網股份有限公司) from June 2013 to August 2014. From August 2014 to December 2015, he acted as director of the operations department in TCL Communication Technology (NB) Holdings Limited (TCL 通訊科技控股有限公司). Mr. Hu has been acting as the vice president and the manager of angel funds in Shenzhen Co-win Asset Management Co., Ltd., (深圳同創偉業資產管理股份有限公司), a company that is principally engaged in management of investment projects, since July 2016.

Mr. Hu graduated from Huazhong University of Science and Technology (華科技大學) (formerly known as 華中理工大學), in June 1999, majoring in biochemistry and minoring in English for science and technology. In June 2004, he obtained a master’s degree in computer architecture from the same university. He then received his doctorate degree in management science and engineering from Beijing University of Posts and Telecommunications (北京郵電大學) in June 2017.

Ms. Chen Yuanyuan (陳圓圓), aged 36, is our non-executive Director and is responsible for participating in formulating the Company’s corporate and business strategies.

Prior to joining our Group, Ms. Chen worked as a project management staff in Nanjing Yunhai Special Metals Co., Ltd (南京雲海特種金屬股份有限公司), a company that principally engages in the manufacturing of metal alloys, from October 2007 to September 2008. She then worked as a civil servant in Suzhou Municipal Economic and Information Commission (蘇州市經濟和信息化委員會) from July 2012 to February 2015, where she was primarily responsible for overseeing the industrial and economic activity of Suzhou city. Since March 2015, she has been the deputy general manager in a private equity investment fund, Nanjing Pingheng Capital Management Center (Partnership) (南京平衡資本管理中心(普通合夥)).

DIRECTORS AND SENIOR MANAGEMENT

Ms. Chen obtained her bachelor’s degree from Southeast University (東南大學) majoring in materials science and engineering in June 2006. Ms. Chen then obtained a master’s degree in enterprise management from Nanjing University (南京大學) in June 2012. She is currently a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會).

Independent non-executive Directors

Mr. Xu Chong (徐翀), aged 44, was appointed as our independent non-executive Director with effect from August 26, 2020. He also serves as the chairman of our remuneration committee and the member of our audit committee and is primarily responsible for providing independent opinion and judgment to our Board.

Mr. Xu has over 18 years of experience in corporate finance and financial management. Prior to joining our Group, Mr. Xu held managerial positions in various companies, including a manager at BOC International Holdings Limited (中銀國際控股有限公司) from July 2001 to August 2003; a chief financial officer at SinoMedia Holding Limited (a company listed on the Stock Exchange, stock code: 0623) from June 2004 to February 2006 and a vice president of Asia region in Cazenove Asia Limited from March 2006 to July 2007, where he was primarily responsible in corporate finance. He re-joined SinoMedia Holdings Limited in July 2007 and acted as the chief financial officer until May 2010. From March 2011 to July 2011, Mr. Xu took the role of the vice president in Huakang Insurance Agency Co., Ltd (華康保險代理有限公司). He later acted as a financial advisor and chief financial officer in Shanghai Zhaogangwang Information Technology Corporation Limited (上海找鋼網信息科技股份有限公司) from June 2012 to June 2014. Since October 2014, he has been the chief financial officer and is currently the executive director of Babytree Group (寶寶樹集團) (a company listed on the Stock Exchange, stock code: 1761).

Mr. Xu received his bachelor’s degree in international economic law from Nanjing University (南京大學) in July 1998 and a master’s degree in international law from Renmin University of China (中國人民大學) in July 2001.

Mr. Tang Wei (唐偉), aged 44, was appointed as our independent non-executive Director with effect from August 26, 2020. He serves as the chairman of our audit committee. Mr. Tang is responsible for providing independent opinion and judgment to our Board.

Prior to joining our Group, Mr. Tang had served several positions, including an assistant vice president of the investment banking department of Bank of China International Holdings Limited from December 2000 to August 2006, an associate of the Corporate Finance department in Goldman Sachs Gaohua Securities Company Limited (高盛高華證券有限公司) from September 2006 to September 2008 and as a deputy general manager of investment banking department in China International Capital Corporation Limited (中國國際金融股份有限公司) from October 2008 to January 2010. He later returned to the Corporate Finance department in Goldman Sachs Gaohua Securities Company Limited and worked as executive director and vice president from January 2010 to October 2014. From June 2015 to January 2016, Mr. Tang acted as an investment director of CNIC Corporation Limited (國新國際(中國)投資有限公司) where he primarily advised on offshore investments. In March 2016, he joined

DIRECTORS AND SENIOR MANAGEMENT

NavInfo Co., Ltd (四維圖新科技股份有限公司) (a Shenzhen Stock Exchange listed company, stock code: 002405), where he took the role of the chief financial officer and deputy general manager until September 2018. Since October 2018, he has been serving as the chief financial officer and secretary to the board in AsiaInfo Technologies (Chengdu), Inc (亞信科技(成都)有限公司). Currently, he is an independent non-executive director of Weimob Inc. (微盟集團) (a company listed on the Stock Exchange, stock code: 2013).

Mr. Tang received a bachelor’s degree in international business and financial administration from China University of Petroleum (中國石油大學(北京)) in July 1998. He later obtained a master’s degree in business administration from the University of International Business and Economics (對外經濟貿易大學) in June 2001. He is a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Chinese Institute of Certified Public Accountants.

Mr. Fang Hongwei (房宏偉), aged 38, was appointed as our independent non-executive Director with effect from August 26, 2020. He is a member of our nomination committee and remuneration committee. Mr. Fang is primarily responsible for providing independent opinion and judgment to our Board.

From February 2009 to February 2016, Mr. Fang served as the secretary of the board of directors and legal affairs director at Beijing Jinhe Network Company Limited (北京金和網絡股份有限公司) (a former NEEQ listed company, stock code: 430024). He joined Jingci Material Science Co., Ltd. (京磁材料科技股份有限公司) (a former NEEQ listed company, stock code: 836299) in March 2016 and he is currently a director, the deputy general manager and the secretary to the board there. He is primarily responsible for securities investment and financing, legal compliance affairs, internal control and public relation matters of the company.

Mr. Fang received a graduation certificate from China University of Labor Relations (中國勞動關係學院) in July 2004 majoring in laws. He is a qualified independent non-executive director on the Shanghai Stock Exchange and a certified secretary to the board of directors on the NEEQ and Shenzhen Stock Exchange.

Save as disclosed herein, none of our Directors of the Company held any directorship positions in any listed companies in Hong Kong and overseas within the three years immediately preceding the date of this document. There is no other information relating to the relationship of any of our Directors with other Directors and senior management officers that should be disclosed pursuant to Rule 13.51(2) or paragraph 41(3) of Appendix 1A of the Listing Rules.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable inquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the 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.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management and operation of our business. The senior management team of our Group is as follows:

Name	Age	Position	Date of joining our Group	Date of appointment to senior management	Roles and responsibilities
Mr. Zhu Zinan (朱子南)	38	chief executive officer	June 2012	June 2012	Overall management, strategic planning and decision-making of our Group
Mr. Zhang Zhidi (張之的)	34	general manager	September 2014	September 2014	Overseeing our daily business operations and assisting in overall management of our Group
Mr. Cheng Lin (成林)	37	vice president	January 2014	January 2014	Overseeing our sales and marketing, media publisher relations and assisting in overall management of our Group
Ms. Chen Yuping (陳玉萍)	48	chief financial officer	March 2016	March 2016	Overseeing the financial and taxation affairs of our Group
Ms. Qin Jiaxin (秦佳鑫)	30	secretary to the board	November 2016	January 2017	Responsible for the information disclosure and legal compliance of the Group and assisting in the coordination and organization of Board and Shareholders' meetings

DIRECTORS AND SENIOR MANAGEMENT

For biographical details of Mr. Zhu (朱子南), Mr. Zhang (張之的) and Mr. Cheng Lin (成林), please refer to the subsection headed “– Directors” above.

Ms. Chen Yuping (陳玉萍), aged 48, joined our Group in March 2016, is the chief financial officer of the Company. She is responsible for overseeing the financial and taxation affairs of our Group.

Prior to joining our Group, Ms. Chen was an accountant in Beijing Power Capacitor Factory (北京電力電容器廠) from August 1993 to February 1998. She then worked at Jiexun Yubo System Integration Co., Ltd (捷訊宇博(北京)系統工程有限公司) as a finance supervisor from March 1998 to July 1999. From August 2001 to August 2003, she functioned as a financial supervisor in Beijing Jingbo Properties Development Ltd. (北京京伯房地產開發有限公司). From September 2003 to May 2004, she worked as an audit manager in Beijing Xintianxiang Accounting Firm Co., Ltd. (北京心田祥會計事務所).

From 2004 to 2016, Ms. Chen worked for various PRC companies’ financial departments, including Beijing Weigen Garments Co., Ltd (北京維根製衣有限公司) from June 2004 to December 2011, Zhongchi (Beijing) Environmental Development Co., Ltd (中持(北京)環保發展有限公司) from January 2012 to August 2014, Beijing Shimao Tianti Property Services Co., Ltd (北京世貿天梯物業服務有限公司) from August 2014 to February 2015 and Beijing Datang Energy Management Co., Ltd (大唐(北京)能源管理有限公司) from March 2015 to March 2016.

Ms. Chen graduated with a college diploma in civil engineering in power enterprise management from Taiyuan Institute of Electrical Engineering (太原電力高等專科學校) in July 1993 and later obtained her bachelor’s degree in law from CPC Beijing Municipal Party School (中共北京市委黨校) in July 2006. Ms. Chen is admitted as a certified public accountant of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in May 2001 and a certified management accountant of the American Institute of Management Accountants in March 2013.

Ms. Qin Jiaxin (秦佳鑫), aged 30, joined our Group in January 2017 and is the secretary of our Board. She is responsible for the information disclosure and legal compliance of the Group. She also assists in the coordination and organization of the Board and Shareholders’ meetings.

Prior to joining our Group, she served as the assistant to the president of Beijing Qianhe Capital Investment Management Co., Ltd (北京千和資本投資管理有限公司) from May 2014 to December 2014. Ms. Qin joined Beijing Opportune Technology Development Co., Ltd (北京正辰科技發展股份有限公司) in April 2015 and served as the chairman of its board of supervisors until October 2016.

Ms. Qin received a bachelor of arts degree in international business from the University of Central Lancashire in September 2012 and later obtained a master’s degree in finance and management from the same institute in November 2013. Ms. Qin passed the qualification examination and received the board secretary certificate from the Shanghai Stock Exchange in November 2017, from the Shenzhen Stock Exchange in November 2016 and from the NEEQ in April 2017.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhu, Mr. Zhang, Mr. Cheng Lin and Ms. Chen Yuping, together with some then employees of Beijing Joyspreader, set up a partnership with limited liability named Beijing Tianxiadayi Technology and Development Centre (LLP) (北京天下大易科技發展中心(有限合伙)) in June 2016. The purpose of setting up such a partnership is to build an employee share incentive platform for Beijing Joyspreader. Mr. Zhu acted as the general partner of the partnership and others were all limited partners. Since Beijing Zinan and Friends became the new employee share incentive platform, Beijing Tianxiadayi Technology and Development Centre (LLP) was voluntarily dissolved in August 2018 and had never been a shareholder of Beijing Joyspreader or its subsidiaries.

JOINT COMPANY SECRETARIES

Ms. Qin Jiaxin (秦佳鑫), was appointed as one of the joint company secretaries on December 27, 2019. Please refer to her biography under the subsection headed “– Senior Management” above.

Mr. Lei Kin Keong (李健強), aged 44, was appointed as one of our joint company secretaries on December 27, 2019. Mr. Lei has over 17 years of accounting, auditing and company secretary experience. From August 2000 to November 2009, Mr. Lei worked for various accounting firms in Hong Kong, including Moores Rowland Mazars and Grant Thornton, where he was responsible for audit and accounting work. From August 2010 to March 2013, Mr. Lei worked as financial manager in various listed companies in Hong Kong and Singapore, where he was responsible for the company’s financial reporting and corporate compliance matters. From April 2013 to July 2018, Mr. Lei worked as the company secretary and financial controller in various listed companies in Hong Kong including China Biotech Services Holdings Limited (formerly known as Rui Kang Pharmaceutical Group Investments Limited, a company listed on GEM of the Stock Exchange (stock code: 8037)) and Boill Healthcare Holdings Limited (formerly known as Ngai Shun Holdings Limited, a company listed on Main Board of the Stock Exchange (stock code: 1246)), where he was responsible for financial reporting, corporate compliance and company secretarial matters. He is currently an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited which is principally engaged in the provision of company secretarial services, and has assisted in discharging company secretarial responsibilities in various companies listed on the Stock Exchange.

Mr. Lei has obtained a bachelor of art degree in accountancy from The Hong Kong Polytechnic University in December 2006 and a postgraduate diploma in corporate compliance from The University of Hong Kong (School of Professional and Continuing Education) in October 2015. He is also a non-practising member of the Hong Kong Institute of Certified Public Accountants, an associate of The Hong Kong Institute of Chartered Secretaries and an associate of the Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators).

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

Audit Committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the paragraph C.3 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The audit committee consists of three members, namely, Mr. Tang Wei, Mr. Xu Chong and Mr. Guo Sijia. Mr. Tang Wei is the chairman of the committee and is our independent non-executive Director holding the appropriate qualifications. The primary duties of our audit committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions, oversee the audit process, oversee the risk management of our Group, provide advise to our Board and perform other duties and responsibilities as may be assigned by our Board.

Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. Our remuneration committee consists of three members, namely, Mr. Xu Chong, Mr. Fang Hongwei and Mr. Cheng Lin. Mr. Xu Chong is the chairman of the committee. The primary duties of our remuneration committee are to make recommendations to our Board regarding our policy and structure for the Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policies, and to review and approve the management’s remuneration proposals with reference to the board’s corporate goals and objectives.

Nomination Committee

We have established a nomination committee with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code as set forth in Appendix 14 of the Listing Rules. Our nomination committee consists of three members, namely, Mr. Zhu, Mr. Xu Chong and Mr. Fang Hongwei. Mr. Zhu is the chairman of the committee. The primary duties of our nomination committee are to make recommendations to our Board on the appointment and removal of Directors and senior management and on matters of succession planning.

DIRECTORS AND SENIOR MANAGEMENT

CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

In view of Mr. Zhu's experience, personal profile and his roles in the Group as mentioned above and that Mr. Zhu has assumed the role of chief executive officer of our Group since our incorporation, the Board considers it beneficial to the business prospect and operational efficiency of our Group that upon [REDACTED], Mr. Zhu acts as chairman of the Board and continues to act as chief executive officer of our Company. While this will constitute a deviation from Code Provision A.2.1 of the Code as set out in Appendix 14 to the Hong Kong Listing Rules, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) decision to be made by our Board requires approval by at least a majority of our Directors, and we believe that there is sufficient check and balance in the Board; (ii) Mr. Zhu and the other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of our Company and will make decisions for our Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategic and other key business, financial, and operational policies of our Group are made collectively after thorough discussion at both Board and senior management levels. The Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess whether separation of the roles of chairman of the Board and chief executive officer is necessary. Directors strive to achieve a high standard of corporate governance (which is of critical importance to our development) to protect the interest of shareholders.

Save as disclosed above, our Directors consider that upon [REDACTED], we will comply with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

COMPLIANCE ADVISOR

We have appointed Orient Capital (Hong Kong) Limited as our compliance advisor upon the [REDACTED] pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance advisor will advise us when we consult our compliance advisor in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use [REDACTED] of the [REDACTED] in a manner different from that detailed in this document; or
- where our business activities, developments or results deviate from any forecast, estimate or other information in this document; and

DIRECTORS AND SENIOR MANAGEMENT

- where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules regarding unusual movements in the price regarding volume of our Shares.

The term of the appointment will commence on the [REDACTED] and end on the date which we distribute our annual report of our financial results for the first full financial year commencing after the [REDACTED], and such appointment may be subject to mutual agreement.

REMUNERATION AND COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation from our Group in the form of fees, salaries, bonus, contributions to pension schemes, allowances and benefits in kind.

For the financial years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, the aggregate amount of remuneration (including fees, salaries, bonuses, share-based compensations, contributions to pension schemes, other social security costs and other employee benefit(s)) we paid to our Directors was approximately RMB693,000, RMB1,375,000, RMB1,374,000 and RMB312,000, respectively.

For the financial years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, the five highest paid individuals of our Company included one, two, two and two Directors respectively. The aggregate amount of remunerations (including fees, salaries, bonuses, share based compensations, contributions to pension schemes, other social security costs and other employee benefits) paid by us to the five highest remuneration individuals were approximately RMB1,681,000, RMB2,294,000, RMB2,645,000 and RMB537,000, respectively.

Pursuant to the arrangements currently in force, the total amount of remuneration (including benefits but excluding discretionary bonus) payable to our Directors for the financial year ending December 31, 2020 is estimated to be approximately RMB1.8 million.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office during the Track Record Period. Further, none of our Directors had waived any remuneration during the same period.

No other payments have been made or are payable during the Track Record Period by our Group to the Directors.

DIRECTORS AND SENIOR MANAGEMENT

BOARD DIVERSITY

We have adopted a board diversity policy (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 diversity of our Board through the consideration of a number of factors when selecting candidates to our Board, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. Our Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level, including gender diversity, as an essential element in maintaining our Company’s competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent. We have also taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but not limited to our Board and the senior management levels. Currently, one of our Directors is female. We recognize that the gender diversity at our Board level can be improved given the majority of our Directors are male.

Our Directors have a balanced mix of knowledge and skills, including in management, strategic and business development, research and development, sales and marketing, legal compliance and corporate finance. The ages of our Directors range from 34 years old to 44 years old. Our nomination committee will review and assesses the composition of the Board and make recommendations to the Board on appointment of members of the Board. Meanwhile, our nomination committee will consider the benefits of all aspects of diversity, including without limitation, professional experience, skills, knowledge, education background, age, gender, cultural and ethnicity and length of service, in order to maintain an appropriate range and balance of talents, skills, experience and diversity of perspectives on the Board.

COMPETITION

Each of our Directors confirms that as of the Latest Practicable Date, he/she 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.

SUBSTANTIAL SHAREHOLDERS

Immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised), the following persons will have or be deemed or taken to have an interest and/or a short position in our Shares or the underlying Shares of our Company which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other members of our Group:

Name of Shareholder	Nature of Interest	Number of Shares	Approximate percentage of shareholding upon the [REDACTED] (assuming the [REDACTED] is not exercised)	Approximate percentage of shareholding upon the [REDACTED] (assuming the [REDACTED] is fully exercised)
Mr. Zhu	Interest in controlled corporations ⁽¹⁾	858,409,400	[REDACTED]	[REDACTED]
	Interest of a party to an agreement ⁽²⁾	66,750,000	[REDACTED]	[REDACTED]
ZZN. Ltd.	Beneficial owner ⁽³⁾	747,298,300	[REDACTED]	[REDACTED]
Mr. Zhang	Interest in controlled corporation	66,750,000	[REDACTED]	[REDACTED]
	Interest of a party to an agreement ⁽²⁾	858,409,400	[REDACTED]	[REDACTED]
ZZD. Ltd.	Beneficial owner ⁽⁴⁾	66,750,000	[REDACTED]	[REDACTED]
Laurence mate. Ltd.	Beneficial owner ⁽⁵⁾	111,111,100	[REDACTED]	[REDACTED]
Shenzhen Nanhai Growth	Beneficial owner ⁽⁶⁾	124,610,400	[REDACTED]	[REDACTED]
NT Balance Capital Ltd.	Beneficial owner ⁽⁷⁾	118,795,300	[REDACTED]	[REDACTED]
Balance Capital Group Ltd.	Beneficial owner ⁽⁸⁾	72,727,100	[REDACTED]	[REDACTED]
Jiaxing Baozheng	Beneficial owner ⁽⁹⁾	108,750,900	[REDACTED]	[REDACTED]

Notes:

- (1) As of the Latest Practicable Date, Mr. Zhu held 100% interests of ZZN. Ltd. and 90% interests of Laurence mate. Ltd.
- (2) Pursuant to the Concert Party Agreement, Mr. Zhu and Mr. Zhang agreed to act in concert by aligning their votes at Shareholders' meetings of the Company. Therefore, they are deemed to be jointly interested in the aggregate number of Shares held by ZZN. Ltd., ZZD. Ltd. and Laurence mate. Ltd.
- (3) ZZN. Ltd. is a limited liability company incorporated in the BVI and wholly owned by Mr. Zhu.
- (4) ZZD. Ltd. is a limited liability company incorporated in the BVI and wholly owned by Mr. Zhang.

SUBSTANTIAL SHAREHOLDERS

- (5) Laurence mate. Ltd. is owned as to 90% by Mr. Zhu and 10% by Mr. Zhang.
- (6) Each of Shenzhen Nanhai Chengzhangtongying (sole shareholder of Shenzhen Nanhai Growth), Cowin Jinxiu Capital Firm (深圳同創錦繡資產管理有限公司) (general partner of Shenzhen Nanhai Chengzhangtongying), Shenzhen Cowin Asset Management Co., Ltd (深圳同創偉業資產管理股份有限公司) (sole shareholder of Cowin Jinxiu Capital Firm), Shenzhen Cowin Venture Capital Co., Ltd. (深圳市同創偉業創業投資有限公司) (holding approximately 35.01% equity interests of Cowin), Mr. Zheng Weihe (鄭偉鶴) (holding 45% equity interests of Shenzhen Cowin Venture Capital Co., Ltd.) and Ms. Huang Li (黃荔) (holding 55% equity interests of Shenzhen Cowin Venture Capital Co., Ltd.) is deemed to be interested in the Shares held by Shenzhen Nanhai Growth under the SFO.
- (7) Each of Nantong Pinghengchuangye (sole shareholder of NT Balance Capital Ltd.), Nantong Pingheng Capital Management Center (Limited Partnership) (南通平衡資本管理中心(有限合夥)), “**Nantong Pingheng Capital**” (general partner of Nantong Pinghengchuangye), Nanjing Pingheng Capital (general partner of Nantong Pingheng Capital), Mr. Lv Xueqiang (呂學強, general partner of Nanjing Pingheng Capital), Nantong Luhai Tongchou Growth Fund Co., Ltd (南通陸海統籌發展基金有限公司) (limited partner holding 40% equity interests of Nantong Pinghengchuangye) and Nantong Finance Bureau (holding 75% equity interest of Nantong Luhai Tongchou Growth Fund Co., Ltd) is deemed to be interested in the Shares held by NT Balance Capital Ltd. under the SFO.
- (8) Each of Nanjing Pingheng Capital (sole shareholder of Balance Capital Group Ltd.) and Mr. Lv Xueqiang (呂學強, general partner of Nanjing Pingheng Capital) is deemed to be interested in the Shares held by Balance Capital Group Ltd. under the SFO. Mr. Lv Xueqiang is also the ultimate controller of NT Balance Capital Ltd.
- (9) Each of Shenzhen Zhongmin Capital Management Co., Ltd. (深圳中民資本管理有限公司) (general partner of Jiaxing Baozheng), Beijing Huashan Capital, LP (北京華山投資管理中心(有限合夥)) (holding approximately 99.9% equity interest of Shenzhen Zhongmin Capital Management Co., Ltd.) and Mr. Yu Taixiang (于太祥) (general partner of Beijing Huashan Capital, LP) is deemed to be interested in the Shares held by Jiaxing Baozheng under the SFO.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Share Subdivision and [REDACTED] (assuming that the [REDACTED] is not exercised), have an interest or a short position in Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of SFO or will be, directly or indirectly, interested in 10% or more of the issued voting Shares of our Company.

SHARE CAPITAL

AUTHORIZED AND ISSUED 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 Share Subdivision and the [REDACTED]:

	<u>Nominal Value</u> (HK\$)
Authorized share capital as at the date of this document:	
50,000,000 Shares of HK\$0.001 each	50,000.00
Authorized share capital upon the completion of the Share Subdivision:	
5,000,000,000 Shares of HK\$0.00001 each	50,000.00
Shares in issue as at the date of this document:	
16,312,632 Shares of HK\$0.001 each	16,312.632
Shares to be issued pursuant to the Share Subdivision:	
1,614,950,568 Shares of HK\$0.00001 each	16,149.51
Shares to be issued pursuant to the [REDACTED]:	
[REDACTED] Shares of HK\$0.00001 each	[REDACTED]
Shares in issue immediately following the Share Subdivision and the [REDACTED]:	
[REDACTED] Shares of HK\$0.00001 each	<u>[REDACTED]</u>

ASSUMPTIONS

The above table assumes that the Share Subdivision and the [REDACTED] becomes unconditional and Shares are issued pursuant to the Share Subdivision and the [REDACTED]. The above table does not take into account any Shares to be issued upon the exercise of the [REDACTED] or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as referred to below.

RANKING

The Shares will rank *pari passu* in all respects with all Shares currently in issue or [REDACTED] 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.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Companies Law and the terms of our Memorandum and the Articles of Association, our Company may from time to time by ordinary shareholders’ resolution (i) increase its capital; (ii) consolidate its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce or redeem its share capital by shareholders’ special resolution. For more details, please refer to the section headed “Appendix III — Summary of the Constitution of the Company and Cayman Companies Law — Articles of Association — Alteration of capital” in this document.

GENERAL MANDATE TO ALLOT AND ISSUE SHARES

Subject to the conditions stated in the section headed “[REDACTED]” in this document, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to:

- (i) a rights issue;
- (ii) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles of Association;
- (iii) a specific authority granted by the Shareholders in general meeting,

shall not exceed the aggregate of:

- (i) 20% of the total number of issued Shares immediately following completion of the [REDACTED]; and
- (ii) the total number of Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in the paragraph headed “General Mandate to Repurchase Shares” below.

This general mandate to issue Shares will expire at the earliest of:

- (i) the conclusion of our next annual general meeting; or

SHARE CAPITAL

- (ii) the expiration of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the section headed “Statutory and General Information — A. Further Information about Our Group — 6. Restriction on Share Repurchase” in Appendix IV of this document.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed “[REDACTED]” in this document, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total number of not more than 10% of the total number of issued Shares immediately following the completion of the [REDACTED] (without taking into account any Shares to be issued upon the exercise of the [REDACTED]).

This general mandate relates only to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are [REDACTED] (and which is recognized by the SFC and the Stock Exchange of this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set forth in the section headed “Statutory and General Information — A. Further Information about Our Group” in Appendix IV of this document.

This general mandate to repurchase Shares will expire at the earliest of:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
- (iii) when varied or revoked by any ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the section headed “Statutory and General Information — A. Further Information about Our Group” in Appendix IV of this document.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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You should read the following discussion and analysis in conjunction with our audited consolidated financial information included in “Appendix I — Accountants’ Report” to this document, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with IFRSs, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. You should read the entire Accountants’ Report and not merely rely on the information contained in this section.

The following discussion and analysis contain forward-looking statements that reflect the current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. In evaluating our business, you should carefully consider the information provided in the section headed “Forward-looking Statements” and “Risk Factors.”

OVERVIEW

We are a performance-based we-media marketing service provider in China with a market share of 1.5% in terms of total revenue in 2019, according to Frost & Sullivan, leveraging business intelligence technologies to serve marketers and we-media publishers. Market share of the second to fifth ranked market players in terms of total revenue in 2019 was 1.0%, 0.9%, 0.6% and 0.5%, respectively, according to the same source. We experienced rapid growth during the Track Record Period. Our revenue increased by 93.9% from RMB135.3 million in 2017 to RMB262.3 million in 2018, and by 80.6% from RMB262.3 million in 2018 to RMB473.6 million in 2019. Our revenue increased by 71.5% from RMB97.5 million for the three months ended March 31, 2019 to RMB167.3 million for the three months ended March 31, 2020. Our net profit increased by 41.8% from RMB32.1 million in 2017 to RMB45.5 million in 2018, and by 48.1% from RMB45.5 million in 2018 to RMB67.4 million in 2019. Our net profit increased by 91.9% from RMB10.7 million for the three months ended March 31, 2019 to RMB20.5 million for the three months ended March 31, 2020.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Changes to Our Product Mix

Our revenue and profitability is affected by our product mix. During the Track Record Period, we generated most of our performance-based marketing revenue from online products, which accounted for 97.6%, 97.7%, 94.7% and 93.4% of our total revenue in 2017, 2018, 2019 and the three months ended March 31, 2020, respectively. During this period, we have also

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been diversifying our product portfolio by developing performance-based we-media marketing services for Html 5 products and consumer goods. We introduced services for online literature and Html 5 game products in 2017 and 2018, respectively. Our revenue generated from each of these products may fluctuate for a number of reasons. We may adjust the product portfolio recommended to we-media publishers based on results of our algorithms and technologies, which may take into consideration the volume of different products available, the suitability to different we-media publishers’ user bases and the gross profit margin we expect to generate from different products. Our revenue may also depend on whether revenue is recognized on a gross or net basis. For details, see “— Revenue Recognition Methods.”

The gross profit margin of different products may also vary, and as a result, changes in our product mix affect our overall gross profit margin. For example, our revenue from performance-based marketing for Html 5 products, which have a relatively higher gross profit margin compared to other online products, accounted for a lower proportion of our total revenue in 2018 compared to 2017, which contributed to the decrease in our overall gross profit margin from 33.6% in 2017 to 25.2% in 2018. As such, we believe our changing product mix will continue to have an impact on our revenue and profitability.

Relationship with We-media and Traffic Acquisition Costs

Our ability to grow our business is in large part dependent on our ability to continue to develop high quality we-media resources, which is crucial to our ability to distribute products of marketers. Our largest cost component is traffic acquisition costs, representing the commissions that we pay to we-media publishers. In 2017, 2018, 2019 and the three months ended March 31, 2020, our traffic acquisition costs amounted to RMB87.4 million, RMB196.2 million, RMB356.6 million and RMB125.0 million, respectively, which accounted for 97.2%, 100.0%, 100.0% and 100.0% of our total cost of sales, respectively. The increases in our traffic acquisition costs is generally in line with the growth of our business. Our traffic acquisition costs are also affected by the supply of we-media accounts, which may fluctuate based on the popularity of, and demand for, we-media and we-media platforms, as well as government regulation and oversight of the industry.

Revenue Recognition Methods

Except for our distribution of Html 5 games through third-party Android distribution channels in 2017, we act as principal in all of our contracts with customers and therefore revenue generated from these contracts were recognized on a gross basis. Our revenue generated through third-party Android distribution channels in 2017 was recognized on a net basis because we are not the operator of such platforms and are only acting as an agent, meaning we do not recognize any costs for such services. Our revenue from game co-publishing on third-party Android distribution channels amounted to RMB11.5 million in 2017, accounting for 8.7% of our revenue from online products during the same period.

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Tax

Our income tax expenses were RMB1.5 million, RMB0.5 million, RMB2.8 million and RMB1.3 million in 2017, 2018, 2019 and the three months ended March 31, 2020, respectively. Our effective income tax rate, which is calculated by dividing income tax expenses by profit before taxation for the same period, was approximately 4.5%, 1.1%, 4.0% and 6.1% for the same periods, respectively. Our low effective income tax rates during these periods were primarily because we established Horgos Yaoxi, Horgos Wuyou, Zhipu Shulian and Horgos JoySpreader in Horgos and developed our business through such entities, which were exempted from income tax during the Track Record Period. In addition, Beijing Joyspreader and Beijing Wuyou were qualified as high and new technology enterprises and enjoyed lower income tax rate of 15% during the Track Record Period. Our income tax expenses and income tax rate, and in turn, our profit of the year, will continue to be affected by the availability of preferential tax treatments. See “Risk Factors — Risks Relating to Our Business and Industry — Any termination of, or changes to, the preferential tax treatment that we enjoy could adversely affect our profitability.”

BASIS OF PRESENTATION

Our Company was incorporated and registered in the Cayman Islands on February 19, 2019 as an exempted company with limited liability under the Cayman Companies Law. Our audited consolidated financial information has been prepared in accordance with the IFRSs issued by International Accounting Standards Board. Prior to the incorporation of the Company and the completion of the Reorganization, see “History, Reorganization and Corporate Structure”, the main operating activities of our Group were carried out by Beijing Joyspreader and its subsidiaries, which were established in the PRC. In preparation for the [REDACTED], our Group underwent the Reorganization. Our Group resulting from the Reorganization is regarded as a continuing entity throughout the Track Record Period, regardless of the actual date when they legally form part of a group. Accordingly, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes of equity and consolidated statements of cash flows for the Track Record Period have been prepared to include the results, changes in equity and cash flows of the companies now comprising our Group as if our group structure upon the completion of the Reorganization had been in existence throughout the Track Record Period, or since their respective dates of incorporation or establishment, where there is a shorter period. The consolidated statements of financial position of our Group as of December 31, 2017 and 2018 have been prepared to present the assets and liabilities of the companies now comprising our Group at the carrying amounts shown in the financial statements of our group entities, as if the current group structure upon completion of the Reorganization had been in existence at those dates taking into account the respective dates of incorporation or establishment, where applicable.

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SIGNIFICANT ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATES

Our significant accounting policies and key sources of estimates, which are important for an understanding of our financial condition and results of operations, are set forth in note 4 and note 5 to the Accountants' Report set out in Appendix I to this document. In the application of our accounting policies, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. We set forth below those accounting policies and estimates that we believe involve the most significant estimation used in the preparation of our financial statements.

Significant Accounting Policies

Revenue from Contracts with Customers

Our Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met: (i) the customer simultaneously receives and consumes the benefits provided by our Group's performance as our Group performs; (ii) our Group's performance creates or enhances an asset that the customer controls as our Group performs; or (iii) our Group's performance does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct goods or service. A contract liability represents our Group's obligation to transfer goods or services to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer.

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Variable Consideration

For contracts that contain variable consideration, we estimate the amount of consideration to which we will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which we will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, we update the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Principal vs. Agent

When another party is involved in providing goods or services to a customer, our Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (such as when our Group is a principal) or to arrange for those goods or services to be provided by the other party (such as when our Group is an agent).

Our Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

Our Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, our Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When our Group acts as an agent, it recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Adoption of IFRS 9

Our Group applied IFRS 9 “Financial Instruments” and early adopted Amendments to IFRS 9 “Prepayment Features with Negative Compensation” on January 1, 2018 and IAS 39 “Financial Instruments: Recognition and Measurement” prior to January 1, 2018. IFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities; (ii) expected credit losses (“ECL”) for financial assets; and (iii) general hedge accounting. We have applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL) retrospectively to instruments that have not been derecognized as of January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have

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already been derecognized as of January 1, 2018. The difference between carrying amounts as of December 31, 2017 and the carrying amounts as of January 1, 2018 are recognized in the opening retained earnings without restating comparative information accordingly, and certain comparative information may not be comparable. For details, see notes 3 and 4 to the Accountants’ Report set out in Appendix I to this document. Based on the assessment set out therein, the adoption of IFRS 9 did not have a significant impact on our financial position and results of operations.

Adoption of IFRS 15 and IFRS 16

For the purpose of preparing and presenting our historical financial information, we have consistently adopted the IFRSs issued by the IASB which are effective for the accounting period beginning on January 1, 2019, including IFRS 16 “Leases”, or IFRS 16, during the Track Record Period. Upon application of IFRS 16, we recognized right-of-use assets and corresponding lease liabilities in respect of all leases, except for short-term leases. See note 4 to the Accountants’ Report as set out in Appendix I to this document. Our Directors are of the view that the adoption of IFRS 15 and IFRS 16 had no material impact on the Group’s financial performance and position as well as key ratios during the Track Record Period as compared to the adoption of IAS 18 and IAS 17.

Key Sources of Estimation Uncertainty

Impairment of Intangible Assets

In determining whether an intangible asset is impaired, our management has to exercise judgment in whether an event has occurred or any indicators that may affect the asset’s value. If any such indication exists, our management requires an estimation of recoverable amount of the asset, and has to exercise judgment and make significant degree of estimation in determining the recoverable amount of the asset, particularly in assessing: (i) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (ii) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, our Group estimates the recoverable amount of the cash generating unit to which the assets belongs. Changing the assumptions selected by management to determine the level of impairment, including product price, volume of sales and growth rate, gross profit ratio or discount rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test. The carrying amounts of intangible assets as of December 31, 2017, 2018 and 2019 and March 31, 2020 were RMB11.5 million, RMB8.1 million, RMB7.6 million and RMB7.0 million, respectively.

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Estimated Impairment of Trade Receivables

Prior to January 1, 2018, when there is objective evidence of impairment loss, our Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (such as the effective interest rate computed at initial recognition, where applicable). Where the actual future cash flows are less than expected or being revised downward due to the change in facts and circumstances, a material impairment loss/further impairment loss may arise. As of December 31, 2017, the carrying amounts of trade receivables were RMB32.5 million, after deducting allowance for doubtful debts of RMB0.2 million.

Starting from January 1, 2018, our Group recognizes lifetime ECL for trade receivables, using a provision matrix based on our Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at end of the reporting period except that significant balances are assessed individually. The debtors are assessed individually with significant balances by reference to aging, past default experience and current past due exposure of the debtor, and an analysis of the debtor’s current financial position. Estimated loss rates are based on probability of default and loss given default with reference to an external credit report and are adjusted for forward-looking information. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. As of January 1, 2018, December 31, 2018 and 2019 and March 31, 2020, the carrying amounts of trade receivables were RMB32.3 million, RMB41.9 million, RMB69.3 million and RMB130.8 million, respectively, after deducting allowance for doubtful debts of RMB439,000, RMB865,000, RMB5.0 million and RMB16.5 million, respectively.

Fair Value Measurement of Equity Instruments

As of December 31, 2018 and 2019 and March 31, 2020, our unlisted equity securities amounting to RMB6.0 million, and RMB9.9 million and RMB9.9 million were measured at fair value with fair value being determined based on significant unobservable inputs using valuation techniques. Judgment and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could result in material adjustments to the fair value of these instruments.

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DESCRIPTION OF CERTAIN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income for the period indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except for percentages)									
	(Unaudited)									
Revenue	135,257	100.0%	262,255	100.0%	473,565	100.0%	97,512	100.0%	167,274	100.0%
Cost of revenue	(89,846)	(66.4)	(196,190)	(74.8)	(356,619)	(75.3)	(74,126)	(76.0)	(124,961)	(74.7)
Gross profit	45,411	33.6	66,065	25.2	116,946	24.7	23,386	24.0	42,313	25.3
Other income	69	0.1	3,053	1.2	3,610	0.8	198	0.2	664	0.4
Other gains and losses	–	–	2	0.0	451	0.1	53	0.1	(12)	(0.0)
Impairment losses, net of reversal	191	0.1	(544)	(0.2)	(5,154)	(1.1)	(68)	(0.1)	(11,447)	(6.8)
Distribution and selling expenses	(1,682)	(1.2)	(2,994)	(1.1)	(3,366)	(0.7)	(506)	(0.5)	(394)	(0.2)
Administrative expenses	(7,232)	(5.3)	(13,556)	(5.2)	(14,786)	(3.1)	(2,709)	(2.8)	(4,094)	(2.4)
Research and development expenses	(2,946)	(2.2)	(3,892)	(1.5)	(6,804)	(1.4)	(1,701)	(1.7)	(1,782)	(1.1)
[REDACTED] expenses	–	–	(1,860)	(0.7)	(20,364)	(4.3)	(7,518)	(7.7)	(3,260)	(1.9)
Finance costs	(236)	(0.2)	(334)	(0.1)	(339)	(0.1)	(85)	(0.1)	(141)	(0.1)
Profit before taxation	33,575	24.8	45,940	17.5	70,194	14.8	11,050	11.3	21,847	13.1
Income tax expenses	(1,512)	(1.1)	(489)	(0.2)	(2,833)	(0.6)	(366)	(0.4)	(1,341)	(0.8)
Profit for the year/period attributable to owners of the Company	32,063	23.7	45,451	17.3	67,361	14.2	10,684	11.0	20,506	12.3
Other comprehensive income										
Item that will not be reclassified to profit or loss										
Fair value gain on equity instruments at fair value through other comprehensive income	–	–	–	–	3,936	0.8	23	0.0	–	0.0
Income tax relating to items that will not be reclassified	–	–	–	–	(590)	(0.1)	(3)	(0.0)	–	–
Other comprehensive income for the year/period, net of income tax	–	–	–	–	3,346	0.7	20	0.0	–	0.0
Total comprehensive income for the year/period attributable to owners of the Company	32,063	23.7%	45,451	17.3%	70,707	14.9%	10,704	11.0%	20,506	12.3%

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DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, our revenue primarily represented the amount received and receivable from the provision of performance-based marketing services to our customers. The following table sets forth a breakdown of our revenue by product type for the period indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except for percentages)									
	(Unaudited)									
Online products										
– Apps	69,232	51.2%	132,919	50.7%	329,809	69.6%	72,901	74.8%	134,865	80.6%
– Html 5 products										
– Online literature	26,215	19.4	37,801	14.4	17,167	3.7	2,946	3.0	7,661	4.6
– Html 5 games	23,491	17.3	31,939	12.2	11,905	2.5	884	0.9	7,901	4.7
– Mini-programs	–	–	10,034	3.8	7,165	1.5	1,367	1.4	3,774	2.3
	49,706	36.7	79,774	30.4	36,237	7.7	5,197	5.3	19,336	11.6
– Online promotion activities	13,016	9.6	43,620	16.6	82,629	17.4	11,638	11.9	2,075	1.2
Total revenue from online products	131,954	97.6	256,313	97.7	448,675	94.7	89,736	92.0	156,276	93.4
Consumer goods	–	–	3,774	1.5	23,022	4.9	7,565	7.8	10,481	6.3
Others ⁽¹⁾	3,303	2.4	2,168	0.8	1,868	0.4	211	0.2	517	0.3
Total	135,257	100.0%	262,255	100.0%	473,565	100.0%	97,512	100.0%	167,274	100.0%

(1) Others mainly refer to non-performance-based marketing campaigns we provided to customers.

Except for distribution of Html 5 games through third-party Android distribution channels, we acted as principal in all of our contracts with customers and therefore revenue generated from these contracts were recognized on a gross basis. In 2017, we co-published games through third-party Android distribution channels. Because we are not the operator of such distribution channels and only act as an agent, we recognized such revenue on a net basis. See “— Online Products — Html 5 Products — Html 5 Games” and note 6 of “Appendix I — Accountants’ Report.”

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Online Products

Apps

We generate revenue from apps covering categories such as game, video and utility apps through providing performance-based marketing services to app developers and their agents. We mainly charged customers for performance-based marketing services for apps based on pricing models including CPC, CPA, CPM and CPS. During the Track Record Period, performance-based marketing revenue generated from apps was RMB69.2 million, RMB132.9 million, RMB329.8 million and RMB134.9 million for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, respectively, accounting for 51.2%, 50.7%, 69.6% and 80.6%, respectively, of our total revenue for the same periods.

Html 5 Products

Literature

Since March 2017, we began to provide performance-based marketing services for online literature. During the Track Record Period, revenue from online literature was recognized when related services were delivered on a CPC or CPS basis.

Html 5 Games

In 2017, our revenue from games was generated from our game co-publishing services to game publishers. We co-published games through our 5you website (www.5you.cc) and partnered with Palmer Link, a mobile game and app developer and a renowned Html 5 game publisher, to co-publish games on their Android distribution channels, and generated revenue from in-game sales of virtual items. We shared billings generated from games with game providers, co-publisher and payment channels. Our revenue from games published on our 5you website was recognized on a gross basis while our revenue from Html 5 games published on third-party Android distribution channels was recognized on a net basis. As the 5you website was operated by us, we recognized amounts paid by game players as revenue, and fees that we paid to game developers as costs. For games published on Android distribution channels, because we were not the operator of such channels and were only acting as an agent, we recognized the commissions that we received from channel operators as our revenue and did not recognize any costs. For the year ended December 31, 2017, we recognized revenue of RMB11.5 million on a net basis.

Starting from the beginning of 2018, we began to provide performance-based marketing services to game providers, which are primarily Html 5 game developers and publishers. We generally charge Html 5 game developers and publishers for our performance-based marketing services on a CPC basis. We recognized commissions paid by the game product providers as our revenue, and the commissions that we pay to we-media publishers as costs.

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Mini-programs

Starting from May 2018, we began to offer performance-based marketing services for mini-programs. Our mini-programs were sourced from WeChat mini-program developers. We mainly charge customers for our performance-based marketing services on a CPC or CPA basis.

Online Promotion Activities

Online promotion activities we offered were mainly performance-based marketing services for marketing campaigns for shopping holidays and credit card promotions from well-known marketing agents and brands. We mainly charge our customers for performance-based marketing services on a CPC or CPA basis.

Consumer Goods

We began to offer consumer goods through our performance-based marketing services on a short-form video platform by entering into agreements with sales agents of a 3C digital accessories brand in August 2018. Consumer goods were generally provided by product manufacturers. Through our marketing campaign, the audience was able to directly purchase the consumer goods we promoted on we-media accounts hosted on short-form video platforms.

Agent vs. Direct Customer

During the Track Record Period, the majority of our performance-based marketing revenue was from marketing agents. The following table sets forth a breakdown of our revenue by customer type for the period indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except for percentages)									
	(Unaudited)									
Agents	125,898	93.1%	238,095	90.8%	355,361	75.0%	59,199	60.7%	134,295	80.3%
Direct										
customers	9,359	6.9	24,160	9.2	118,204	25.0	38,313	39.3	32,979	19.7
Total	135,257	100.0%	262,255	100.0%	473,565	100.0%	97,512	100.0%	167,274	100.0%

Our revenue from direct customers as a percentage of total revenue increased from 6.9% in 2017 to 9.2% in 2018, and further to 25.0% in 2019, as we have been focusing on developing relationships with our direct customers since 2017.

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Pricing Model

During the Track Record Period, the majority of our performance-based marketing revenue was settled on a CPC or CPA basis. The following table sets forth a breakdown of our revenue by pricing model for the period indicated.

	For the year ended December 31,						For the three months ended March 31,	
	2017		2018		2019		2020	
<i>(RMB in thousands, except for percentages)</i>								
CPC	68,597	50.7%	225,504	86.0%	411,784	87.0%	156,568	93.6%
CPS	23,490	17.4	6,811	2.6	32,132	6.8	10,481	6.3
CPA	17,753	13.1	13,881	5.3	16,468	3.5	37	0.0
CPM	22,209	16.4	10,782	4.1	9,374	2.0	–	–
Others ⁽¹⁾	3,208	2.4	5,277	2.0	3,807	0.7	189	0.1
Total	135,257	100.0%	262,255	100.0%	473,565	100.0%	167,274	100.0%

(1) Others consist of non-performance-based marketing revenue.

Total Order Value

The following table sets forth a breakdown of number of our customers by range of total order value for the period indicated.

	For the year ended December 31,			For the three months ended March 31,
	2017	2018	2019	2020
<i>Range:</i>				
More than RMB10.0 million (inclusive)	2	3	5	2
RMB3.0 million to RMB10.0 million (inclusive)	4	6	22	8
RMB1.0 million to RMB3.0 million (inclusive)	6	15	36	15
RMB0.5 million to RMB1.0 million (inclusive)	6	21	23	10
Less than RMB0.5 million	8	57	44	15

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Cost of Sales

Our cost of sales consists of (i) traffic acquisition cost, representing the commissions we paid to agents of we-media platforms and we-media publishers; and (ii) licensing fee, representing the amounts that we paid to game providers and co-publishers for the rights to publish games on our 5you website in 2017. We did not have any licensing fees since 2018 for performance-based marketing services for Html 5 games. The following table sets forth a breakdown of our cost of sales by nature for the period indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except for percentages)									
	(Unaudited)									
Traffic acquisition cost	87,366	97.2%	196,190	100.0%	356,619	100.0%	74,126	100.0%	124,961	100.0%
Licensing fee	2,480	2.8	—	—	—	—	—	—	—	—
Total cost of sales	89,846	100.0%	196,190	100.0%	356,619	100.0%	74,126	100.0%	124,961	100.0%

Gross Profit and Gross Profit Margin

For the years ended December 31, 2017, 2018, 2019 and the three months ended March 31, 2020, our gross profit was RMB45.4 million, RMB66.1 million, RMB116.9 million and RMB42.3 million, respectively. For the same periods, our gross profit margin was 33.6%, 25.2%, 24.7% and 25.3%, respectively. The following table sets forth the gross profit and gross profit margin by product type for the period indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB in thousands, except for percentages)									
	(Unaudited)									
Online products	44,946	34.1%	64,839	25.3%	97,796	21.8%	17,279	19.3%	33,828	21.6%
– Apps	14,222	20.5	27,766	20.9	68,283	20.7	13,681	18.8	26,689	19.8
– Html 5 products ⁽¹⁾	25,560	51.4	28,657	35.9	12,353	34.1	1,656	31.9	6,670	34.5
– Online promotion activities	5,164	39.7	8,416	19.3	17,160	20.8	1,942	16.7	469	22.6
Consumer goods ⁽²⁾	–	–	746	19.8	18,417	80.0	6,051	80.0	8,385	80.0
Others ⁽³⁾	465	14.1	480	22.2	733	39.2	56	26.4	100	19.5
Total gross profit/overall gross profit margin	45,411	33.6%	66,065	25.2%	116,946	24.7%	23,386	24.0%	42,313	25.3%

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- (1) Html 5 products consist of online literature, Html 5 games and mini-programs.
- (2) We began to offer performance-based marketing services for consumer goods of a well-known 3C digital accessories brand in August 2018. Our performance-based marketing services for consumer goods commenced in a recent period and therefore, its gross profit margin in 2018 and 2019 are not representative.
- (3) Others mainly refer to non-performance-based marketing campaigns we provided to customers during the Track Record Period.

Our gross profit margin of apps remain relatively stable at 20.5%, 20.9% and 20.7% for the years ended December 31, 2017, 2018 and 2019, respectively. Our gross profit margin of apps increased from 18.8% for the three months ended March 31, 2019 to 19.8% for the three months ended March 31, 2020. Our average price per click for apps was RMB0.17, RMB0.47, RMB0.55 and RMB1.24 for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, respectively. If traffic acquisition costs remain stable and do not increase along with the average price per click, higher average price per click may lead to higher gross profit margin, which may implied a correlation between average price per click service providers charge their customers and their gross profit margin. However, in our case, clicks that we are able to charge our customers with a higher unit price are usually valuable traffic resources. Valuable traffic resources generally cost us higher traffic acquisition expenses. As our traffic acquisition costs and our income increase at a similar pace, the changes in average price per click may not lead to changes in our gross profit margin.

Our gross profit margin of Html 5 products decreased from 51.4% in 2017 to 35.9% in 2018, primarily due to the change of revenue recognition method of our Html 5 games since the beginning of 2018. In 2017, RMB11.5 million of our revenue from game co-publishing on third-party Android distribution channels was recognized on a net basis. Starting from the beginning of 2018, we began to provide performance-based marketing services to game providers and all of our revenue from Html 5 games was recognized on a gross basis. Our gross profit margin of Html 5 products remained relatively stable at 35.9% in 2018 and 34.1% in 2019. Our gross profit margin of Html 5 products increased from 31.9% for the three months ended March 31, 2019 to 34.5% for the three months ended March 31, 2020.

Our gross profit margin of online promotion activities decreased from 39.7% in 2017 to 19.3% in 2018, as a customer that provided marketing campaigns with high profit margin no longer sought our services due to a change in its business focus in 2018. Our gross profit margin of online promotion activities remained relatively stable at 19.3% in 2018 and 20.8% in 2019. Our gross profit margin for online promotion activities increased from 16.7% for the three months ended March 31, 2019 to 22.6% for the three months ended March 31, 2020. Our average price per click for online promotion activities was RMB0.3, RMB0.54, RMB1.84 and RMB4.41 for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, respectively. However, the high average price per click for the three months ended March 31, 2020 was primarily due to a marketing campaign for credit card promotion with a high price per click of RMB12 in January 2020. If traffic acquisition costs remain stable and do not increase along with the average price per click, higher average price per click may

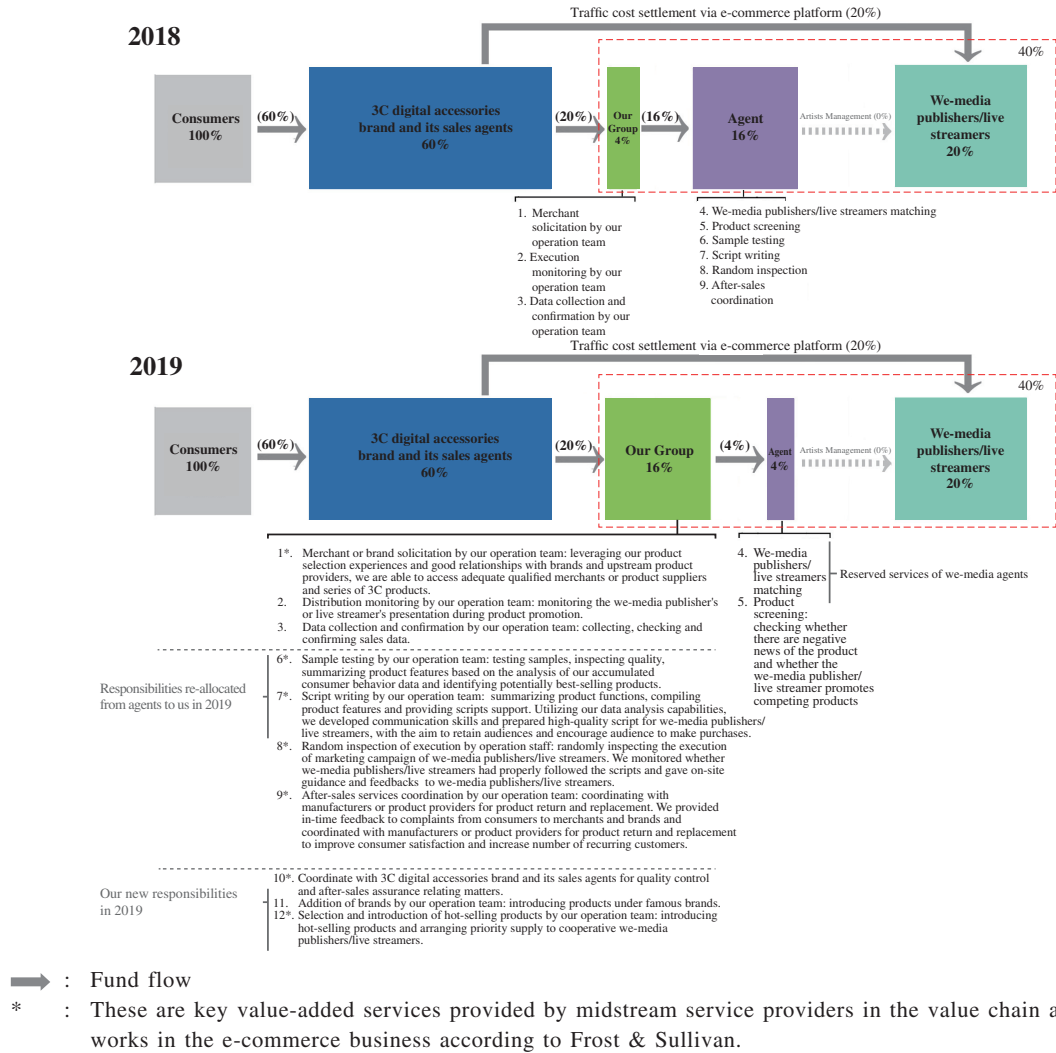
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lead to higher gross profit margin, which may implied a correlation between average price per click service providers charge their customers and their gross profit margin. However, in our case, clicks that we are able to charge our customers with a higher unit price are usually valuable traffic resources. Valuable traffic resources generally cost us higher traffic acquisition expenses. As our traffic acquisition costs and our income increase at a similar pace, the changes in average price per click may not lead to changes in our gross profit margin.

Our gross profit margin of consumer goods was 19.8% for the year ended December 31, 2018 and 80.0% for the year ended December 31, 2019 and the three months ended March 31, 2020, the increase of which reflecting the favorable commercial terms we negotiated with Supplier Group A, a we-media platform agent, for traffic acquisition. In August 2018, as requested by the sales agent, we commenced our performance-based marketing services for consumer goods by launching a few marketing campaigns for goods of a well-known 3C digital accessories brand. As it was a trial business in 2018, our gross profit margin of performance-based marketing services for consumer goods may not be representative of the results of this business in the future. Considering the early stage of this business and the small-scale of these few transactions, we followed the existing annual framework agreement with Supplier Group A in 2018. In 2018, we paid a service fee to Supplier Group A for its services in providing we-media publisher, live streamer and traffic resources to us. Through these initial transactions in 2018, we realized that in line with the market practice for performance-based marketing for consumer goods, brands, or sales agents of brands, bore traffic costs for consumer goods and paid such costs to we-media publishers directly through certain leading third-party e-commerce platform due to its fee settlement structure. In 2019, with more experience and market insights, we took on a more substantial role in the provision of performance-based marketing services vis-a-vis we-media platform agents. In 2019, we undertook certain responsibilities from Supplier Group A, including sample testing, script writing, random inspections of execution and after-sales services coordination. We also undertook new responsibilities including coordination with 3C digital accessories brand and its sales agents, introduction of new products under famous brands and selection and introduction of hot-selling products. Therefore, we paid lower costs to Supplier Group A, which in turn, resulted in our higher gross profit margin. The following flowchart sets out the roles of and fund flow between stakeholders in our performance-based marketing services for consumer goods of a well-known 3C digital accessories brand in 2018 and 2019¹.

1: Each stakeholder in the industry value chain takes a share of the total sales of consumer goods. Percentages in the flowchart represent shares of sales of consumer goods each stakeholder retains.

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The following table sets forth the gross profit and gross profit margin by customer type for the period indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017	2018	2019	2017	2018	2019	2019	2020	2019	2020
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
(RMB in thousands, except for percentages)										
(Unaudited)										
Agents	38,906	30.9%	61,409	25.8%	81,146	22.8%	12,138	20.5%	29,444	21.9%
Direct customers	6,505	69.5	4,656	19.3	35,800	30.3	11,248	29.4	12,869	39.0
Total gross profit/overall gross profit margin	45,411	33.6%	66,065	25.2%	116,946	24.7%	23,386	24.0%	42,313	25.3%

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Our gross profit margin from agents decreased slowly during the Track Record Period. Our gross profit margin from direct customers was 69.5% in 2017, mainly because our revenue from direct customers in 2017 were mainly from game co-publishing services, which had a relatively higher gross profit margin. Our gross profit margin from direct customers increased from 19.3% for the year ended December 31, 2018 to 30.3% for the year ended December 31, 2019, mainly due to the expansion of our performance-based marketing services for consumer goods, which had a high gross profit margin in 2019. Our gross profit margin from direct customers increased from 29.4% for the three months ended March 31, 2019 to 39.0% for the three months ended March 31, 2020, mainly due to the expansion of our performance-based marketing services for consumer goods, which had a relatively high gross profit margin. All of our revenue from consumer goods were derived from direct customers.

Other Income

Our other income primarily consists of one-off government grants, interest income on loan receivables and bank deposits. Government grants were mainly from local government in Beijing in support of the listing of shares of Beijing Joyspreader on the NEEQ in 2016 and government subsidies in connection with our business expansion. There were no unfulfilled conditions or contingencies relating to our government grants as of December 31, 2018 and 2019 and March 31, 2020. The following table sets forth a breakdown of our other income for the period indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019	2020
	(RMB in thousands)			(Unaudited)	
Government grants	–	2,420	2,081	–	373
Interest income on financial assets at fair value through profit or loss	–	–	1,041	6	34
Interest income on loan receivables	–	331	278	155	177
Interest income on bank deposits	69	302	210	37	80
Total other income	69	3,053	3,610	198	664

Other Gains and Losses

For the years ended December 31, 2018 and 2019 and the three months ended March 31, 2020, we had other gains of RMB2,000, RMB451,000 and RMB53,000, respectively, which mainly represented (i) gains from disposal of certain novel adaptation rights to Beijing Yingyi in May 2019, and (ii) unrealized gains from wealth management products recorded as financial assets at fair value through profit or loss. For the three months ended March 31, 2020, we had other losses of RMB12,000, which mainly exchange losses. We did not record other gains and losses in 2017.

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Impairment Losses, Net of Reversal

Our impairment losses, net of reversal represent net impairment losses recognized or reversed in respect of trade and other receivables and deposits. For the years ended December 31, 2018 and 2019 and the three months ended March 31, 2019 and 2020, we had net impairment losses recognized in respect of trade and other receivables and deposits of RMB0.5 million, RMB5.2 million, RMB68,000 and RMB11.4 million, respectively. For the year ended December 31, 2017, we had net impairment losses reversed in respect of trade and other receivables and deposits of RMB0.2 million.

Distribution and Selling Expenses

Our distribution and selling expenses primarily consist of (i) marketing expenses; (ii) staff costs, which includes wages, bonuses and benefits for our personnel responsible for sales and marketing activities; (iii) travel expenses; and (iv) others. The following table sets forth a breakdown of our distribution and selling expenses for the period indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	<i>(RMB in thousands, except for percentages)</i>									
	<i>(Unaudited)</i>									
Marketing expenses	748	44.5%	1,876	62.7%	1,739	51.7%	227	44.9%	61	15.5%
Staff costs	617	36.7	631	21.0	1,007	29.9	233	46.0	333	84.5
Travel expenses	311	18.5	355	11.9	541	16.1	15	3.0	–	–
Others	6	0.3	132	4.4	79	2.3	31	6.1	–	–
Total distribution and selling expenses	1,682	100.0%	2,994	100.0%	3,366	100.0%	506	100.0%	394	100.0%

Administrative Expenses

Our administrative expenses primarily consist of (i) amortization and depreciation; (ii) staff costs, which includes wages, bonuses and benefits for our administrative and other personnel, which increased significantly from 2017 to 2018 primarily due to a 12.2% increase in average compensation level as a result of our business expansion; (iii) travel and entertainment expenses of our administrative personnel; (iv) professional service fees, which was mainly in relation to our financing activities; (v) taxes and surcharges; (vi) rent for our offices; and (vii) others, which mainly includes office-related expenses, transportation expenses, recruitment expenses and training expenses. The following table sets forth a breakdown of our administrative expenses by nature for the period indicated.

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	For the year ended December 31,						For the three months ended March 31			
	2017		2018		2019		2019		2020	
	(RMB in thousands, except for percentages)									
	(Unaudited)									
Amortization and depreciation	2,484	34.3%	4,721	34.8%	5,220	35.3%	1,110	41.0%	2,010	49.1%
Staff costs	1,698	23.5	4,075	30.1	4,170	28.2	1,024	37.8	999	24.4
Travel and entertainment expenses	425	5.9	854	6.3	1,739	11.8	111	4.1	284	6.9
Professional service fees	882	12.2	1,409	10.4	837	5.7	49	1.8	15	0.4
Taxes and surcharges	872	12.1	506	3.7	752	5.1	70	2.6	408	10.0
Rent	295	4.1	147	1.1	346	2.3	150	5.5	70	1.7
Others	576	8.0	1,844	13.6	1,722	11.6	195	7.2	308	7.5
Total administrative expenses	7,232	100.0%	13,556	100.0%	14,786	100.0%	2,709	100.0%	4,094	100.0%

Research and Development Expenses

Our research and development expenses during the Track Record Period consisted of staff costs, which includes wages, bonuses and benefits for our technical personnel, primarily in relation to the development of our technology platforms. For the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2019 and 2020, our research and development expenses amounted to RMB2.9 million, RMB3.9 million, RMB6.8 million, RMB1.7 million and RMB1.8 million, respectively. We did not capitalize any research and development expenditures during the Track Record Period.

[REDACTED] Expenses

We recorded [REDACTED] expenses of RMB1.9 million, RMB20.4 million, RMB7.5 million and RMB3.3 million for the years ended December 31, 2018 and 2019 and the three months ended March 31, 2019 and 2020, respectively. We did not have [REDACTED] expenses for the year ended December 31, 2017.

Finance Costs

We recorded finance costs of RMB0.2 million, RMB0.3 million, RMB0.3 million, RMB85,000 and RMB0.1 million for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2019 and 2020, respectively, which represented interest expense on lease liabilities and bank borrowings.

Income Tax Expenses

Our income tax expenses was RMB1.5 million, RMB0.5 million, RMB2.8 million, RMB0.4 million and RMB1.3 million for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2019 and 2020, respectively. During the Track Record Period, Beijing Joyspreader and Beijing Wuyou were qualified as high and new technology enterprises and enjoyed a preferential income tax rate of 15%. Our Horgos Yaoxi, Horgos

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Wuyou, Zhipu Shulian and Horgos JoySpreader, which were founded and located in Horgos, were accredited as enterprises engaged in encouraged businesses under the relevant PRC laws and regulations, and were exempted from income tax during the Track Record Period. Our effective income tax rate, which is calculated by dividing income tax expenses by profit before taxation for the same period, was approximately 4.5%, 1.1%, 4.0%, 3.3% and 6.1% for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2019 and 2020, respectively. As of the Latest Practicable Date, we fulfilled all of our previous and existing tax obligations and we were not aware of any outstanding or potential disputes with relevant tax authorities.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Revenue

Our revenue increased by 71.5% from RMB97.5 million for the three months ended March 31, 2019 to RMB167.3 million for the three months ended March 31, 2020. This increase was primarily driven by the significant increase in revenue generated from online products and, to a lesser extent, by the revenue we generated from consumer goods.

Online Products

Our revenue from online products increased by 74.2% from RMB89.7 million for the three months ended March 31, 2019 to RMB156.3 million for the three months ended March 31, 2020, primarily due to (i) a RMB62.0 million increase in revenue generated from apps as a result of our enlarged customer base due to business expansion and an increased average price per click for apps attributable to our enhanced algorithm and data analysis capabilities, and (ii) a RMB14.1 million increase in revenue generated from Html 5 products, which was primarily because available government-approved games have been gradually increased in the market, as the issuance of online game publication approvals required for games to lawfully be launched and generate revenue in China have been gradually back to normal since 2019; moreover, Internet users for Html 5 products increased as people tends to spend more time on online activities such as online reading and gaming as a result of the COVID-19 outbreak and the quarantine policies. Such increase in revenue from apps and Html 5 products was partially offset by a 82.2% decrease in revenue from online promotion activities, which was primarily due to decreased needs of online promotion activities from our customers because such customers postpone their online promotion schedule as a result of the quarantine policies and the COVID-19 outbreak.

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Consumer Goods

Our revenue from performance-based marketing services for consumer goods increased by 38.5% from RMB7.6 million for the three months ended March 31, 2019 to RMB10.5 million for the three months ended March 31, 2020, primarily due to the expansion of our consumer goods business.

Cost of Sales

Our cost of sales increased by 68.6% from RMB74.1 million for the three months ended March 31, 2019 to RMB125.0 million for the three months ended March 31, 2020, primarily due to more traffic acquired for our continuing business growth, particularly in online products.

Gross Profit and Gross Profit Margin

Our gross profit increased by 80.9% from RMB23.4 million for the three months ended March 31, 2019 to RMB42.3 million for the three months ended March 31, 2020, primarily due to a 71.5% increase in our revenue, particularly for online products. Our gross profit margin increased from 24.0% for the three months ended March 31, 2019 to 25.3% for the three months ended March 31, 2020.

Online Products

Our gross profit from online products increased by 95.8% from RMB17.3 million for the three months ended March 31, 2019 to RMB33.8 million for the three months ended March 31, 2020. Our gross profit margin from online products increased from 19.3% for the three months ended March 31, 2019 to 21.6% for the three months ended March 31, 2020, primarily due to (i) an increased gross profit margin of apps, the revenue of which accounting for 80.6% of the total revenue for the three months ended March 31, 2020; and (ii) an increased in the percentage of revenue from Html 5 products, which had a relatively higher gross profit margin compared to other online products.

Consumer Goods

Our gross profit from consumer goods increased by 38.6% from RMB6.1 million for the three months ended March 31, 2019 to RMB8.4 million for the three months ended March 31, 2020. Our gross profit margin for consumer goods was 80.0% and 80.0% for the three months ended March 31, 2019 and 2020, respectively.

Other Income

Our other income increased significantly from RMB198,000 for the three months ended March 31, 2019 to RMB664,000 for the three months ended March 31, 2020, primarily due to the RMB373,000 government grants we received in the first quarter of 2020.

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Other Gains and Losses

For the three months ended March 31, 2020, we had other exchange losses of RMB12,000 in relation to our bank balances and cash denominated in U.S. dollars and Hong Kong dollars. For the three months ended March 31, 2019, we had other gains of RMB53,000 in relation to gains from disposal of certain novel adaptation rights to Beijing Yingyi.

Impairment Losses, Net of Reversal

Our net impairment losses recognized on trade and other receivables increased from RMB68,000 for the three months ended March 31, 2019 to RMB11.4 million for the three months ended March 31, 2020, primarily due to our further allowance for credit loss of trade receivables from Customer Group F of RMB10.3 million.

Distribution and Selling Expenses

Our distribution and selling expenses decreased by 22.1% from RMB0.5 million for the three months ended March 31, 2019 to RMB0.4 million for the three months ended March 31, 2020, primarily due to the decreases in our marketing expenses and travel expenses as a result of the travel restriction caused by the COVID-19 outbreak in China in the first quarter of 2020. As a percentage of revenue, our distribution and selling expenses decreased from 0.5% for the three months ended March 31, 2019 to 0.2% for the three months ended March 31, 2020.

Administrative Expenses

Our administrative expenses increased by 51.1% from RMB2.7 million for the three months ended March 31, 2019 to RMB4.1 million for the three months ended March 31, 2020, primarily due to (i) a RMB0.9 million increase in amortization and depreciation primarily because we leased new offices and purchased certain vehicles in 2019, which incurred increased depreciation expenses in the first quarter of 2020; and (ii) a RMB0.3 million increase in taxes and surcharges. As a percentage of revenue, our administrative expenses decreased from 2.8% for the three months ended March 31, 2019 to 2.4% for the three months ended March 31, 2020.

Research and Development Expenses

Our research and development expenses increased by 4.8% from RMB1.7 million for the three months ended March 31, 2019 to RMB1.8 million for the three months ended March 31, 2020, primarily due to the increases in our staff costs in compensation level and headcount. As a percentage of revenue, our research and development expenses decreased slightly from 1.7% for the three months ended March 31, 2019 to 1.1% for the three months ended March 31, 2020.

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[REDACTED] Expenses

Our **[REDACTED]** expenses decreased from RMB7.5 million for the three months ended March 31, 2019 to RMB3.3 million for the three months ended March 31, 2020.

Finance Costs

Our finance costs of RMB85,000 and RMB141,000 for the three months ended March 31, 2019 and 2020 were in relation to interest expense on lease liabilities.

Income Tax Expenses

Our income tax expenses increased from RMB0.4 million for the three months ended March 31, 2019 to RMB1.3 million for the three months ended March 31, 2020, primarily due to our business expansion. Our effective income tax rate, calculated by dividing total income tax expenses by profit before taxation, increased from 3.3% for the three months ended March 31, 2019 to 6.1% for the three months ended March 31, 2020.

Profit for the Period

As a result of the foregoing, our profit for the period increased by 91.9% from RMB10.7 million for the three months ended March 31, 2019 to RMB20.5 million for the three months ended March 31, 2020. Our net profit margin increased from 11.0% for the three months ended March 31, 2019 to 12.3% for the three months ended March 31, 2020.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenue

Our revenue increased by 80.6% from RMB262.3 million for the year ended December 31, 2018 to RMB473.6 million for the year ended December 31, 2019. This increase was primarily driven by the significant increase in revenue generated from online products and, to a lesser extent, by the revenue we generated from consumer goods.

Online Products

Our revenue from online products increased by 75.1% from RMB256.3 million for the year ended December 31, 2018 to RMB448.7 million for the year ended December 31, 2019, primarily due to a RMB196.9 million increase in revenue generated from apps as a result of (i) our enlarged customer base due to business expansion; (ii) an increased number of clicks; and (iii) an increased average price per click, which was primarily attributable to higher average price per click for popular apps provided by certain new customers. Such increase was partially offset by a 54.6% decrease in revenue from Html 5 products, which was primarily due to (i) a decrease in available government-approved Html 5 games in the market since early 2018, as online game publication approvals required for games to lawfully be launched and

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generate revenue in China have become more difficult to obtain in practice as a result of increasingly stringent relevant laws and regulations; and (ii) a decrease in online literature as a result of stricter internal oversight of WeChat Official Accounts on published content.

Consumer Goods

Our revenue from performance-based marketing services for consumer goods, which commenced from August 2018, increased significantly from RMB3.8 million for the year ended December 31, 2018 to RMB23.0 million for the year ended December 31, 2019.

Cost of Sales

Our cost of sales increased by 81.8% from RMB196.2 million for the year ended December 31, 2018 to RMB356.6 million for the year ended December 31, 2019, primarily due to more traffic acquired for our continuing business growth, particularly in online products.

Gross Profit and Gross Profit Margin

Our gross profit increased by 77.0% from RMB66.1 million for the year ended December 31, 2018 to RMB116.9 million for the year ended December 31, 2019, primarily due to a 80.6% increase in our revenue, particularly for online products. Our gross profit margin remained relatively stable at 25.2% and 24.7% for the years ended December 31, 2018 and 2019, respectively.

Online Products

Our gross profit from online products increased by 50.9% from RMB64.8 million for the year ended December 31, 2018 to RMB97.8 million for the year ended December 31, 2019. Our gross profit margin from online products decreased from 25.3% for the year ended December 31, 2018 to 21.8% for the year ended December 31, 2019, primarily due to (i) an increase in the percentage of revenue from apps, which had a lower profit margin than Html 5 products; and (ii) a decrease in the percentage of revenue from Html 5 products, which generally had a higher gross profit margin compared to other online products.

Consumer Goods

Our gross profit from consumer goods increased significantly from RMB0.7 million for the year ended December 31, 2018 to RMB18.4 million for the year ended December 31, 2019. Our gross profit margin for consumer goods was 19.8% for the year ended December 31, 2018 and 80.0% for the year ended December 31, 2019, reflecting the favorable commercial terms we negotiated with we-media platform agents for traffic acquisition in 2019.

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Other Income

Our other income increased slightly from RMB3.1 million for the year ended December 31, 2018 to RMB3.6 million for year ended December 31, 2019, primarily due to the RMB1.0 million increase in our interest income on wealth management products.

Other Gains and Losses

For the year ended December 31, 2019, we had other gains of RMB451,000 in relation to (i) gains from disposal of certain novel adaptation rights to Beijing Yingyi; and (ii) unrealized gains from wealth management products recorded as financial assets at fair value through profit or loss. For the year ended December 31, 2018, we had other gains of RMB2,000 in relation to unrealized gains from wealth management products recorded as financial assets at fair value through profit or loss.

Impairment Losses, Net of Reversal

Our net impairment losses recognized on trade and other receivables and deposits increased from RMB0.5 million for the year ended December 31, 2018 to RMB5.2 million for the year ended December 31, 2019, primarily due to (i) an increase in allowance for credit loss of trade receivables, which had been past due for more than 90 days and were considered as impaired; and (ii) an increase in trade receivables as our business continued to grow.

Distribution and Selling Expenses

Our distribution and selling expenses increased by 13.3% from RMB3.0 million for the year ended December 31, 2018 to RMB3.4 million for the year ended December 31, 2019, primarily due to (i) a RMB0.4 million increase in our staff costs due to an increase in compensation level; and (ii) a RMB0.2 million increase in our travel expenses due to our business expansion. As a percentage of revenue, our distribution and selling expenses decreased slightly from 1.1% for the year ended December 31, 2018 to 0.7% for the year ended December 31, 2019.

Administrative Expenses

Our administrative expenses increased by 8.8% from RMB13.6 million for the year ended December 31, 2018 to RMB14.8 million for the year ended December 31, 2019, primarily due to (i) a RMB0.9 million increase in travel and entertainment expenses due to our business expansion; and (ii) a RMB0.5 million increase in amortization and depreciation primarily because we leased new offices and purchased certain vehicles in 2019, which incurred increased depreciation expenses in 2019. As a percentage of revenue, our administrative expenses decreased from 5.2% for the year ended December 31, 2018 to 3.1% for the year ended December 31, 2019.

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Research and Development Expenses

Our research and development increased by 74.4% from RMB3.9 million for the year ended December 31, 2018 to RMB6.8 million for the year ended December 31, 2019, primarily due to the increases in our staff costs increases in compensation level and headcount. As a percentage of revenue, our research and development expenses decreased slightly from 1.5% for the year ended December 31, 2018 to 1.4% for the year ended December 31, 2019.

[REDACTED] *Expenses*

Our **[REDACTED]** expenses increased from RMB1.9 million for the year ended December 31, 2018 to RMB20.4 million for the year ended December 31, 2019.

Finance Costs

Our finance costs of RMB0.3 million for the year ended December 31, 2019 were in relation to interest expense on lease liabilities. Our finance costs of RMB0.3 million for the year ended December 31, 2018 were primarily in relation to short-term bank borrowings of RMB9.8 million, which were fully settled in 2018.

Income Tax Expenses

Our income tax expenses increased from RMB0.5 million for the year ended December 31, 2018 to RMB2.8 million for the year ended December 31, 2019, primarily due to our business expansion. Our effective income tax rate, calculated by dividing total income tax expenses by profit before taxation, increased from 1.1% for the year ended December 31, 2018 to 4.0% for the year ended December 31, 2019.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 48.1% from RMB45.5 million for the year ended December 31, 2018 to RMB67.4 million for the year ended December 31, 2019. Our net profit margin decreased from 17.3% for the year ended December 31, 2018 to 14.2% for the year ended December 31, 2019.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenue

Our revenue increased by 93.9% from RMB135.3 million for the year ended December 31, 2017 to RMB262.3 million for the year ended December 31, 2018. This increase was primarily driven by the significant increase in revenue generated from online products.

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Online Products

Our revenue from online products increased by 94.2% from RMB132.0 million in 2017 to RMB256.3 million in 2018, due to (i) a RMB63.7 million increase in our revenue from apps as a result of an increased number of clicks, which was attributable to an increase in number of customers, and increased average price per click; (ii) a RMB30.7 million increase in our online promotion activities as a result of an increased number of clicks, which was attributable to an increase in the number of customers; and (iii) a RMB30.1 million increase in our Html 5 products as a result of our increased number of customers.

Cost of Sales

Our cost of sales increased by 118.4% from RMB89.8 million for the year ended December 31, 2017 to RMB196.2 million for the year ended December 31, 2018, primarily due to (i) more traffic acquired for our continuing business growth, particularly in online products; and (ii) increased purchase price of we-media traffic as the supply of we-media accounts on WeChat decreased due to stricter internal oversight of WeChat accounts.

Gross Profit and Gross Profit Margin

Our gross profit increased by 45.5% from RMB45.4 million for the year ended December 31, 2017 to RMB66.1 million for the year ended December 31, 2018, primarily due to a 94.2% increase in our revenue from online products. Our gross profit margin decreased from 33.6% for the year ended December 31, 2017 to 25.2% for the year ended December 31, 2018.

Online Products

Our gross profit from online products increased by 44.3% from RMB44.9 million for the year ended December 31, 2017 to RMB64.8 million for the year ended December 31, 2018. Our gross profit margin from online products decreased from 34.1% for the year ended December 31, 2017 to 25.3% for the year ended December 31, 2018, primarily due to (i) a decrease in the percentage of revenue from Html 5 products, which had a relatively higher gross profit margin compared to other online products; and (ii) an increase in the percentage of revenue from online promotion activities, which had a decreased profit margin as a customer that provided marketing campaigns with high profit margin no longer sought our services due to a change in its business focus in 2018.

Other Income

Our other income increased significantly from RMB69,000 for the year ended December 31, 2017 to RMB3.1 million for the year ended December 31, 2018, primarily due to the RMB2.4 million one-off government grants that we received in 2018 from the local government in Beijing in support of the listing of shares of Beijing Joyspreader on the NEEQ in 2016, while we did not have any government grants in 2017.

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Other Gains and Losses

For the year ended December 31, 2018, we had other gains of RMB2,000 in relation to unrealized gains from wealth management products recorded as financial assets at fair value through profit or loss, while we did not have other gains and losses for the year ended December 31, 2017.

Impairment Losses, Net of Reversal

For the year ended December 31, 2017, our impairment losses, net of reversal primarily comprised net impairment losses reversed on trade and other receivables and deposits of RMB0.2 million. For the year ended December 31, 2018, our net impairment losses primarily comprised impairment losses recognized on trade and other receivables and deposits of RMB0.5 million.

Distribution and Selling Expenses

Our distribution and selling expenses increased by 78.0% from RMB1.7 million for the year ended December 31, 2017 to RMB3.0 million for the year ended December 31, 2018, primarily due to a RMB1.1 million increase in our marketing expenses as we continued to develop our business. As a percentage of revenue, our distribution and selling expenses remained relatively stable at 1.2% and 1.1% for the years ended December 31, 2017 and 2018, respectively.

Administrative Expenses

Our administrative expenses increased by 87.4% from RMB7.2 million for the year ended December 31, 2017 to RMB13.6 million for the year ended December 31, 2018, primarily due to (i) a RMB2.4 million increase in our staff costs, which was primarily due to an increase in average compensation level; (ii) a RMB2.2 million increase in our amortization and depreciation expenses, primarily because we purchased intellectual property rights and software and leased new offices in 2017, which incurred full-year amortization and depreciation expenses in 2018; and (iii) a RMB1.3 million increase in our other administrative expenses, which was primarily because we incurred more office-related and other expenses as a result of our business expansion. As a percentage of revenue, our administrative expenses remained relatively stable at 5.3% and 5.2% for the years ended December 31, 2017 and 2018, respectively.

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Research and Development Expenses

Our research and development increased by 32.1% from RMB2.9 million for the year ended December 31, 2017 to RMB3.9 million for the year ended December 31, 2018, which was primarily due to increases in compensation level and headcount. As a percentage of revenue, our research and development expenses decreased slightly from 2.2% in 2017 to 1.5% in 2018.

[REDACTED] Expenses

We recorded [REDACTED] expenses of RMB1.9 million for the year ended December 31, 2018, while we did not have [REDACTED] expenses for the year ended December 31, 2017.

Finance Costs

We recorded finance costs of RMB0.2 million and RMB0.3 million in relation to short-term bank borrowings of RMB9.8 million for the years ended December 31, 2017 and 2018, respectively. Such short-term bank borrowings were fully settled in 2018.

Income Tax Expenses

Our income tax expenses decreased by 67.7% from RMB1.5 million for the year ended December 31, 2017 to RMB0.5 million for the year ended December 31, 2018, primarily due to an increase in the proportion of total revenue recognized through two of our Consolidated Affiliated Entities receiving preferential tax treatments in Horgos. Our effective income tax rate, calculated by dividing total income tax expenses by profit before taxation, decreased from 4.5% for the year ended December 31, 2017 to 1.1% for the year ended December 31, 2018.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 41.8% from RMB32.1 million for the year ended December 31, 2017 to RMB45.5 million for the year ended December 31, 2018. Our net profit margin decreased from 23.7% for the year ended December 31, 2017 to 17.3% for the year ended December 31, 2018.

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DISCUSSION OF CERTAIN KEY CONSOLIDATED BALANCE SHEETS ITEMS

Trade and Other Receivables and Deposits

Our trade receivables primarily represent amounts due from our customers, primarily agents and online product providers. Our other receivables primarily includes (i) deferred share [REDACTED] costs, which represent [REDACTED] expenses we incurred but was not capitalized as of December 31, 2019 and March 31, 2020; (ii) receivable for disposal of certain novel adaptation rights to Beijing Yingyi in May 2019; (iii) rental and other deposits paid to government in relation to tax exemptions; (iv) deposits paid to supplier; and (v) receivables from Android distribution channel operators. The following table sets forth our trade and other receivables and deposits as of the date indicated:

	As of December 31,			As of
	2017	2018	2019	March 31,
				2020
	(RMB in thousands)			
Trade receivables	32,772	42,811	74,247	147,277
Less: Allowance for credit losses	(238)	(865)	(4,951)	(16,496)
Total trade receivables	32,534	41,946	69,296	130,781
Deferred share [REDACTED] costs	–	620	6,969	8,003
Receivable for disposal of intangible assets	–	–	4,100	4,100
Rental and other deposits	179	1,800	2,287	2,371
Deposits paid to suppliers	–	2,000	2,000	2,000
Receivables from Android distribution channel operators	1,749	–	–	–
Other receivables	73	472	923	1,065
Less: Allowance for credit losses	(97)	(215)	(683)	(585)
Total other receivables and deposits	1,904	4,677	15,596	16,954
Total trade and other receivables and deposits	34,438	46,623	84,892	147,735
Analysis as				
Non-current	–	1,229	2,242	2,219
Current	34,438	45,394	82,650	145,516
	34,438	46,623	84,892	147,735

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Trade Receivables

We usually grant a credit period of 90 days to our customers, which is interest free with no collateral. The following table sets forth the aging analysis and turnover days of our receivables (net of allowance for credit losses), based on invoice dates, as of the date or for the period indicated.

	As of/for the year ended December 31,			As of/for the three months ended March 31,
	2017	2018	2019	2020
	(RMB in thousands)			
Within 3 months	30,146	31,352	54,026	106,107
3-6 months	1,818	9,772	4,329	19,872
6-12 months	570	342	9,746	4,323
1-2 years	–	480	1,195	479
Total	32,534	41,946	69,296	130,781
Average trade receivables turnover days⁽ⁱ⁾	70.2	51.1	42.3	53.8

- (i) Average trade receivables turnover days for each year/period equals the average of the beginning and ending balances of net trade receivables for that year/period divided by revenue for that year/period and multiplied by 360 days/90 days.

The balance of our trade receivables increased from RMB32.5 million as of December 31, 2017 to RMB41.9 million as of December 31, 2018, to RMB69.3 million as of December 31, 2019 and further to RMB130.8 million as of March 31, 2020, reflecting our business expansion. Our average trade receivables turnover days decreased from 70.2 days for the year ended December 31, 2017 to 51.1 days for the year ended December 31, 2018, primarily because we accelerated our trade receivable collection. Our average trade receivables turnover days decreased from 51.1 days for the year ended December 31, 2018 to 42.3 days for the year ended December 31, 2019. Our average trade receivables turnover days increased from 42.3 days for the year ended December 31, 2019 to 53.8 days for the three months ended March 31, 2020, primarily due to our slower collection of trade receivables in the first quarter of 2020 as a result of the COVID-19 outbreak.

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We have implemented a credit assessment system to evaluate the creditworthiness and financial condition of our customers. We require customers to provide us with bank credit scores and historical financial statements, and we conduct in-person evaluations of our customers’ operations as necessary. We review our trade receivables balance and follow up with customers with past due trade receivables on a monthly basis. We assessed the recoverability of trade receivables with reference to historical settlement experience, subsequent settlement, future expected settlement plan, business relationship with the customers and credit assessment of customer. Impairment of trade receivables is reviewed by our finance department and submitted to our financial director for approval. As of December 31, 2017, 2018 and 2019 and March 31, 2020, our allowance for credit loss of trade receivables was RMB0.2 million, RMB0.9 million, RMB5.0 million and RMB16.5 million, respectively. For the years ended December 31, 2018 and 2019 and the three months ended March 31, 2020, we recognized impairment losses, net of reversal in respect of trade and other receivables and deposits of RMB0.5 million, RMB5.2 million and RMB11.4 million, respectively. We do not hold collateral over these balances. Our allowance for credit loss of trade receivables of RMB16.5 million as of March 31, 2020 was mainly relating to trade receivables of Customer Group F, a wholly-owned subsidiary of a PRC-listed Company mainly engaging in mobile marketing and mobile game promotion business, and Customer Group H, a content provider of a large online literature platform. Customer Group F and Customer Group H were Independent Third Parties during the Track Record Period and as of the Latest Practicable Date.

For the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, our revenue generated from the provision of performance-based marketing services to Customer Group F amounted to RMB24.9 million, RMB65.6 million, RMB16.8 million and nil, respectively, accounting for 18.4%, 25.0%, 3.6% and nil, respectively, of our total revenue for the same periods. As of December 31, 2017, 2018 and 2019 and March 31, 2020, our trade receivables from Customer Group F amounted to RMB5.1 million, RMB5.3 million, RMB14.4 million and RMB14.4 million, respectively. In 2019, certain customers of Customer Group F extended their payables due to Customer Group F, which resulted in cash flow mismatch for Customer Group F. As of the Latest Practicable Date, none of the RMB14.4 million trade receivables as of March 31, 2020 was settled by Customer Group F. We are closely communicating with Customer Group F regarding the recovery of its trade receivables. We issued a formal attorney letter to Customer Group F on May 22, 2020 and have not received feedbacks from Customer Group F since then. We are also preparing for further legal actions including bring an action in a PRC court against Customer Group F to collect our trade receivables. We made full allowance for credit loss of trade receivables from Customer Group F and made further allowance of RMB10.3 million for the three months ended March 31, 2020. We have ceased our cooperation with Customer Group F since the beginning of 2020. We intend to closely monitor our customers’ financial conditions and perform ongoing credit assessments of our customers to ensure that credit periods are granted to customers with appropriate credit history. Meanwhile, to mitigate the adverse impact caused by the allowance for credit loss of trade receivables from Customer Group F on our results of operation in 2020, we intend to expand our business cooperation with other existing customers and seeking cooperation with new customers.

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For the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, our revenue generated from the provision of performance-based marketing services to Customer Group H amounted to RMB26.2 million, RMB33.6 million, RMB17.0 million and RMB0.4 million, respectively, accounting for 19.4%, 12.8%, 3.6% and 0.2%, respectively, of our total revenue for the same periods. As of December 31, 2017, 2018 and 2019 and March 31, 2020, trade receivables from Customer Group H amounted to RMB11.5 million, RMB9.4 million, RMB11.1 million and RMB10.6 million, respectively. In 2019, a large online literature platform extended its settlement period with Customer Group H, which resulted in cash flow mismatch for Customer Group H. All of the RMB11.1 million trade receivables as of December 31, 2019 were subsequently settled by Customer Group H by June 30, 2020. As of the Latest Practicable Date, all of the RMB10.6 million trade receivables from Customer Group H as of March 31, 2020 were subsequently settled.

As of the Latest Practicable Date, RMB118.5 million, or 80.5% of our trade receivables as of March 31, 2020, were subsequently settled.

Other Receivables and Deposits

Our other receivables and deposits increased from RMB1.9 million as of December 31, 2017 to RMB4.7 million as of December 31, 2018, primarily because we had a RMB2.0 million receivable relating to deposits paid to one of our suppliers in relation to traffic acquisition; partially offset by a decrease in receivables from Android distribution channel operators of RMB1.7 million because instead of games co-publishing, we engaged in performance-based marketing services for games from January 2018. Our other receivables and deposits increased further to RMB15.6 million as of December 31, 2019, primarily due to (i) a RMB6.3 million increase in deferred share [REDACTED] costs; and (ii) a RMB4.1 million increase in receivable for disposal of intangible assets in relation to our disposal of novel adaptation rights to Beijing Yingyi in May 2019. Our other receivables and deposits remained relatively stable with a slight increase at RMB17.0 million as of March 31, 2020, primarily due to a RMB1.0 million increase in deferred share [REDACTED] costs.

Loan Receivable

As of December 31, 2018, we had loan receivable of RMB20.2 million, which was in relation to an unsecured loan that we provided to the holding company of Supplier Group A, one of our top five suppliers and an Independent Third Party during the Track Record Period and up to the Latest Practicable Date. Supplier Group A is an agent of large we-media platforms such as WeChat. The loan was to replenish working capital for the settlement of certain trade payables the borrower owed to its suppliers, with a principal amount of RMB20.0 million and a fixed interest rate of 12% per annum. The loan was fully settled in January 2019. As of December 31, 2019, we had loan receivable of RMB30.0 million, which was mainly in relation to an unsecured loan that we provided to the holding company of the same supplier with a principal amount of RMB29.9 million and at a fixed interest rate of 12% per annum for a term of two months. The loan was fully settled in January 2020. As of March 31, 2020, we had loan receivables of RMB1.6 million, which was mainly in relation to an unsecured loan that we

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provided to Beijing Yingyi with a principal amount of RMB1.6 million and at a fixed interest rate of 12% per annum for a term of one year in February 2020. As of the Latest Practicable Date, such loan was fully settled by Yingyi. During the Track Record Period, we occasionally provided financial assistance to important business partners to maintain good and long-standing relationship with them. Considering that (i) the term of each loan was short; (ii) the frequency of loan was low; (iii) all loans were repaid on time; and (iv) the principal amount of each loan was relatively small relative to our total purchase amount from Supplier Group A, we believe that the occasional working capital needs of the holding company of Supplier Group A is temporary and, to the best knowledge of our Directors, we are not aware of any material liquidity problems of either Supplier Group A or its holding company. As a we-media platform agent, Supplier Group A is obliged to top up our accounts on we-media platforms according to the prepayment or purchase amount we paid. Supplier Group A did not have sufficient funds to provide financial assistance to its holding company at the time its holding company borrowed our short-term loans.

Moreover, according to Frost & Sullivan, asset-light companies, which usually have limited collaterals, were required to follow time-consuming procedures in order to obtain bank loans from commercial banks and authorized financial institutions in China, because commercial banks and authorized financial institutions in China generally have strict credit assessment and approval procedures, which require borrowers to provide assets as collaterals to secure their loans and to follow strict credit assessment procedures to prove its credibility. Both Supplier Group A and its holding company are principally engaging in service businesses, which are asset-light businesses. It is not easy for Supplier Group A and its holding company to obtain bank loans from commercial banks and authorized financial institutions in China, especially for urgent financing needs. According to Frost & Sullivan, it does exist in the we-media marketing industry in China that we-media marketing service providers provide loans, guarantees or other financial support to their customers or suppliers to maintain good relationship.

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Prepayments

Our prepayments primarily consist of prepayments for purchases of traffic. The following table sets forth a breakdown of our prepayments as of the date indicated.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	(RMB in thousands)			
<u>Current</u>				
Prepayments for purchases of traffic	26,222	50,734	172,158	202,366
Prepaid share [REDACTED] cost or [REDACTED] expense	–	264	467	750
Other prepayments	607	1,130	1,013	1,935
	<u>26,829</u>	<u>52,128</u>	<u>173,638</u>	<u>205,051</u>
<u>Non-current</u>				
Prepayments for short-form video making	–	–	2,000	2,000
Prepayments for acquisition of buildings	–	1,642	1,642	1,642
Prepayments for software development	–	1,887	–	–
	<u>–</u>	<u>3,529</u>	<u>3,642</u>	<u>3,642</u>
Total prepayments	<u>26,829</u>	<u>55,657</u>	<u>177,280</u>	<u>208,693</u>

Our prepayments increased significantly from RMB26.8 million as of December 31, 2017 to RMB55.7 million as of December 31, 2018, to RMB177.3 million as of December 31, 2019 and further to RMB208.7 million as of March 31, 2020, primarily due to a significant increase in our prepayments for purchases of traffic from RMB26.2 million as of December 31, 2017 to RMB50.7 million as of December 31, 2018, to RMB172.2 million as of December 31, 2019 and further to RMB202.4 million as of March 31, 2020, which was primarily due to (i) the higher prepayments we paid to large suppliers, being agents of large we-media platforms, to secure a favorable price for we-media traffic; and (ii) our business expansion. According to Frost & Sullivan, it is common in the we-media marketing industry that we-media marketing service providers make prepayments to agents of top we-media platforms in order to secure user traffic at favorable prices and user traffic in favorable time slots in advance.

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All of our prepayments for purchases of traffic as of January 1, 2017 were fully utilized in 2017. 92.8% of our RMB26.2 million prepayments for purchases of traffic as of December 31, 2017 were utilized in 2018, and 82.6% of our RMB50.7 million prepayments for purchases of traffic as of December 31, 2018 were utilized in 2019. 40.1% of our RMB172.2 million prepayments for purchases of traffic as of December 31, 2019, were utilized by March 31, 2020. 74.5% of our RMB202.4 million prepayments for purchases of traffic as of March 31, 2020 were utilized by the Latest Practicable Date. The following table sets forth the movement of the prepayments for purchases of traffic for the period indicated.

	For the year ended December 31,			For the three months ended March 31,
	2017	2018	2019	2020
	(RMB in thousands)			
Balance at the beginning of the period	1,000	26,222	50,734	172,158
Add: new prepayments during the period	55,938	169,179	439,504	134,556
Less: utilized prepayments during the period	(30,716)	(144,667)	(318,080)	(104,348)
Balance at the end of the period	<u>26,222</u>	<u>50,734</u>	<u>172,158</u>	<u>202,366</u>

During the Track Record Period, we paid large amount of prepayments to agents of large we-media platforms in order to (i) secure a favorable time slots at favorable price for we-media traffic to be used for a future period; and (ii) obtain a relatively favorable unit price for we-media traffic from large we-media platform through volume sales.

The following table sets forth a breakdown of movement of prepayments for purchase of traffic by major suppliers during the Track Record Period.

	For the years ended December 31,			For the three months ended March 31,
	2017	2018	2019	2020
	(RMB in thousands)			
Balance at the beginning of the period				
– Supplier B	1,000	26,140	39,012	105,786
– Supplier Group A	–	–	9,325	64,735
– Others ⁽¹⁾	–	82	2,397	1,637
	<u>1,000</u>	<u>26,222</u>	<u>50,734</u>	<u>172,158</u>

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	For the years ended December 31,			For the three months ended March 31,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Add: new prepayments during the period				
– Supplier B	55,100	112,400	172,440	25,000
– Supplier Group A	–	44,140	183,570	73,139
– Others ⁽¹⁾	838	12,639	83,494	36,417
	55,938	169,179	439,504	134,556
Less: utilized prepayments during the period				
– Supplier B	29,960	99,528	105,666	49,099
– Supplier Group A	–	34,815	128,160	19,442
– Others ⁽¹⁾	756	10,324	84,254	35,807
	30,716	144,667	318,080	104,348
Balance at the end of the period				
– Supplier B	26,140	39,012	105,786	81,687
– Supplier Group A	–	9,325	64,735	118,432
– Others ⁽¹⁾	82	2,397	1,637	2,247
	26,222	50,734	172,158	202,366

(1) Others represent other Independent Third Party suppliers during the Track Record Period.

As of December 31, 2017, 2018 and 2019 and March 31, 2020, 99.7% or RMB26.1 million, 76.9% or RMB39.0 million, 61.4% or RMB105.8 million and 40.4% or RMB81.7 million of the balance of our prepayments for purchase of traffic were attributable to Supplier B, the transaction amount of which amounted to 31.5%, 47.6%, 32.6% and 54.3% of our total purchase amount in 2017, 2018 and 2019 and the three months ended March 31, 2020, respectively.

As of December 31, 2018 and 2019 and March 31, 2020, 18.4% or RMB9.3 million, 37.6% or RMB64.7 million and 58.5% or RMB118.4 million of the balance of our prepayments for purchase of traffic were attributable to Supplier Group A, the transaction amount of which amounted to 17.2%, 34.0% and 16.8% of our total purchase amount in 2018 and 2019 and the three months ended March 31, 2020, respectively.

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The following table sets forth the aging analysis of our prepayment for purchases of traffic as of the date indicated.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	(RMB in thousands)			
Within 3 months	22,403	40,034	60,741	119,717
3-6 months	3,819	7,842	102,598	36,896
6-12 months	–	981	–	45,447
Over 1 year	–	1,877	8,819	306
Total	26,222	50,734	172,158	202,366

We have adopted certain policies and internal control measures to manage and monitor the payment and utilization of our prepayments. Our managements determine the amount of prepayments for purchases of traffic we paid to suppliers considering the estimated traffic acquisition costs that is expected to be used in the next three to six months and our existing cash flow. Our managements determine the amount of new prepayments for purchases of traffic for the next quarter based on the balance of prepayments, managements’ estimation of marketing budgets we obtained or expected to obtain and management’s forecast total revenue and cost for the next quarter. The final amount of new prepayments for purchase of traffic for the next quarter is approved by our chief executive officer. To manage and monitor the utilization of our prepayments for purchases of traffic, our operation personnel maintains prepayment records for the head of operation department’s and financial department’s review regularly. We currently maintain a stable relationship and prepayment arrangement with our large suppliers. In line with our business expansion, it is expected that we may not need to make large prepayments to secure a favorable price for traffic or favorable time slots in the future if our bargaining power increased. We will monitor the collection our trade receivables more closely in the future, to mitigate the cash flow mismatch situation caused by our prepayment schedule for purchases of traffic and our collection of trade receivables.

Financial Assets at Fair Value through Profit or Loss

We had financial assets at fair value through profit or loss of RMB1.0 million as of December 31, 2018, which represented the wealth management products that we purchased from reputable PRC commercial banks with an expected interest rate of 4.30% per annum. Fair value gain of RMB2,000 was included in other gains and losses for the year ended December 31, 2018. These products are generally low-risk products with short-term maturity or that are redeemable on demand. Our investment in wealth management products was categorized as a level 3 financial instrument. We did not have financial assets at fair value through profit or loss as of December 31, 2017 and 2019 and March 31, 2020.

We invested in such wealth management products during the Track Record Period because we believe we can make better use of such cash by making appropriate investments to enhance our income without interfering with our business operation or capital expenditures. Our investment decisions are made on a case-by-case basis and after due and careful consideration

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of a number of factors, including but not limited to duration of investment and the expected returns and potential losses of such investment. Our investment on wealth management products are limited to low-risk products issued by qualified financial institutions.

Our finance department, subject to the review and approval of our management, is responsible for managing our investment activities. Our finance department assesses our cash flow, operational needs and capital expenditure as well as the targeted products’ risk profile before making a proposal to invest in wealth management products. If our cash flow exceeds operational needs and appropriate investment opportunities are available, our finance department will submit the investment proposal to our chief executive officer for review and approval.

We believe that our internal control policies regarding investment in wealth management products and risk management mechanism are adequate.

Equity Instruments at Fair Value Through Other Comprehensive Income

Our equity instruments at fair value through other comprehensive income represent our strategic investment in a 19.9% interest in Beijing Yingyi. Our equity instruments at fair value through other comprehensive income was RMB6.0 million, RMB9.9 million and RMB9.9 million as of December 31, 2018 and 2019 and March 31, 2020, respectively. Our investment in unlisted equity securities was categorized as a level 3 financial instrument as of December 31, 2019 and March 31, 2020. See note 33 to the Accountants’ Report set out in Appendix I to this document.

In determining the fair value of our investment in unlisted equity securities (“**Level 3 Financial Assets**”), our Directors, based on the professional advice received, adopted the following procedures: (i) reviewed the terms of related agreements; (ii) engaged independent valuer (“**Valuer**”), confirmed with the Valuer that it was independent from the Company and that there is no conflict of interests of the Valuer, reviewed the qualifications, experience of the Valuer and the work scope of the engagement team to ensure that the Valuer possessed the experience, qualifications and expertise to compile the valuation report properly; (iii) provided necessary financial and non-financial information so as to enable the Valuer to perform valuation procedures; (iv) carefully considered all information especially those non-market related information input; (v) critically analyzed and thoroughly discussed with the Valuer regarding the contents of the valuation report including but not limited to, the basis of computation, assumptions, limitations, qualifications and valuation methodologies on which the valuation is based, the basis of the discount rate and the choice of comparable companies; and (vi) reviewed the valuation working papers and results prepared by the Valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the Valuer is fair and reasonable, and the financial statements of our Group are properly prepared.

Details of the fair value measurement of equity instruments at fair value through other comprehensive income, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in note 33 Financial Instruments to the Historical Financial Information of Group for the Track Record Period as set out in the accountants’ report issued by the Reporting Accountants in accordance with Hong

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Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Report on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants in Appendix I. The reporting accountants’ opinion on the Historical Financial Information of the Group for the Track Record Period as a whole is set out on I-2A of Appendix I.

In relation to the valuation analysis performed by the Valuer on Level 3 Financial Assets, the Joint Sponsors have conducted relevant due diligence work, including but not limited to (i) reviewed of relevant notes in the Accountants’ Report as contained in Appendix I and relevant documents provided by Valuer; and (ii) discussed with the Company, the Reporting Accountants and the Valuer about the key basis and assumptions for the valuation of Level 3 Financial Assets. Having considered the work done by the Directors, Reporting Accountants and the Valuer and the relevant due diligence done as stated above, nothing has come to the Joint Sponsors’ attention that would cause the Joint Sponsors to question the valuation analysis performed by the Valuer on the Level 3 Financial Assets.

Bank Balances and Cash

Our bank balances and cash amounted to RMB64.2 million, RMB98.4 million, RMB131.5 million and RMB103.6 million as of December 31, 2017, 2018 and 2019 and March 31, 2020, respectively. Our bank balances as of these dates carried interest at market interest rates ranging from 0.01% to 0.40% per annum. Our bank balances and cash of RMB665,000 and RMB7,000 as of December 31, 2019 and March 31, 2020, respectively, were denominated in U.S. dollars. Our bank balances and cash of RMB139,000 were denominated in Hong Kong dollars.

Trade and Other Payables

Our trade and other payables primarily consist of (i) trade payables due to our suppliers, primarily agents of we-media platforms and we-media publishers that provide us with traffic inventories; and (ii) other payables, primarily representing accrued [REDACTED] expenses, taxes payables, payables to game developers and employee compensation payable. The following table sets forth the details of our trade and other payables as of the date indicated.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	(RMB in thousands)			
Trade payables	10,825	10,452	13,357	26,153
Other payables and deposits	12,968	13,935	28,556	34,564
Total trade and other payables	23,793	24,387	41,913	60,717

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Trade Payables

During the Track Record Period, our suppliers generally granted us a credit period of 90 days on purchases of goods or services. The following table sets forth an aging analysis of our trade payables based on the invoice date and turnover days as of the date or for the period indicated.

	As of/for the year ended December 31,			As of/for the three months ended March 31,
	2017	2018	2019	2020
	(RMB in thousands)			
Within 3 months	9,583	6,821	8,937	23,411
3-6 months	765	1,909	2,362	—
6-12 months	—	1,245	2,058	2,742
1-2 years	477	—	—	—
Over 2 years	—	477	—	—
Total trade payables	10,825	10,452	13,357	26,153
Average trade payables turnover days⁽¹⁾	43.6	19.5	12.0	14.2

(1) Average trade payables turnover days for each year/period equals the average of the beginning and ending balances of trade payables for that year/period divided by cost of sales for that year/period and multiplied by 360 days/90 days.

Our trade payables remained relatively stable at RMB10.8 million and RMB10.5 million as of December 31, 2017 and 2018, respectively. Our trade payables increased to RMB13.4 million as of December 31, 2019, primarily due to our business expansion and reflecting our practice of higher settlement in the last quarter of the year. Our trade payables further increased to RMB26.2 million as of March 31, 2020, primarily due to slow collection of our suppliers as a result of the COVID-19 outbreak in the first quarter of 2020. Our average trade payables turnover days decreased from 43.6 days for the year ended December 31, 2017 to 19.5 days for the year ended December 31, 2018, primarily because we were able to more readily settle outstanding trade payables as we increased our trade receivable collection efforts. Our average trade payables turnover days decreased further to 12.0 days for the year ended December 31, 2019, primarily because we settled most of our cost of sales through prepayments. Our average trade payables turnover days increased from 12.0 days for the year ended December 31, 2019 to 14.2 days for the three months ended March 31, 2020, primarily due to slow collection of our suppliers as a result of the COVID-19 outbreak in the first quarter of 2020.

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As of the Latest Practicable Date, RMB23.4 million, or 89.3% of our trade payables as of March 31, 2020, were subsequently settled.

Other Payables

The following table sets forth details of our other payables as of the date indicated.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	(RMB in thousands)			
Accrued [REDACTED] expense/share				
[REDACTED] costs	–	2,385	16,499	16,993
Employee compensation payable	2,139	3,612	5,872	6,108
Other tax payable	3,190	5,096	2,119	7,766
Deposits received from customers	–	2,000	2,000	2,000
Amounts due to shareholders	–	–	1,496	1,507
Payables to game developers	6,494	–	–	–
Others	1,145	842	570	190
Total other payables	12,968	13,935	28,556	34,564

Our other payables increased from RMB13.0 million as of December 31, 2017 to RMB13.9 million as of December 31, 2018, primarily due to (i) a RMB2.4 million increase in accrued [REDACTED] expense/share [REDACTED] costs; (ii) a RMB2.0 million increase in deposits received from customers; (iii) a RMB1.9 million increase in our taxes payables, which was in relation to the increases in our VAT and taxes and surcharges; and (iv) a RMB1.5 million increase in our employee compensation payable, which was primarily due to increases in the headcounts and compensation level of our employees; partially offset by a RMB6.5 million decrease in payables to game developers, because instead of games co-publishing, we engaged in performance-based marketing services for games from January 2018. Our other payables increased from RMB13.9 million as of December 31, 2018 to RMB28.6 million as of December 31, 2019 mainly due to the increases in accrued [REDACTED] expense/share [REDACTED] costs. Our other payables increased from RMB28.6 million as of December 31, 2019 to RMB34.6 million as of March 31, 2020 primarily due to the increases in other tax payables and increases in employee compensation payables.

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Contract Liabilities

We held contract liabilities of RMB0.2 million and RMB0.4 million as of December 31, 2017 and 2018, respectively. Our contract liabilities were primarily in relation to deposits we received from customers for contracts that were not yet performed. We did not record any contract liabilities as of December 31, 2019 and March 31, 2020.

Lease Liabilities

Our lease liabilities increased from RMB0.9 million as of December 31, 2017 to RMB6.8 million as of December 31, 2018, and further increased to RMB11.2 million as of December 31, 2019, primarily because we leased new offices. Our lease liabilities remained relatively stable with a slight decrease at RMB10.3 million as of March 31, 2020. The following table sets forth an analysis of our lease liabilities as of the date indicated:

	As of December 31,			As of
	2017	2018	2019	March 31,
				2020
	<i>(RMB in thousands)</i>			
Non-current	–	5,373	7,064	6,659
Current	863	1,397	4,181	3,683
Total	863	6,770	11,245	10,342

Income Tax Payable

We recorded income tax payable of RMB0.7 million, RMB84,000, RMB1.7 million and RMB3.0 million as of December 31, 2017, 2018 and 2019 and March 31, 2020, respectively, reflecting the level and timing of our tax payments.

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NET CURRENT ASSETS

The following table sets forth our current assets and current liabilities as of the date indicated:

	As of December 31,			As of March 31,	As of July 31,
	2017	2018	2019	2020	2020
	(RMB in thousands)				(unaudited)
Current assets					
Trade and other receivables and deposits	34,438	45,394	82,650	145,516	232,034
Loan receivable	–	20,230	30,030	1,622	1,687
Prepayments	26,829	52,128	173,638	205,051	198,836
Financial assets at fair value through profit or loss	–	1,002	–	–	–
Bank balances and cash	64,247	98,396	131,489	103,553	71,514
Total current assets	125,514	217,150	417,807	455,742	504,071
Current liabilities					
Trade and other payables	23,793	24,387	41,913	60,717	51,654
Lease liabilities	863	1,397	4,181	3,683	4,691
Bank borrowings	9,847	–	–	–	–
Contract liabilities	215	356	–	–	–
Income tax payable	743	84	1,667	3,004	4,888
Total current liabilities	35,461	26,224	47,761	67,404	61,233
Net current assets	90,053	190,926	370,046	388,338	442,838

Our net current assets increased from RMB90.1 million as of December 31, 2017 to RMB190.9 million as of December 31, 2018, primarily due to (i) a RMB34.1 million increase in our bank balances and cash; and (ii) a RMB25.3 million increase in our prepayments, which was primarily due to higher prepayments we paid to large suppliers, being agents of large we-media platforms, to secure a favorable price for we-media traffic and our business expansion; and (iii) a RMB20.2 million loan receivable.

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Our net current assets increased from RMB190.9 million as of December 31, 2018 to RMB370.0 million as of December 31, 2019, primarily due to (i) a RMB121.5 million increase in our prepayments, which was primarily due to higher prepayments we paid to large suppliers, being agents of large we-media platforms, to secure a favorable price for we-media traffic; (ii) a RMB37.3 million increase in our trade and other receivables and deposits; and (iii) a RMB33.1 million increase in bank balances and cash.

Our net current assets remained relatively stable with a slight increase from RMB370.0 million as of December 31, 2019 to RMB388.3 million as of March 31, 2020, primarily due to (i) a RMB62.9 million increase in our trade and other receivables and deposits, and (ii) a RMB31.4 million increase in our prepayments, partially offset by (i) a RMB27.9 million decrease in our bank balances and cash, and (ii) a RMB18.8 million increase in our trade and other payables.

Our net current assets increased from RMB388.3 million as of March 31, 2020 to RMB442.8 million as of June 30, 2020, primarily due to (i) a RMB86.5 million increase in our trade and other receivables, and (ii) a RMB9.1 million decrease in our trade and other payables, partially offset by a RMB32.0 million decrease in our bank balances and cash.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we funded our cash requirements principally from cash generated from our operating activities and Pre-[REDACTED] Investments. As of December 31, 2017, 2018 and 2019 and March 31, 2020, we had bank balances and cash of RMB64.2 million, RMB98.4 million, RMB131.5 million and RMB103.6 million, respectively. As of July 31, 2020, the latest practicable date for determining our indebtedness, we did not have any unutilized and unrestricted bank facilities. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimum liquidity that can meet our working capital needs. Our Directors are of the view that, taking into account the net [REDACTED] of the [REDACTED], our current bank balances and cash and our anticipated cash flows from operations, we have sufficient working capital for our present requirements and for at least the next 12 months following the date of this document.

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Cash Flow

The following table sets forth a summary of our cash flows for the period indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019	2020
	(RMB in thousands)			(unaudited)	
Operating cash flows before movements in working capital	36,035	50,904	78,927	12,062	35,166
Increase in trade and other receivables and deposits	(12,489)	(12,930)	(39,143)	(12,386)	(74,290)
Increase in prepayments	(25,752)	(25,209)	(123,391)	(68,267)	(31,226)
Increase/(decrease) in trade and other payables	9,052	594	20,600	(2,297)	20,180
Increase/(decrease) in contract liabilities	—	141	(356)	1,789	—
Cash from/(used in) operations	6,864	13,500	(63,363)	(69,099)	(50,170)
Income tax paid	(1,964)	(1,543)	(981)	(26)	—
Income tax refunded	—	118	—	—	—
Net cash generated from/(used in) operating activities	4,900	12,075	(64,344)	(69,125)	(50,170)
Net cash (used in)/generated from investing activities	(8,609)	(31,150)	(17,387)	20,810	24,853
Net cash generated from/(used in) financing activities	57,874	53,224	114,824	(2,405)	(2,607)
Net increase/decrease in cash and cash equivalents	54,165	34,149	33,093	(50,720)	(27,924)
Cash and cash equivalents at beginning of the year/period	10,082	64,247	98,396	98,396	131,489
Effect of foreign exchange rate changes	—	—	—	—	(12)
Cash and cash equivalents at end of the year/period	64,247	98,396	131,489	47,676	103,553

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Net Cash (Used in)/Generated From Operating Activities

Our net cash used in operating activities of RMB50.2 million for the three months ended March 31, 2020 was primarily attributable to our profit before taxation of RMB21.8 million, as adjusted for non-cash and non-operating items, which primarily included (i) net impairment loss of RMB11.4 million; and (ii) depreciation of right-of-use assets in relation to our leased offices of RMB1.1 million. The amount was further adjusted by negative changes in working capital. Changes in working capital primarily include (i) an increase in trade and other receivables and deposits of RMB74.3 million, reflecting our business expansion; and (ii) an increase in prepayments of RMB31.2 million, primarily reflecting prepayments we paid to large suppliers to secure a favorable price for we-media traffic.

Our net cash used in operating activities of RMB69.1 million for the three months ended March 31, 2019 was primarily attributable to our profit before taxation of RMB11.1 million and further negative changes in working capital, which primarily include (i) an increase in prepayments of RMB68.3 million, primarily reflecting prepayments we paid to large suppliers to secure a favorable price for we-media traffic; and (ii) an increase in trade and other receivables and deposits of RMB12.4 million, reflecting our business expansion.

Our net cash used in operating activities of RMB64.3 million for the year ended December 31, 2019 was primarily attributable to our profit before taxation of RMB70.2 million, as adjusted for non-cash and non-operating items, which primarily included (i) net impairment loss of RMB5.2 million; and (ii) depreciation of right-of-use assets in relation to our leased offices of RMB2.7 million. The amount was further adjusted by negative changes in working capital and PRC EIT paid of RMB1.0 million. Changes in working capital primarily include (i) an increase in prepayments of RMB123.4 million, primarily reflecting prepayments we paid to large suppliers to secure a favorable price for we-media traffic; and (ii) an increase in trade and other receivables and deposits of RMB39.1 million, reflecting our business expansion. To achieve sufficient working capital, we intend to improve our cash flow position by (i) controlling our cost by developing self-owned we-media publishers; (ii) closely monitoring the collection of our trade receivables; and (iii) controlling the proportion of prepayment to total traffic purchases and better utilizing our prepayments paid to large suppliers.

Our net cash generated from operating activities of RMB12.1 million for the year ended December 31, 2018 was primarily attributable to our profit before taxation of RMB45.9 million, as adjusted for non-cash and non-operating items, which primarily include (i) amortization of intangible assets of RMB3.4 million; and (ii) depreciation of right-of-use assets of RMB1.1 million. The amount was further adjusted by negative changes in working capital and PRC EIT paid of RMB1.5 million. Changes in working capital primarily include (i) an increase in prepayments of RMB25.2 million, primarily reflecting prepayments we paid to large suppliers to secure a favorable price for we-media traffic; and (ii) an increase in trade and other receivables and deposits of RMB12.9 million, reflecting our business expansion.

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Our net cash generated from operating activities of RMB4.9 million for the year ended December 31, 2017 was primarily attributable to our profit before taxation of RMB33.6 million, as adjusted for non-cash and non-operating items, which primarily include (i) amortization of intangible assets of RMB1.6 million; and (ii) depreciation of right-of-use assets of RMB0.8 million. The amount was further adjusted by negative changes in working capital and PRC EIT paid of RMB1.9 million. Changes in working capital primarily include (i) an increase in prepayments of RMB25.8 million, primarily reflecting prepayments we paid to large suppliers to secure a favorable price for we-media traffic; and (ii) an increase in trade and other receivables and deposits of RMB12.5 million, reflecting our business expansion.

Net Cash (Used In)/Generated from Investing Activities

Our net cash generated from investing activities of RMB24.9 million for the three months ended March 31, 2020 was primarily attributable to (i) redemption of wealth management products of RMB50.0 million; and (ii) repayment of loan receivable of RMB30.0 million, which was in relation to an unsecured loan that we provided to the holding company of Supplier Group A, partially offset by the purchase of wealth management products of RMB50.0 million.

Our net cash used in investing activities of RMB17.4 million for the year ended December 31, 2019 was primarily attributable to (i) purchase of wealth management products of RMB80.0 million; and (ii) increase in loan receivable of RMB30.0 million, which was in relation to an unsecured loan that we provided to our supplier in December 2019, partially offset by (i) redemption of wealth management products of RMB82.0 million; and (ii) repayment of loan receivable of RMB20.2 million, which was in relation to an unsecured loan that we provided to the holding company of Supplier Group A with a principal amount of RMB20.0 million and a fixed interest rate of 12% per annum.

Our net cash used in investing activities of RMB31.2 million for the year ended December 31, 2018 was primarily attributable to (i) increase in loan receivable of RMB20.2 million; and (ii) purchases of equity instruments at fair value through other comprehensive income of RMB6.0 million in relation to Beijing Yingyi.

Our net cash used in investing activities of RMB8.6 million for the year ended December 31, 2017 was primarily attributable to our purchases of intangible assets of RMB7.5 million, representing our purchases in relation to software and novel adaptation rights.

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Net Cash (Used in)/Generated From Financing Activities

Our net cash used in financing activities of RMB2.6 million for the three months ended March 31, 2020 was primarily attributable to our payment of share issued costs of RMB1.6 million.

Our net cash generated from financing activities of RMB114.8 million for the year ended December 31, 2019 was primarily attributable to our proceeds from issue of shares to certain Pre-[REDACTED] investors of RMB125.0 million, partially offset by expenses on issue of shares to certain Pre-[REDACTED] investors of RMB5.7 million.

Our net cash generated from financing activities of RMB53.2 million for the year ended December 31, 2018 was primarily attributable to our proceeds from issue of shares to certain Pre-[REDACTED] investors of RMB65.0 million, partially offset by our repayment of bank borrowings of RMB9.8 million.

Our net cash generated from financing activities of RMB57.9 million for the year ended December 31, 2017 was primarily attributable to (i) our proceeds from issue of shares to certain Pre-[REDACTED] investors of RMB50.0 million; and (ii) new bank borrowings raised of RMB9.8 million.

INDEBTEDNESS

During the Track Record Period, our indebtedness represented short-term bank borrowings. As of December 31, 2018 and 2019 and March 31, 2020, we did not have bank borrowings. As of December 31, 2017, we had bank borrowings of RMB9.8 million, with a floating interest rate equal to the LPR plus 48.5 to 92 basis points per annum. These loans were guaranteed jointly by Mr. Zhu, Ms. Wang Jin, wife of Mr. Zhu, and two Independent Third Parties. As of December 31, 2018, such loans were fully repaid and the guarantees were released accordingly.

Since March 31, 2020 and up to the date of this document, there has been no material change to our indebtedness. As of July 31, 2020, being the latest practicable date for determining our indebtedness, we had a total indebtedness of approximately RMB10.9 million, of which RMB10.6 million were lease liabilities and RMB0.3 million were amount due to shareholder. Except as otherwise disclosed in this document, as of June 30, 2020, we did not have any other loan issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, lease liabilities, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

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CAPITAL EXPENDITURE

Our capital expenditure (reflecting additions to property, plant and equipment, right-of-use assets and intangible assets) amounted to RMB9.5 million, RMB7.8 million, RMB17.6 million and RMB3.8 million for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, respectively. During the Track Record Period, our capital expenditure was primarily in relation to the purchase of furniture, fixtures and equipment, vehicles, software and adaption rights, as well as expenses related to leased buildings. We expect to incur capital expenditures of approximately RMB7.0 million for the year ending December 31, 2020. In the future, we believe that our liquidity requirements will be satisfied by using a combination of cash flow generated from our operating activities, bank borrowings, other funds raised from the capital markets from time to time and net [REDACTED] from the [REDACTED]. Our actual capital expenditures may differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial condition.

CONTINGENT LIABILITIES

As of March 31, 2020, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against us that is likely to have a material and adverse effect on our business, financial condition or results of operations.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into certain transactions with related parties, which primarily included guarantees by related parties to our bank borrowings.

Guarantees to Bank Borrowings

As of December 31, 2017, our bank borrowings of RMB9.8 million were guaranteed jointly by Mr. Zhu, Ms. Wang Jin, wife of Mr. Zhu, and two Independent Third Parties. As of December 31, 2018, such bank borrowings were fully repaid and the guarantees were released accordingly.

Purchase of a Vehicle from Related Parties

In November 2019, we purchased a vehicle from Mr. Zhu for a consideration of RMB798,000, which was recorded as amounts due to shareholders as of December 31, 2019. Such payable was fully settled in April 2020.

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KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the period indicated:

	As of/for the year ended December 31,			As of/for the period ended March 31,
	2017	2018	2019	2020
Gross profit margin ⁽¹⁾	33.6%	25.2%	24.7%	25.3%
Net profit margin ⁽²⁾	23.7%	17.3%	14.2%	12.3%
Return on equity ⁽³⁾	51.1%	28.8%	21.9%	19.9%
Return on assets ⁽⁴⁾	36.2%	23.8%	19.2%	17.2%
Current ratio ⁽⁵⁾	3.5	8.3	8.7	6.8

(1) Calculated as gross profit divided by revenue for the same year/period and multiplied by 100%.

(2) Calculated as profit for the year/period divided by revenue for the same year/period and multiplied by 100%.

(3) Calculated as profit for the year/period divided by average balance of total equity at the beginning and the end of that year/period, then multiplied by 100%. Return on equity for the three months ended March 31, 2020 is annualized by dividing profit for this period by 90 and multiplied by 360, then divided by average equity.

(4) Calculated as profit for the year/period divided by average balance of total assets at the beginning and the end of that year/period, then multiplied by 100%. Return on assets for the three months ended March 31, 2020 is annualized by dividing profit for this period by 90 and multiplied by 360, then divided by average assets.

(5) Calculated as current assets divided by current liabilities as of the same date.

Return on Equity

Our return on equity decreased from 51.1% for the year ended December 31, 2017 to 28.8% for the year ended December 31, 2018 primarily because our equity increased at a higher rate than our profit for the year, which was primarily due to the investment that we obtained from certain Pre-[REDACTED] Investors in 2018. Our return on equity decreased from 28.8% for the year ended December 31, 2018 to 21.9% for the year ended December 31, 2019, primarily because our equity increased at a higher rate than our profit for the period, which was primarily due to the investment that we obtained from certain Pre-[REDACTED] Investors in 2019. Our return on equity decreased from 21.9% for the year ended December 31, 2019 to 19.9% for the three months ended March 31, 2020, primarily because our equity increased at a higher rate than our profit for the period, which was primarily due to the investment that we obtained from certain Pre-[REDACTED] Investors in 2019.

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Return on Assets

Our return on assets decreased from 36.2% for the year ended December 31, 2017 to 23.8% for the year ended December 31, 2018 primarily because our total assets increased at a higher rate than our profit for the year. The increase in our total assets was primarily due to the investment that we obtained from certain Pre-[REDACTED] Investors in 2018. Our return on assets decreased from 23.8% for the year ended December 31, 2018 to 19.2% for the year ended December 31, 2019 primarily because our total assets increased at a higher rate than our profit for the period. The increase in our total assets was primarily due to the investment that we obtained from certain Pre-[REDACTED] Investors in 2019. Our return on assets decreased from 19.2% for the year ended December 31, 2019 to 17.2% for the three months ended March 31, 2020, primarily because our total assets increased at a higher rate than our profit for the period, which was primarily due to the investment that we obtained from certain Pre-[REDACTED] Investors in 2019.

Current Ratio

Our current ratio increased from 3.5 as of December 31, 2017 to 8.3 as of December 31, 2018, because our current assets increased while our current liabilities decreased. The decrease in our current liabilities was mainly due to a decrease in our bank borrowings of RMB9.8 million as we fully settled such borrowings in 2018. Our current ratio increased slightly from 8.3 as of December 31, 2018 to 8.7 as of December 31, 2019, primarily because of an increase in current assets from proceeds from certain Pre-[REDACTED] Investors. Our current ratio decreased from 8.7 as of December 31, 2019 to 6.8 as of March 31, 2020, primarily because our current liabilities increased at a higher rate than our current assets. The increase in our current liabilities was mainly due to an increase in our trade and other payables.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

QUANTITATIVE AND QUALITATIVE DISCLOSURE OF FINANCIAL RISKS

The primary financial risks we face in the ordinary course of business are interest rate risk, currency risk, credit risk; and liquidity risk. See note 33 to “Appendix I — Accountants’ Report” of this document for details.

Interest Rate Risk

We are exposed to fair value interest rate risk in relation to fixed-rate lease liabilities. We are also cash flow interest rate risk in relation to variable-rate bank balances, variable-rate bank borrowings due to the fluctuation of the prevailing market interest rate on bank deposits and bank borrowings carried at prevailing market interest rates based on or by reference to LPR. Our Group currently does not have interest rate hedging policy. However, management will consider hedging significant interest rate exposure should the need arise.

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Sensitivity Analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank borrowings at variable rate at the end of each reporting periods. The analysis is prepared assuming the financial instruments outstanding at the end of each reporting period were outstanding for the whole year. The bank balances are excluded from the sensitivity analysis as our management considers that the interest rate fluctuating is insignificant.

If variable rate bank borrowings had been 50 basis points higher and all other variables were held constant, our Group’s profit for the year would decrease/increase by approximately RMB42,500 for the year ended December 31, 2017.

Currency risk

Several companies within the Group have bank balances denominated in U.S. dollars and Hong Kong dollars, which expose us to foreign currency risk.

Sensitivity Analysis

Our management considers that any reasonably possible change in the RMB against the U.S. dollar and Hong Kong dollars will not cause significant change to the fair value of the financial assets.

Price risk

Our Group is exposed to equity price risk through its investment in equity security measured at fair value through other comprehensive income. Our Group invested in certain unquoted equity security for investee operating in short-form video making industry sector for long term strategic purpose which had been designated as fair value through other comprehensive income. Our Group monitors the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity Analysis

The sensitivity analyses have been determined based on the exposure to equity price risk as of December 31, 2017, 2018 and 2019 and March 31, 2020. For sensitivity analyses for unquoted equity securities with fair value measurement categorized within level 3, see note 33 “Appendix I — Accountants’ Report” of this document.

Credit Risk

As of December 31, 2017, 2018 and 2019 and March 31, 2020, our Group’s maximum exposure to credit risk which will cause a financial loss to our Group is due to failure to discharge an obligation by the counterparties for the carrying amounts of the financial assets at amortized cost/loans and receivables.

FINANCIAL INFORMATION

Our Group mainly conducted transactions with customers with good quality and long term relationship, when accepting new customers, our Group considers the reputation of the customer before contract is signed. In order to minimize the credit risk, the management of our Group continuously monitors the credit quality and financial conditions of the debtors to ensure that follow-up action is taken to recover overdue debts.

To manage risk arising from receivable balances, our Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. Our Group has concentration of credit risk as 35%, 33%, 43% and 18% of the total trade receivables were due from our Group’s largest customer as of December 31, 2017, 2018 and 2019 and March 31, 2020, 98%, 86%, 92% and 56% of the total trade receivables were due from our Group’s five largest customers as of December 31, 2017, 2018 and 2019 and March 31, 2020, respectively.

To manage risk arising from bank balances and cash, our Group mainly transacts with state-owned or reputable financial institutions in mainland China. There has been no recent history of default in relation to these financial institutions.

For details of our credit risk, see note 33 to “Appendix I — Accountants’ Report” of this document.

Liquidity Risk Management

In the management of liquidity risk, our management monitors and maintains a level of bank balances and cash deemed adequate by management to finance our Group’s operations and mitigate the effects of unexpected fluctuations in cash flows. For details of our liquidity risk, see note 33 to “Appendix I — Accountants’ Report” of this document.

DIVIDEND POLICY

No dividends have been paid by the Company or Beijing Joyspreader during the Tack Record Period. Our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law. Our shareholders at a general meeting must approve any declaration of dividends, which must not exceed the amount recommended by our Board. In addition, our Directors may from time to time pay such interim dividends as our Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they think appropriate. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Board.

FINANCIAL INFORMATION

Future dividend payments will also depend upon the availability of dividends received from our Consolidated Affiliated Entities. PRC laws require that dividends be paid only out of net profits calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our Consolidated Affiliated Entities may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our Consolidated Affiliated Entities may enter into in the future.

DISTRIBUTABLE RESERVES

As of March 31, 2020, the Company did not have any reserves available for distribution to our Shareholders.

[REDACTED] EXPENSES

Total [REDACTED] expenses borne or to be borne by us are estimated to be approximately RMB[REDACTED] million (including [REDACTED]), accounting for approximately [REDACTED]% of the gross [REDACTED] of the [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per Share, which is the mid-point of the indicative [REDACTED] stated in this document and assuming that the [REDACTED] is not exercised. During the Track Record Period, RMB[REDACTED] million was charged to our consolidated statement of profit or loss and other comprehensive income. After March 31, 2020, approximately RMB[REDACTED] million is expected to be charged to our statements of profit or loss and other comprehensive income, and approximately RMB[REDACTED] million is expected to be accounted for as a deduction from equity upon the [REDACTED]. The [REDACTED] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such [REDACTED] expenses to have a material adverse impact on our results of operation for the year ending December 31, 2020.

[REDACTED]

FINANCIAL INFORMATION

[REDACTED]

FINANCIAL INFORMATION

[REDACTED]

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed, after performing all the due diligence work which our Directors consider sufficient, that, as of the date of this document, there had been no material and adverse change in our financial, operational or trading positions or prospects since March 31, 2020 and there has been no event since March 31, 2020 which would materially affect the information shown in the Accountants’ Report set out in Appendix I to this document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, they were not aware of any circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

See “Business — Business Strategy” for a detailed description of our future plans.

USE OF [REDACTED]

We estimate that the net [REDACTED] of the [REDACTED], after deducting the estimated [REDACTED] fees and expenses payable by us in connection with the [REDACTED], will be in the amounts set out below:

- approximately HK\$[REDACTED] million, if the [REDACTED] is not exercised, or approximately HK\$[REDACTED] million, if the [REDACTED] is exercised in full, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the low-end of the proposed [REDACTED];
- approximately HK\$[REDACTED] million, if the [REDACTED] is not exercised, or approximately HK\$[REDACTED] million, if the [REDACTED] is exercised in full, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the proposed [REDACTED]; or
- approximately HK\$[REDACTED] million, if the [REDACTED] is not exercised, or approximately HK\$[REDACTED] million, if the [REDACTED] is exercised in full, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the high-end of the proposed [REDACTED].

We intend to use the net [REDACTED] from the [REDACTED] for the purposes and in the amounts set out below, assuming the [REDACTED] is not exercised and assuming the [REDACTED] is fixed at HK\$[REDACTED] per Share (being the mid-point of the indicative range of the [REDACTED]):

- approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used to develop our short-form video we-media monetization business, of which:
 - approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used to invest in developing our self-owned user traffic over the next five years. We plan to strategically invest in more PGC production companies and MCNs similar to Beijing Yingyi, which possess professional content production ability and high growth. We intend to utilize professional video production and content production abilities of PGC production companies and talent and content resources of MCNs to develop our self-owned short-form video we-media publishers so as to control our traffic acquisition costs. We expect that we will be able to increase our profitability and lower our cost through cooperation with PGC and MCN companies. We also intend to share our data library with PGC production companies and MCNs, through which PGC production companies and MCNs

FUTURE PLANS AND USE OF [REDACTED]

are able to identify the most popular content types with monetization potential and produce popular contents. In selecting acquisition and investment opportunities, we will take into account a number of considerations, including our strategic goals and the target company’s market position, management experience, valuation, track record and financial performance. We will select target companies: (i) at a growing stage, (ii) led by senior management with more than five years of experience in film production, animation production and content production industries, (iii) with a successful track record in content production, with robust IPs, talent and technical skills in animation production or film production that we can leverage to expand our capabilities, and (iv) with average annual income of at least RMB50.0 million for the past three years and with a valuation ranging from RMB100.0 million to RMB200.0 million (subject to future market condition, industry development and valuation multiples such as price-to-sales ratios and price-to-earnings ratios of comparable companies). We plan to develop self-owned we-media publishers with a total of approximately 600.0 million followers through our investment and acquisition. As of the Latest Practicable Date, we have not identified any investment or acquisition targets;

- approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used to expand our team over the next five years. We plan to recruit approximately 15 to 20 additional sales and marketing personnel, including three sales managers with experience in media marketing to support the ongoing expansion of our short-form video monetization services. We also plan to recruit approximately 25 to 30 additional algorithm optimization engineers and database architects, including four veteran algorithm development team leaders with expertise in the development of algorithms relating to short-form video marketing to enhance our research and development capabilities;
- approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used to further develop our short-form video technology infrastructure over the next five years. We plan to acquire servers with substantial data storage capacities and purchase high performance cloud computing services and high-speed network services;
- approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used to procure high quality copyrights or ownership of high quality online products or license-in high quality online products over the next five years, in order to expand our monetization product types and product offerings for short-form video we-media monetization services. For example, we plan to enter into exclusive product licensing arrangements with high quality online product providers, such as Html 5 games from well-known game developers (with a market price ranging from HK\$4.0 million to HK\$9.0 million per game) and popular literature products from online literary publishers (with a market price ranging from HK\$4.0 million to HK\$9.0 million per literature product). Moreover, we also plan to procure adaptation rights of popular games from leading game developers (with a

FUTURE PLANS AND USE OF [REDACTED]

market price ranging from HK\$9.0 million to HK\$15.0 million per adaptation right) to facilitate the production of high quality short-form video contents, which will in turn empower the development of high quality self-owned we-media publishers and is expected to contribute to the increase of our competitiveness; and

- approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used to continuously develop and optimize our algorithms and data collection capabilities to increase the effectiveness of recommendation algorithms for short-form videos over the next five years. We plan to outsource development work to third-party visual arts production companies. We also plan to invest in data testing and behavioral data collecting to increase the accuracy of our algorithms;
- approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used to continue to strengthen our capabilities in performance-based we-media marketing services of which:
 - approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used for potential investments in, or acquisitions of suitable licensed or large agents of top we-media platforms over the next five years, with the aim to secure favorable time slots and lower traffic acquisition cost without prepayment. We expect that we will be able to increase our profitability and lower our cost through investments in, or acquisitions of suitable licensed or large agents of top we-media platforms. We plan to select target companies: (i) at a mature stage, (ii) led by senior management with more than five years of experience in online marketing industry, (iii) with a successful track record in cooperation with well-known we-media platforms such as Douyin, WeChat and Weibo, and (iv) with average annual income of at least RMB300.0 million for the past three years and with a valuation ranging from RMB300.0 million to RMB500.0 million (subject to future market condition, industry development and valuation multiples such as price-to-sales ratios and price-to-earnings ratios of comparable companies). As of the Latest Practicable Date, we have not identified any investment or acquisition targets;
 - approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used for upgrading and optimizing our technologies, platforms and algorithms over the next five years. We plan to (i) engage third-party technology development companies to enhance the functionality and architecture of our technology platforms, and (ii) expand our research and development team by recruiting approximately ten additional algorithm optimization engineers and database architects and four algorithm development team leaders;

FUTURE PLANS AND USE OF [REDACTED]

- approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used to expand our online product offerings over the next five years, for example, to procure ownerships and copyrights of high quality audio books and visual reality games from leading game developers; and
- approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used to increase and diversify our collaboration with licensed or large agents of popular we-media platforms in order to capture high-quality we-media resources over the next five years;
- approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used to finance our international expansion, of which:
 - approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used to establish an overseas office in South Korea or countries in Southeast Asia and to establish an international sales and marketing team by recruiting approximately 30 additional sales and marketing personnel with more than three years of experience in media marketing, including three seasoned team leaders with more than six years of experience in we-media marketing over the next five years;
 - approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used for exploring potential investments and acquisitions, including talent trainee agency companies with strong talent resources in South Korea and Southeast Asia over the next five years. We believe that there are many idol trainees in South Korea and Southeast Asia that would diversify the short-form video we-media content on China’s short-form video platforms. In addition, we also plan to leverage our idol trainees resources to develop more popular short-form video we-media accounts with over a million followers in order to develop our own user traffic and increase the profitability and lower the cost of our performance-based marketing services. We plan to select target companies: (i) at a growing stage with annual production capability of more than 15,000 minutes’ short-form videos, (ii) led by senior management with more than five years of experience in talent management and entertainment industry, (iii) that own 20 to 50 talents with sizable followers, and (iv) with a valuation ranging from RMB150.0 million to RMB200.0 million (subject to future market condition, industry development and valuation multiples such as price-to-sales ratios and price-to-earnings ratios of comparable companies). As of the Latest Practicable Date, we have not identified any investment or acquisition targets;

FUTURE PLANS AND USE OF [REDACTED]

- approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used for procuring user traffic from overseas we-media platforms or their agents that provide traffic resources to extend our performance-based we-media marketing services to overseas platforms for both domestic marketers and foreign marketers that seek to market their products on overseas short-video platforms over the next five years. We believe that there is large demand for marketing services on overseas platform, especially for marketers seeking to expand their business overseas. We further believe that demand for monetization services from overseas we-media publishers will increase over the next five years. For example, according to Frost & Sullivan, total cumulative overseas downloads of short-form video apps reached over 2 billion by mid 2020. According to the same source, short-form video apps are more and more popular worldwide, especially among young generation, who are willing to share their daily life and publish interesting videos on short-form video platforms, therefore, short-form video platforms are expected to attract more internet traffic globally in future. Also, leading domestic short-form video platforms may plan to expand their international presence in future, although their expansion may be subject to certain local regulatory risk and sanction risk. It is expected that demands for marketing services on overseas short-form video platforms from brands will increase significantly in the future, indicating significant potential market opportunities for digital market service providers, according to the same source. We intend to reach potential overseas marketers and marketing agents through international connection of our Shareholders. We also plan to establish an oversea business department to take responsibility for overseas client development. We plan to establish highly integrated teams in overseas offices consisting of both local employees and employees dispatched from our headquarters in China. Our overseas talent will be able to provide us with a deep understanding of local markets and cultures to provide localized services, while the employees from our headquarters will be able to effective implement our global strategy. In addition, we plan to engage third party marketing agents with in-depth knowledge of the local markets to help execute our expansion strategies in our targeted overseas markets; and
- approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used to develop overseas versions of our technology platforms. In order to better satisfy the needs and requirements of overseas customers and we-media publishers and improve their user experience, we plan to develop localized versions of our technology platforms, including our internal management and analysis platforms, Html 5 product platforms and our Beauty Connector. Over the next five years, we plan to recruit approximately 30 additional engineers (including five technical engineers (two language analysis engineers, two project development engineers and one information safety engineer) in Japan, five technical engineers (two language analysis engineers, two project development engineers and one information safety engineer) in Korea, five technical

FUTURE PLANS AND USE OF [REDACTED]

ngineers (two language analysis engineers, two project development engineers and one information safety engineer) in Russia, six technical engineers (two language analysis engineers, two project development engineers and two information safety engineers) in Malaysia, six technical engineers (two language analysis engineers, two project development engineers and two information safety engineers) in Indonesia and three seasoned engineers) with more than five years of experience, including three seasoned engineers (including one in Japan, one in Korea and one in Russia) as team leader. We believe that local engineers have language advantages and understands the differences in technology and business that are unique to each region. According to Frost & Sullivan, these countries may experience different industrial and technology development stages, have different data safety requirements and content (such as religion and politics related content) review requirements and marketers’ and users’ preference may be various among different markets due to different cultural, religious and geographical environment. Therefore, equipped with localized engineers may enable us to use technologies that meet local data safety requirements and content (such as religion and politics related content) review requirements and be more sensitive and responsive to local users’ and local marketers’ demand; and

- approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million, will be used for working capital and general corporate purposes.

In the event that the [REDACTED] is fixed below or above the mid-point of the indicative [REDACTED], the net [REDACTED] allocated to the above purposes will be adjusted on a pro rata basis. Any additional [REDACTED] received from the exercise of the [REDACTED] will be allocated to the above purposes on a pro rata basis.

To the extent that the net [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to apply the net [REDACTED] to short-term demand deposits.

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APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report set out on pages I-1 to I-64 received from the Company’s reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF JOY SPREADER INTERACTIVE TECHNOLOGY. LTD, CHINA SECURITIES (INTERNATIONAL) CORPORATE FINANCE COMPANY LIMITED, CHINA MERCHANTS SECURITIES (HK) CO., LIMITED AND BOCOM INTERNATIONAL (ASIA) LIMITED

Introduction

We report on the historical financial information of Joy Spreader Interactive Technology. Ltd (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages I-3 to I-64, which comprises the consolidated statements of financial position of the Group as at 31 December 2017, 2018 and 2019 and 31 March 2020, the statement of financial position of the Company as at 31 December 2019 and 31 March 2020 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 December 2019 and the three months ended 31 March 2020 (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-3 to I-64 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [●] 2020 (the “Document”) in connection with the initial [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company (the “Directors”) are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the Directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ 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 Public Accountants (the “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.

APPENDIX I

ACCOUNTANTS’ REPORT

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 accountants’ 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 accountants consider internal control relevant to the entity’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 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 accountants’ report, a true and fair view of the Group’s financial position as at 31 December 2017, 2018 and 2019 and 31 March 2020, of the Company’s financial position as at 31 December 2019 and 31 March 2020 and of the Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 2 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 statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the three months ended 31 March 2019 and other explanatory information (the “Stub Period Comparative Financial Information”). The Directors are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in note 2 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 Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA 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 accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

APPENDIX I**ACCOUNTANTS' REPORT**

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange 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-3 have been made.

Dividends

We refer to note 14 to the Historical Financial Information which states that no dividend was declared or paid by the entities comprising the Group in respect of the Track Record Period and states that no dividend was declared or paid by the Company since its incorporation.

[Deloitte Touche Tohmatsu]

Certified Public Accountants

Hong Kong

[●] 2020

APPENDIX I

ACCOUNTANTS’ REPORT

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of the Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”) and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (“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.

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Three months ended 31 March	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	6	135,257	262,255	473,565	97,512	167,274
Cost of revenue		(89,846)	(196,190)	(356,619)	(74,126)	(124,961)
Gross profit		45,411	66,065	116,946	23,386	42,313
Other income	7	69	3,053	3,610	198	664
Other gains and losses		–	2	451	53	(12)
Impairment losses, net of reversal	8	191	(544)	(5,154)	(68)	(11,447)
Distribution and selling expenses		(1,682)	(2,994)	(3,366)	(506)	(394)
Administrative expenses		(7,232)	(13,556)	(14,786)	(2,709)	(4,094)
Research and development expenses		(2,946)	(3,892)	(6,804)	(1,701)	(1,782)
[REDACTED] expenses		–	(1,860)	(20,364)	(7,518)	(3,260)
Finance costs	9	(236)	(334)	(339)	(85)	(141)
Profit before taxation	10	33,575	45,940	70,194	11,050	21,847
Income tax expenses	12	(1,512)	(489)	(2,833)	(366)	(1,341)
Profit for the year/period attributable to owners of the Company		<u>32,063</u>	<u>45,451</u>	<u>67,361</u>	<u>10,684</u>	<u>20,506</u>
Other comprehensive income						
Item that will not be reclassified to profit or loss:						
Fair value gain on equity instruments at fair value through other comprehensive income		–	–	3,936	23	–
Income tax relating to item that will not be reclassified		–	–	(590)	(3)	–
Other comprehensive income for the year/period, net of income tax		<u>–</u>	<u>–</u>	<u>3,346</u>	<u>20</u>	<u>–</u>
Total comprehensive income for the year/period attributable to owners of the Company		<u>32,063</u>	<u>45,451</u>	<u>70,707</u>	<u>10,704</u>	<u>20,506</u>
Basic earnings per share (RMB cents)	13	<u>2.7</u>	<u>3.1</u>	<u>4.4</u>	<u>0.7</u>	<u>1.3</u>

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 March
	Notes	2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	15	307	986	5,354	8,876
Right-of-use assets	16	1,040	6,914	11,395	10,299
Intangible assets	17	11,516	8,068	7,639	7,049
Deferred tax assets	18	8	299	–	13
Other deposits	20	–	1,229	2,242	2,219
Prepayments	22	–	3,529	3,642	3,642
Equity instruments at fair value through other comprehensive income	19	–	6,000	9,936	9,936
		12,871	27,025	40,208	42,034
CURRENT ASSETS					
Trade and other receivables and deposits	20	34,438	45,394	82,650	145,516
Loan receivables	21	–	20,230	30,030	1,622
Prepayments	22	26,829	52,128	173,638	205,051
Financial assets at fair value through profit or loss	19	–	1,002	–	–
Bank balances and cash	23	64,247	98,396	131,489	103,553
		125,514	217,150	417,807	455,742
CURRENT LIABILITIES					
Trade and other payables	24	23,793	24,387	41,913	60,717
Lease liabilities	25	863	1,397	4,181	3,683
Bank borrowings	26	9,847	–	–	–
Contract liabilities	27	215	356	–	–
Income tax payable		743	84	1,667	3,004
		35,461	26,224	47,761	67,404
NET CURRENT ASSETS		90,053	190,926	370,046	388,338
TOTAL ASSETS LESS CURRENT LIABILITIES					
		102,924	217,951	410,254	430,372
NON-CURRENT LIABILITIES					
Lease liabilities	25	–	5,373	7,064	6,659
Deferred tax liabilities	18	–	–	560	577
		–	5,373	7,624	7,236
NET ASSETS		102,924	212,578	402,630	423,136
CAPITAL AND RESERVES					
Share capital	29	13,333	14,953	14	14
Reserves	30	89,591	197,625	402,616	423,122
TOTAL EQUITY		102,924	212,578	402,630	423,136

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STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December	As at 31 March
	Notes	2019	2020
		RMB’000	RMB’000
NON-CURRENT ASSET			
Investment in a subsidiary	38	—	—
		—	—
CURRENT ASSETS			
Other receivables and deposits	20	6,969	8,003
Prepayments	22	467	750
Bank balances and cash	23	317	128
		7,753	8,881
CURRENT LIABILITIES			
Trade and other payables	24	16,835	17,348
Amount due to a subsidiary	28	13,160	17,446
		29,995	34,794
NET LIABILITIES		(22,242)	(25,913)
CAPITAL AND RESERVES			
Share capital	29	14	14
Reserve	30	(22,256)	(25,927)
TOTAL EQUITY		(22,242)	(25,913)

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Capital reserve	Fair value through other comprehensive income reserve	Statutory reserve funds	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	11,111	4,067	–	961	6,538	22,677
Profit and total comprehensive income for the year	–	–	–	–	32,063	32,063
Issue of shares (note a)	2,222	47,778	–	–	–	50,000
Share issuance expenses (note a)	–	(1,816)	–	–	–	(1,816)
Appropriation of statutory reserve funds	–	–	–	3,174	(3,174)	–
At 31 December 2017	13,333	50,029	–	4,135	35,427	102,924
Adjustments (note 3)	–	–	–	–	(187)	(187)
At 1 January 2018	13,333	50,029	–	4,135	35,240	102,737
Profit and total comprehensive income for the year	–	–	–	–	45,451	45,451
Issue of shares (note a)	1,620	63,380	–	–	–	65,000
Share issuance expenses (note a)	–	(610)	–	–	–	(610)
Appropriation of statutory reserve funds	–	–	–	5,026	(5,026)	–
At 31 December 2018	14,953	112,799	–	9,161	75,665	212,578
Profit for the year	–	–	–	–	67,361	67,361
Other comprehensive income for the year	–	–	3,346	–	–	3,346
Profit and total comprehensive income for the year	–	–	3,346	–	67,361	70,707
Issue of shares (note a)	1,360	123,640	–	–	–	125,000
Share issuance expenses (note a)	–	(5,669)	–	–	–	(5,669)
Appropriation of statutory reserve funds	–	–	–	7,963	(7,963)	–
Issue of shares (note b)	14	–	–	–	–	14
Adjustment arising from the Group Reorganisation (note c)	(16,313)	16,313	–	–	–	–
At 31 December 2019	14	247,083	3,346	17,124	135,063	402,630

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	Share capital	Capital reserve	Fair value through other comprehensive income reserve	Statutory reserve funds	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	14	247,083	3,346	17,124	135,063	402,630
Profit for the period	–	–	–	–	20,506	20,506
Other comprehensive income for the period	–	–	–	–	–	–
Profit and total comprehensive income for the period	–	–	–	–	20,506	20,506
At 31 March 2020	14	247,083	3,346	17,124	155,569	423,136
(Unaudited)						
At 1 January 2019	14,953	112,799	–	9,161	75,665	212,578
Profit for the period	–	–	–	–	10,684	10,684
Other comprehensive income for the period	–	–	20	–	–	20
Profit and total comprehensive income for the period	–	–	20	–	10,684	10,704
At 31 March 2019	14,953	112,799	20	9,161	86,349	223,282

Notes:

- During the Track Record Period, Beijing Joy Spreader Interactive Network Technology Co., Ltd (“Joy Spreader”), which was the holding company of the Group before the Company became the holding company of the Group on 11 December 2019, issued shares to a few new shareholders. Transaction costs of the issuance of these new shares were incurred and charged against equity.
- On 19 February 2019 and 11 December 2019, 9,883,333 and 6,429,299 ordinary shares of HK\$16,313, equivalent to approximately RMB14,000 in total were issued by the Company and allotted to the offshore holding companies wholly-owned by the legal shareholders of Joy Spreader.
- On 11 December 2019, the Group completed the group reorganisation of which details are set out in the section headed “History, Reorganisation and Corporate Structure” of the Document (the “Group Reorganisation”). As a result, the Company became the holding company of the Group since then.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
OPERATING ACTIVITIES					
Profit before taxation	33,575	45,940	70,194	11,050	21,847
Adjustments for:					
Interest income	(69)	(633)	(1,529)	(198)	(291)
Other gains and losses	–	(2)	(451)	(53)	12
Depreciation of property, plant and equipment	65	142	758	74	324
Depreciation of right-of-use assets	785	1,131	2,660	599	1,096
Amortisation of intangible assets	1,634	3,448	1,802	437	590
Impairment losses, net of reversal	(191)	544	5,154	68	11,447
Finance costs	236	334	339	85	141
Operating cash flows before movements in working capital	36,035	50,904	78,927	12,062	35,166
Increase in trade and other receivables and deposits	(12,489)	(12,930)	(39,143)	(12,386)	(74,290)
Increase in prepayments	(25,752)	(25,209)	(123,391)	(68,267)	(31,226)
Increase/(decrease) in trade and other payables	9,052	594	20,600	(2,297)	20,180
Increase/(decrease) in contract liabilities	–	141	(356)	1,789	–
Cash from/(used in) operations	6,846	13,500	(63,363)	(69,099)	(50,170)
Income tax paid	(1,946)	(1,543)	(981)	(26)	–
Income tax refunded	–	118	–	–	–
Net cash from/(used in) operating activities	4,900	12,075	(64,344)	(69,125)	(50,170)
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(269)	(821)	(4,867)	(86)	(3,846)
Purchase of intangible assets	(7,546)	–	(3,300)	–	–
Prepayments for right-of-use assets	(863)	(203)	(1,526)	(534)	–
Purchase of financial assets at fair value through profit or loss	–	(1,000)	(80,000)	(80,000)	(50,000)
Redemption of financial assets at fair value through profit or loss	–	–	82,043	81,007	50,034
Purchase of equity instruments at fair value through other comprehensive income	–	(6,000)	–	–	–
Increase in loan receivable	–	(20,230)	(30,030)	–	(1,622)
Repayment of loan receivables	–	–	20,230	20,230	30,030
Interest received	69	633	488	193	257
Prepayments for software platform development	–	(1,887)	–	–	–
Prepayments for building purchase	–	(1,642)	–	–	–
Acquisition of a subsidiary	–	–	(425)	–	–
Net cash (used in)/from investing activities	(8,609)	(31,150)	(17,387)	20,810	24,853

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	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
FINANCING ACTIVITIES					
New bank borrowings raised	9,777	–	–	–	–
Repayment of bank borrowings	–	(10,000)	–	–	–
Repayment of lease liabilities	(67)	(895)	(1,140)	(284)	(903)
Interests paid	(166)	(181)	(339)	(85)	(141)
Proceeds from issue of shares	50,000	65,000	125,014	–	–
Expenses on [REDACTED] of shares	(1,670)	(610)	(5,669)	–	–
Payment of shares [REDACTED] costs	–	(90)	(3,042)	(2,036)	(1,563)
Increase in restricted bank deposits	–	–	(3,005)	–	–
Decrease in restricted bank deposits	–	–	3,005	–	–
Net cash from/(used in) financing activities	57,874	53,224	114,824	(2,405)	(2,607)
Net increase/(decrease) in cash and cash equivalents	54,165	34,149	33,093	(50,720)	(27,924)
Cash and cash equivalents at beginning of the year/period	10,082	64,247	98,396	98,396	131,489
Effect of foreign exchange rate changes	–	–	–	–	(12)
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	64,247	98,396	131,489	47,676	103,553

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated and registered in the Cayman Islands on 19 February 2019 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The respective addresses of the registered office and the principal place of business of the Company are stated in the section headed “Corporate Information” of the Document. The principal activity of the Company is investment holding. The principal activities of the Group are provision of digital marketing business and relevant services.

The ultimate holding company and immediate holding company of the Company are ZZN. Ltd. and Laurence mate. Ltd., which were incorporated in the British Virgin Islands (the “BVI”), and are ultimately controlled by Mr. Zhu Zinan (the “Ultimate Controlling Shareholder”).

The Historical Financial Information is presented in RMB, which is also the functional currency of the Company.

No statutory audited financial statements were issued by the Company since the Company is incorporated in a jurisdiction where there is no statutory audit requirement.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

Prior to the incorporation of the Company and the completion of the Group Reorganisation, the main operating activities of the Group were carried out by Joy Spreader and its subsidiaries, which were established in the People’s Republic of China (the “PRC”) (collectively, the “Consolidated Affiliated Entities”). During the Track Record Period, Joy Spreader was owned by the Ultimate Controlling Shareholder and other shareholders (collectively referred to as “Joy Spreader Shareholders”).

In preparation for the [REDACTED] of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited (the “[REDACTED]”), the Group underwent the Group Reorganisation involving the following steps: (i) incorporating the Company and certain investment holding companies including a wholly-owned subsidiary established in the PRC namely Beijing Joy Spreader Interactive Technology Limited (“Joy Spreader WFOE”), (ii) incorporating investment holding companies by each of the Joy Spreader Shareholders and each of them subscribing the shares of the Company with the equivalent shareholding percentage of Joy Spreader and (iii) entering into the Contractual Arrangements as detailed below.

As the shares are proportionately issued to the shareholders of the Company, the Group resulting from the Group Reorganisation, which involves interspersing certain investment holding companies including the Company between Joy Spreader and the Joy Spreader Shareholders and execution of the Contractual Arrangements (see definition in the paragraph below), is regarded as a continuing entity throughout the Track Record Period, regardless of the actual date when they legally form part of a group. Accordingly, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes of equity and consolidated statements of cash flows for the Track Record Period have been prepared to include the results, changes in equity and cash flows of the companies now comprising the Group as if the group structure upon the completion of the Group Reorganisation had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment, where there is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2017 and 2018 have been prepared to present the assets and liabilities of the companies now comprising the Group at the carrying amounts shown in the financial statements of the group entities, as if the current group structure upon completion of the Group Reorganisation had been in existence at those dates taking into account the respective dates of incorporation/establishment, where applicable.

The Group conducts its business through the Consolidated Affiliated Entities in the PRC due to regulatory restrictions on foreign ownership in the Internet cultural business industry in the PRC. Joy Spreader WFOE has entered into contractual arrangements with Joy Spreader and the Joy Spreader Shareholders on 11 December 2019 (the “Contractual Arrangements”). Pursuant to the Contractual Arrangements, Joy Spreader WFOE is able to:

- exercise effective financial and operational control over the Consolidated Affiliated Entities;
- exercise equity holders’ voting rights of the Consolidated Affiliated Entities;

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- receive substantially all of the economic returns generated by the Consolidated Affiliated Entities in consideration for the business support, technical and consulting services provided by Joy Spreader WFOE;
- obtain an irrevocable and exclusive right to purchase all or part of equity interests in the Consolidated Affiliated Entities from the respective equity holders at a minimum purchase price permitted under PRC laws and regulations. Joy Spreader WFOE may exercise such options at any time until they have acquired all equity interests and/or all assets of the Consolidated Affiliated Entities. In addition, the Consolidated Affiliated Entities are not allowed to sell, transfer, pledge or dispose of any assets, or make any distributions to their equity holders without prior consent of Joy Spreader WFOE; and
- obtain a pledge over the entire equity interest of the Consolidated Affiliated Entities from their equity holders as collateral security for payments of the Consolidated Affiliated Entities due to Joy Spreader WFOE and to secure performance of the Consolidated Affiliated Entities’ obligations under the Contractual Arrangements.

The Group does not have any equity interest in the Consolidated Affiliated Entities. However, as a result of the Contractual Arrangements, the Group has power over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities, has the ability to affect those returns through its power over the Consolidated Affiliated Entities and is considered to have control over the Consolidated Affiliated Entities. Consequently, the Company regards the Consolidated Affiliated Entities as indirect subsidiaries. The Group has consolidated the assets, liabilities, revenue, income and expenses of the Consolidated Affiliated Entities in the Historical Financial Information.

3. APPLICATION OF NEW AND REVISED IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied IFRSs, which are effective for the accounting period beginning on 1 January 2020 throughout the Track Record Period, except that the Group applied IFRS 9 *Financial Instruments* and early adopted Amendments to IFRS 9 *Prepayment Features with Negative Compensation* on 1 January 2018 and IAS 39 *Financial Instruments: Recognition and Measurement* prior to 1 January 2018 and early adopted and consistently applied IFRS 16 *Leases* using the modified retrospective approach (including practical expedient permitted by IFRS 16) throughout the Track Record Period. The accounting policies for these IFRSs are set out in note 4 as below.

IFRS 9 “Financial Instruments”

For the year ended 31 December 2018, the Group has applied IFRS 9 and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses (“ECL”) for financial assets and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings without restating comparative information accordingly, certain comparative information may not be comparable.

Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under IAS 39 have been assessed individually, the remaining balances are grouped based on shared credit risk characteristics.

ECL for other financial assets at amortised cost, including bank balances and cash and deposits and other receivables, are assessed on 12-month ECL (“12m ECL”) basis as there had been no significant increase in credit risk since initial recognition, except for certain other receivables which are assessed and measured on lifetime ECL basis as those credit risk had increased significantly since initial recognition.

As at 1 January 2018, loss allowance of RMB201,000 and respective deferred tax assets of RMB14,000 have been provided with the net effect of RMB187,000 charged to retained earnings.

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All balances as at 31 December 2017 reconciled to the opening balances as at 1 January 2018 are as follows:

	Allowances for trade and other receivables	Deferred tax assets	Retained earnings
	RMB'000	RMB'000	RMB'000
At 31 December 2017			
– IAS 39	335	8	35,427
Effect arising from initial application of IFRS 9	201	14	(187)
At 1 January 2018 – IFRS 9	536	22	35,240

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments ²
Amendments to IFRS 16	COVID-19-Related Rent Concessions ³
Amendments to IFRS 3	Reference to the Conceptual Framework ⁴
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use ⁴
Amendments to IAS 37	Previous Contracts–Cost of Fulfilling a Contract ⁴
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020 ⁴
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform–Phase 2 ⁵

¹ Effective for annual periods beginning on or after a date to be determined.

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

³ Effective for annual periods beginning on or after 1 June 2020.

⁴ Effective for annual periods beginning on or after 1 January 2022.

⁵ Effective for annual periods beginning on or after 1 January 2021.

The Directors anticipate that the application of all new and amendments to IFRSs that have been issued but are not yet effective will have no material impact on the consolidated financial statements in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with accounting policies which conform with IFRSs issued by the IASB. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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Non-controlling interests in subsidiaries are presented separately from the Group’s equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party’s perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Investment in a subsidiary

Investment in a subsidiary is stated in the statement of financial position of the Company at cost less any identified impairment loss.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

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The Group’s principal services are the provision of performance-based we-media marketing services for various types of products (including mobile applications, mobile games, online literature, branding and activities, etc.) as a principal on a gross basis on revenue recognition. The Group normally acquires the advertising traffic of different online platforms from the suppliers (which are we-media publishers including WeChat official accounts and information flow platforms). By analysing the products provided by the customers and the potential we-media publisher’s content and follower base using the Group’s proprietary algorithms, the Group is able to identify and distribute tailored product portfolio to targeted subscribers through the acquired advertising traffic from suitable we-media publishers.

The Group recognises revenue at a point in time when specific services are provided based on the results of the placement of advertisements in relevant we-media platforms which are confirmed with the customers monthly.

In addition, the Group also engages in game co-publishing business and generates its agency fee revenue by sharing certain portion of the revenue from sales of virtual items in mobile games published by third-party game developers through third-party Android distribution channels from time to time as an agent on a net basis for revenue recognition. Such revenue is recognised at a point in time when the agency fee is confirmed with the customers.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

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Leases

Definition of a lease

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

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payment made at or before the commencement date; and
- any initial direct costs incurred by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. As the adjustments to fair value at initial recognition are insignificant, such adjustments are not considered and are not included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the retirement funds scheme managed by local social security bureau in accordance with the government regulations in the People’s Republic of China (the “PRC”), are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when the employee rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment including furniture, fixtures and equipment, and vehicle held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Impairment of property, plant and equipment, right-of-use assets and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

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The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or

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received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss (“FVTPL”), except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income (“OCI”) if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

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(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the FVTOCI reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the “other income” line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 3)

The Group performs impairment assessment under ECL model on financial assets (including trade and other receivables, loan receivables and bank balances and cash), which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings except that significant balances are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

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

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;

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- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and other receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interests would be immaterial.

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period before 1 January 2018. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

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For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the financial asset’s original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The amount of the impairment loss is recognised is the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instruments is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities and lease liabilities

The Group derecognises financial liabilities and lease liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in note 4, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Impairment of intangible assets

In determining whether an intangible asset is impaired, the management has to exercise judgement in whether an event has occurred or any indicators that may affect the asset’s value. If any such indication exists, the management requires an estimation of recoverable amount of the asset, and has to exercise judgement and make significant degree of estimation in determining the recoverable amount of the asset, particularly in assessing: (1) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (2) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the assets belongs. Changing the assumptions selected by management to determine the level of impairment, including product price, volume of sales and growth rate, gross profit ratio or discount rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amounts of intangible assets as at 31 December 2017, 2018 and 2019 and 31 March 2020 were RMB11,516,000, RMB8,068,000 and RMB7,639,000 and RMB7,049,000, respectively. Details of the intangible assets are disclosed in note 17.

Estimated impairment of trade receivables

Prior to 1 January 2018, when there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the actual future cash flows are less than expected, or being revised downward due to the change in facts and circumstances, a material impairment loss/further impairment loss may arise. As at 31 December 2017, the carrying amount of trade receivables was RMB32,534,000 after deducting allowance for doubtful debts of RMB238,000.

Starting from 1 January 2018, the Group recognises lifetime ECL for trade receivables, using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at end of the reporting period except that significant balances are assessed individually. The debtors are assessed individually with significant balances by reference to aging, past default experience and current past due exposure of the debtor, and an analysis of the debtor’s current financial position. Estimated loss rates are based on probability of default and loss given default with reference to an external credit report and are adjusted for forward-looking information. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. As at 1 January 2018, 31 December 2018, 31 December 2019 and 31 March 2020, the carrying amounts of trade receivables were RMB32,333,000, RMB41,946,000, RMB69,296,000 and RMB130,781,000, after deducting allowance for doubtful debts of RMB439,000, RMB865,000, RMB4,951,000 and RMB16,496,000 respectively. Details of trade receivables are set out in note 20.

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Fair value measurement of equity instruments

As at 31 December 2018, 31 December 2019 and 31 March 2020, the Group’s unlisted equity securities amounting to RMB6,000,000, RMB9,936,000 and RMB9,936,000 were measured at fair value with fair value being determined based on significant unobservable inputs using valuation techniques. Judgment and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could result in material adjustments to the fair value of these instruments. See note 33 for further disclosures.

6. REVENUE AND SEGMENTAL INFORMATION

The Group is engaged in the provision of performance-based we-media marketing services for various types of products (including mobile applications, mobile games, online literature, branding and activities, etc.). Performance-based we-media promotion refers to the form of promotion which is displayed on we-media, which are mainly online accounts registered by their users having the traffic to publish internet content (including text, pictures, audio or games or video contents) to the public. The Group normally acquires the advertising traffic of different online platforms from the suppliers (which are we-media publishers including WeChat official accounts and information flow platforms) and places the internet content provided by the customers in the appropriate we-media platforms (such as WeChat) which can target the interests of their subscribers.

Disaggregation of revenue by type of products promoted

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Performance-based we-media marketing service					
– online products (Note)	131,954	256,313	448,675	89,736	156,276
– consumer goods	–	3,774	23,022	7,565	10,481
– others	3,303	2,168	1,868	211	517
	<u>135,257</u>	<u>262,255</u>	<u>473,565</u>	<u>97,512</u>	<u>167,274</u>

Note: During the year ended 31 December 2017, the Group acted as agent to earn agency fee on a net basis amounting to RMB11,465,000 from sales of virtual items in mobile games published by game developers. Other than that, the Group acted as principal and recognised all other revenue on a gross basis during the Track Record Period.

Timing of revenue recognition

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Point in time	<u>135,257</u>	<u>262,255</u>	<u>473,565</u>	<u>97,512</u>	<u>167,274</u>

Performance obligations for contracts with customers

The Group mainly acts as the principal to all contracts with customers and therefore recognised revenue earned and costs incurred related to the transactions on a gross basis where the Group is the primary obligor and are responsible for (i) identifying and contracting with individual customers and negotiating with them the contract price; (ii) identifying and contracting with suppliers (normally the Group made prepayments to suppliers for the advertising traffic to be used for a future period, for example nine months); and (iii) bearing sole responsibility for fulfillment of the services. Such revenue is recognised at a point in time when specific services were provided based on different pricing models (for example, cost per action or cost per click for performance-based advertising services to advertising agencies as a result of the placement of advertisements in relevant we-media platforms). Normally, the payment terms for the contract is 90 days after the number of the specified actions is agreed with the customers monthly.

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In addition, the Group also engaged in game co-publishing business and generated agency fee from sales of virtual items in mobile games published by game developers through third-party Android distribution channels from time to time. The agency fee is determined by share of billings from the sales in the games with game developers and Android distribution channel operators. Such revenue amounting to RMB11,465,000 was recognised for the year ended 31 December 2017.

Transaction price allocated to the remaining performance obligation for contracts with customers

All performance-based we-media marketing service are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Segment information

The Group has been operating in one reporting segment, being the performance-based we-media marketing service.

For the purpose of resources allocation and performance assessment, the Group’s chief executive officer, being the chief operating decision maker, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment and no further analysis of this single segment is presented. In this regard, no segment information is presented.

Geographical information

The Group is located in the PRC and all of the Group’s revenue is generated from contracts with customers in the PRC based on the place of establishment of the customers, and all of the Group’s non-current assets are located in the PRC. Thus, no geographical information is presented.

Information about major customers

Revenue from customers of the Track Record Period contributing for 10% or more of the total sales of the Group are as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Customer A	16,682	31,875	N/A ¹	N/A ¹	N/A ¹
Customer B ³	24,856	65,614	N/A ¹	12,591	N/A ²
Customer C	31,044	36,638	N/A ¹	N/A ²	N/A ²
Customer D ⁴	26,215	33,588	N/A ¹	N/A ¹	N/A ¹
Customer E ⁵	N/A ²	N/A ²	92,653	N/A ²	37,830
Customer F	N/A ²	N/A ²	52,630	23,833	N/A ²
Customer G	N/A ²	N/A ²	N/A ¹	N/A ¹	25,538
Customer H	N/A ²	N/A ²	N/A ¹	N/A ¹	21,226
Customer I	N/A ²	N/A ¹	N/A ¹	18,868	N/A ²

¹ The revenue generated from the customer was less than 10% of the total sales of the Group for the relevant year/period.

² No revenue was generated from this customer for the relevant year/period.

³ Customer B represents three customers under the control of the same shareholder.

⁴ Customer D represents three customers under the control of the same shareholder.

⁵ Customer E represents two customers under the control of the same shareholder.

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7. OTHER INCOME

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest income on bank deposits	69	302	210	37	80
Interest income on financial assets as FVTPL	–	–	1,041	6	34
Interest income on loan receivables	–	331	278	155	177
Government grants (note)	–	2,420	2,081	–	373
	<u>69</u>	<u>3,053</u>	<u>3,610</u>	<u>198</u>	<u>664</u>

Note: According to 《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》(財政部稅務總局海關總署公告2019年第39號), the Group was qualified to have an additional 10% deduction of the input value-added tax since 1 April 2019. The additional deduction was included in the government grants for the year ended 31 December 2019 and the three months ended 31 March 2020. Government grants for the year ended 31 December 2018 represented government subsidies received by the Group from relevant government body primarily in support of the listing of shares of Joy Spreader on the National Equities Exchange and Quotations in the PRC. There were no unfulfilled conditions or contingencies relating to these subsidies as at 31 December 2018, 2019 and 31 March 2020.

8. IMPAIRMENT LOSSES, NET OF REVERSAL

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net impairment losses (reversed) recognised in respect of:					
trade receivables	(213)	426	4,686	(275)	11,545
other receivables	<u>22</u>	<u>118</u>	<u>468</u>	<u>343</u>	<u>(98)</u>
	<u>(191)</u>	<u>544</u>	<u>5,154</u>	<u>68</u>	<u>11,447</u>

During the year ended 31 December 2019, the Group provided RMB5,154,000 impairment allowance, in which a specific loss allowance of RMB600,000 has been made and written off to an individual debtor due to the fact that the customer is facing financial difficulties.

As at 31 December 2019, the Group’s trade receivables from one of its customers amounting to RMB14.4 million was impaired by RMB4.1 million and the repayment date has been revised and scheduled to be fully repaid by the end of May 2020 in February 2020. Up to the date of this report, none of such receivables were settled. The Group is closely communicating with this customer regarding the recovery of its trade receivables from this customer. The Group issued a formal attorney letter to the customer on 22 May 2020 and has not received feedbacks since then. The Group is also preparing for further legal actions including bringing an action in a PRC court. The Group has fully impaired the net carrying amount of such receivables amounting to RMB10.3 million for the three months ended 31 March 2020.

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9. FINANCE COSTS

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest expense on lease liabilities	5	43	339	85	141
Interest on bank borrowings	231	291	–	–	–
	<u>236</u>	<u>334</u>	<u>339</u>	<u>85</u>	<u>141</u>

10. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Depreciation of property, plant and equipment	65	142	758	74	324
Depreciation of right-of-use assets	785	1,131	2,660	599	1,096
Amortisation of intangible assets (included in administrative expenses)	1,634	3,448	1,802	437	590
Total depreciation and amortisation	<u>2,484</u>	<u>4,721</u>	<u>5,220</u>	<u>1,110</u>	<u>2,010</u>
Staff costs (including Directors’ remuneration as set out in note 11):					
Salaries and other benefits-in-kind	2,769	4,143	5,363	1,344	1,411
Retirement benefits scheme contributions	693	1,061	1,371	370	133
Discretionary bonus	1,799	3,394	5,247	1,244	1,570
Total staff costs	<u>5,261</u>	<u>8,598</u>	<u>11,981</u>	<u>2,958</u>	<u>3,114</u>
Auditors’ remuneration	<u>274</u>	<u>292</u>	<u>316</u>	<u>–</u>	<u>–</u>

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11. DIRECTORS’, CHIEF EXECUTIVE’S AND EMPLOYEES’ EMOLUMENTS

a. Directors’ and Chief Executive’s Emoluments

Zhu Zinan was appointed as an executive director and chief executive officer of the Company on 19 February 2019.

Zhang Zhidi and Cheng Lin were appointed as executive directors of the Company on 27 December 2019.

Guo Sijia, Hu Qingping and Chen Yuanyuan were appointed as non-executive directors of the Company on 27 December 2019.

Xu Chong, Tang Wei and Fang Hongwei were appointed as independent non-executive directors of the Company on 26 August 2020.

Details of the emoluments paid or payable to the directors and chief executive officer of the Company (including emoluments of their services as employees or directors of the group entities prior to becoming the directors of the Company) during the Track Record Period are as follows:

	Fees	Salaries and other benefits-in-kind	Contributions to retirement benefits scheme	Discretionary bonus (note)	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<u>Year ended 31 December 2017</u>					
Executive directors					
Zhu Zinan	–	89	14	–	103
Zhang Zhidi	–	78	13	3	94
Cheng Lin	–	211	53	227	491
Non-executive directors					
Guo Sijia	5	–	–	–	5
Hu Qingping	–	–	–	–	–
Chen Yuanyuan	–	–	–	–	–
Subtotal	<u>5</u>	<u>378</u>	<u>80</u>	<u>230</u>	<u>693</u>

	Fees	Salaries and other benefits-in-kind	Contributions to retirement benefits scheme	Discretionary bonus (note)	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<u>Year ended 31 December 2018</u>					
Executive directors					
Zhu Zinan	–	201	59	204	464
Zhang Zhidi	–	152	48	144	344
Cheng Lin	–	181	59	259	499
Non-executive directors					
Guo Sijia	68	–	–	–	68
Hu Qingping	–	–	–	–	–
Chen Yuanyuan	–	–	–	–	–
Subtotal	<u>68</u>	<u>534</u>	<u>166</u>	<u>607</u>	<u>1,375</u>

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	Fees	Salaries and other benefits-in-kind	Contributions to retirement benefits scheme	Discretionary bonus (note)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<u>Year ended 31 December 2019</u>					
<u>Executive directors</u>					
Zhu Zinan	–	205	52	212	469
Zhang Zhidi	–	152	43	144	339
Cheng Lin	–	183	52	269	504
<u>Non-executive directors</u>					
Guo Sijia	62	–	–	–	62
Hu Qingping	–	–	–	–	–
Chen Yuanyuan	–	–	–	–	–
Subtotal	62	540	147	625	1,374

	Fees	Salaries and other benefits-in-kind	Contributions to retirement benefits scheme	Discretionary bonus (note)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<u>Three months ended 31 March 2020</u>					
<u>Executive directors</u>					
Zhu Zinan	–	49	4	51	104
Zhang Zhidi	–	36	3	36	75
Cheng Lin	–	43	4	55	102
<u>Non-executive directors</u>					
Guo Sijia	31	–	–	–	31
Hu Qingping	–	–	–	–	–
Chen Yuanyuan	–	–	–	–	–
Subtotal	31	128	11	142	312

	Fees	Salaries and other benefits-in-kind	Contributions to retirement benefits scheme	Discretionary bonus (note)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<u>Unaudited</u>					
<u>Three months ended 31 March 2019</u>					
<u>Executive directors</u>					
Zhu Zinan	–	51	15	51	117
Zhang Zhidi	–	38	12	36	86
Cheng Lin	–	45	15	56	116
<u>Non-executive directors</u>					
Guo Sijia	16	–	–	–	16
Hu Qingping	–	–	–	–	–
Chen Yuanyuan	–	–	–	–	–
Subtotal	16	134	42	143	335

The executive directors’ and chief executive’s emoluments shown above were mainly for their services in connection with the management affairs of the Company and the Group.

Note: The discretionary bonus is determined by the Directors based on the performance of the Directors and the Group.

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b. Employees’ Emoluments

The five highest paid employees of the Group included one, two, two, two and two directors during each of the years ended 31 December 2017, 2018 and 2019 and the three-month periods ended 31 March 2019 and 2020, respectively, details of whose remuneration are set out above. Details of the remuneration for the remaining four, three, three, three and three highest paid employees during each of the years ended 31 December 2017, 2018 and 2019 and the three-month periods ended 31 March 2019 and 2020, respectively, who were neither a director nor chief executive of the Company are as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries and other benefits-in-kind	589	558	594	146	143
Contributions to retirement benefits schemes	144	151	153	45	12
Discretionary bonus (note)	457	622	925	276	176
	<u>1,190</u>	<u>1,331</u>	<u>1,672</u>	<u>467</u>	<u>331</u>

The remunerations of each of the highest paid employees who are not the Directors are all within HK\$1,000,000.

Note: The discretionary bonus is determined by the Directors based on the performance of the employees and the Group.

During the Track Record Period, none of the Directors and chief executive of the Company had waived any emoluments and no emoluments had been paid by the Group to any of the Directors or chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. INCOME TAX EXPENSES

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current enterprise income tax	1,437	766	2,516	361	1,337
Underprovision in prior years	–	–	48	–	–
Deferred tax (note 18)	75	(277)	269	5	4
	<u>1,512</u>	<u>489</u>	<u>2,833</u>	<u>366</u>	<u>1,341</u>

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Tax charge for the year/period can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before taxation	33,575	45,940	70,194	11,050	21,847
Tax at the applicable tax rate of 25%	8,394	11,485	17,549	2,763	5,462
Tax effect of expenses not deductible for tax purpose	60	259	387	48	54
Effect of tax exemptions granted	(3,584)	(6,363)	(7,675)	(1,340)	(1,990)
Effect of research and development expenses that are additionally deducted	–	(298)	(226)	–	–
Effect on different tax rate resulting from subsidiaries entitling as High-New Technology Enterprises (“HNTE”)	(3,358)	(4,594)	(7,250)	(1,105)	(2,185)
Underprovision in prior years	–	–	48	–	–
Tax charge	1,512	489	2,833	366	1,341

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate applicable for PRC group entities is 25% for the Track Record Period.

Joy Spreader, one of the Group’s subsidiaries, was qualified as a HNTE since 25 November 2015, and was subject to a preferential income tax rate of 15% for the years ended 31 December 2015, 2016 and 2017. Joy Spreader’s HNTE status was approved to extend for another 3 years on 10 September 2018 and was subject to a preferential income tax rate of 15% for three years starting from 1 January 2018.

Wuyou Technology, one of the Group’s subsidiaries, was qualified as a HNTE since 22 December 2016 and was subject to a preferential income tax rate of 15% for the years ended 31 December 2016, 2017 and 2018. Wuyou Technology’s HNTE status was approved to extend for another 3 years on 25 October 2019 and was subject to a preferential income tax rate of 15% for three years starting from 1 January 2019.

According to “關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知” (Caishui [2011] 112) issued by the State Administration of Taxation and the Ministry of Finance of the PRC, two of the Group’s subsidiaries, Horgos Yaoxi Internet Technology Co., Ltd and Horgos Wuyou Internet Technology Co., Ltd, which were founded in 2017 and located in Horgos city in the PRC, were exempted from income tax for the Track Record Period. Two of the Group’s subsidiaries, Horgos Zhipu Shulian Internet Technology Co., Ltd and Horgos Joyspreader Interactive Technology Co., Ltd, which were founded in 2020 and located in Horgos city in the PRC, were exempted from income tax for the three months ended 31 March 2020.

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13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit for the year/period attributable to owners of the Company	32,063	45,451	67,361	10,684	20,506
Earnings for the purpose of basic earnings per share (RMB cents)	2.7	3.1	4.4	0.7	1.3

Number of shares

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	'000	'000	'000	'000	'000
				(Unaudited)	
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,169,680	1,445,412	1,580,091	1,495,325	1,631,263

The number of ordinary shares for the purposes of calculating basic earnings per share for the Track Record Period has been adjusted for the effect of the issuance of ordinary shares by Joy Spreader, the holding company of the Group before the Company became the holding company of the Group on 11 December 2019, during the period from 1 January 2017 to 11 December 2019, and the issuance of ordinary shares by the Company on 19 February 2019 and 11 December 2019, details of which are set out in note 29, and the Share Subdivision as explained in note 39 (b) had been effective on 1 January 2017.

No diluted earnings per share for the Track Record Period was presented as there were no potential ordinary shares in issue during the Track Record Period.

14. DIVIDENDS

No dividend has been declared or paid by the entities comprising the Group during the Track Record Period or by the Company since its incorporation.

The rate of dividend and the number of shares, ranking for the dividend are not presented as such information is not meaningful having regards for the purpose of this report.

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15. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment	Vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
COST			
At 1 January 2017	165	–	165
Additions	269	–	269
At 31 December 2017	434	–	434
Additions	325	496	821
At 31 December 2018	759	496	1,255
Additions	207	4,660	4,867
Acquisition of a subsidiary	–	423	423
Disposals	–	(215)	(215)
At 31 December 2019	966	5,364	6,330
Additions	443	3,403	3,846
At 31 March 2020	1,409	8,767	10,176
DEPRECIATION			
At 1 January 2017	62	–	62
Provided for the year	65	–	65
At 31 December 2017	127	–	127
Provided for the year	124	18	142
At 31 December 2018	251	18	269
Provided for the year	209	549	758
Eliminated on disposals	–	(51)	(51)
At 31 December 2019	460	516	976
Provided for the period	77	247	324
At 31 March 2020	537	763	1,300
CARRYING VALUES			
At 31 December 2017	307	–	307
At 31 December 2018	508	478	986
At 31 December 2019	506	4,848	5,354
At 31 March 2020	872	8,004	8,876

The above items of property, plant and equipment are depreciated on a straight-line basis, taking into account their residual values, at the following rates per annum:

Furniture, fixtures and equipment	31.67%
Vehicles	19.00%

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16. RIGHT-OF-USE ASSETS

The Group leases certain buildings, the average lease term of which during the Track Record Period varies from 2 to 5 years.

The Group does not have the option to purchase the buildings at the end of the lease term. The Group’s obligations are secured by the lessor’s title to the leased assets for such leases. The lease contracts do not impose any covenants, but the leased assets may not be used as security for borrowing purposes.

	Buildings
	<i>RMB’000</i>
COST	
At 1 January 2017	145
Additions	1,686
At 31 December 2017	1,831
Additions	7,005
At 31 December 2018	8,836
Additions	7,141
At 31 December 2019 and 31 March 2020	15,977
DEPRECIATION	
At 1 January 2017	6
Charge for the year	785
At 31 December 2017	791
Charge for the year	1,131
At 31 December 2018	1,922
Charge for the year	2,660
At 31 December 2019	4,582
Charge for the period	1,096
At 31 March 2020	5,678
CARRYING VALUES	
At 31 December 2017	1,040
At 31 December 2018	6,914
At 31 December 2019	11,395
At 31 March 2020	10,299

The Group regularly entered into short-term leases for buildings, during the three years ended 31 December 2017, 2018 and 2019 and the three-month periods ended 31 March 2019 and 2020, expenses relating to short-term leases of buildings amounting to RMB295,000, RMB147,000, RMB525,000, RMB150,000 (unaudited) and RMB70,000, respectively, were recognised.

During the three years ended 31 December 2017, 2018 and 2019 and the three-month periods ended 31 March 2019 and 2020, the total cash outflow for leases are RMB1,230,000, RMB1,288,000, RMB3,530,000, RMB1,053,000 (unaudited) and RMB1,114,000, respectively.

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17. INTANGIBLE ASSETS

	Software	Adaptation rights	Total
	RMB'000	RMB'000 (Note)	RMB'000
COST			
At 1 January 2017	6,834	–	6,834
Additions	1,886	5,660	7,546
At 31 December 2017 and 31 December 2018	8,720	5,660	14,380
Additions	5,187	–	5,187
Disposals	–	(5,660)	(5,660)
At 31 December 2019 and 31 March 2020	13,907	–	13,907
AMORTISATION			
At 1 January 2017	1,230	–	1,230
Provided for the year	1,492	142	1,634
At 31 December 2017	2,722	142	2,864
Provided for the year	1,744	1,704	3,448
At 31 December 2018	4,466	1,846	6,312
Provided for the year	1,802	–	1,802
Eliminated on disposals	–	(1,846)	(1,846)
At 31 December 2019	6,268	–	6,268
Provided for the period	590	–	590
At 31 March 2020	6,858	–	6,858
CARRYING VALUES			
At 31 December 2017	5,998	5,518	11,516
At 31 December 2018	4,254	3,814	8,068
At 31 December 2019	7,639	–	7,639
At 31 March 2020	7,049	–	7,049

Note: Adaptation rights refer to the Group’s right for production and distribution of television works and games based on certain fictions acquired from the owners of these fictions. These rights have a term of 3 to 5 years. During the year ended 31 December 2019, the Group disposed of these copyrights adaptation of novels with an aggregate carrying amount of RMB3,814,000 for cash proceeds of RMB3,867,000 (excluding VAT) resulting in a gain on disposal of RMB53,000.

All of the Group’s intangible assets were acquired from independent third parties and have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Software	3 years
Adaptation rights	3-5 years

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18. DEFERRED TAXATION

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	8	299	–	13
Deferred tax liabilities	–	–	(560)	(577)
	8	299	(560)	(564)

The deferred tax assets and liabilities recognised by the Group and the movements thereon during the Track Record Period are as follows:

	Fair value gain on equity instruments at FVTOCI	Impairment loss on receivables	Taxation losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	–	83	–	83
Charge to profit or loss	–	(75)	–	(75)
At 31 December 2017	–	8	–	8
Adjustments (note 3)	–	14	–	14
At 1 January 2018	–	22	–	22
Credit to profit or loss	–	8	269	277
At 31 December 2018	–	30	269	299
Charge to profit or loss	–	–	(269)	(269)
Charge to other comprehensive income	(590)	–	–	(590)
At 31 December 2019	(590)	30	–	(560)
Charge to profit or loss	–	(4)	–	(4)
At 31 March 2020	(590)	26	–	(564)

Deferred tax assets have been recognised for tax losses amounting to RMB1,794,000 at 31 December 2018.

No deferred tax liabilities for undistributed earnings of Joy Spreader, the PRC holding company of all PRC subsidiaries of the Group, have been recognised in respect of the temporary difference because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such difference will not reverse in the foreseeable future. As at 31 December 2017, 2018, 2019 and 31 March 2020, the undistributed consolidated profit of Joy Spreader were RMB35,427,000, RMB75,665,000, RMB157,389,000 and RMB177,792,000, respectively. The corresponding unrecognised deferred tax liabilities as at 31 December 2017, 2018, 2019 and 31 March 2020 were RMB3,543,000, RMB7,567,000, RMB15,739,000 and RMB17,779,000, respectively.

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19. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Equity instruments at FVTOCI at 31 December 2018 and 2019 and 31 March 2020 represented the Group’s 19.9% equity interests in 北京影游视界科技有限公司 (“Yingyi Technology”), an unlisted company established in the PRC. The Directors have elected to designate the investment in equity instruments as at FVTOCI as they believe that the investment is not held for trading and not expected to be sold in the foreseeable future. Details of the fair value measurement are disclosed in note 33.

Financial assets at FVTPL at 31 December 2018 represented the Group’s investments in the financial products issued by licensed financial institutions in the PRC with expected interest rates of 4.30% per annum. Fair value gain of RMB2,000 was included in other gains and losses item for the year ended 31 December 2018. Details of the fair value measurement are disclosed in note 33.

20. TRADE AND OTHER RECEIVABLES AND DEPOSITS

The Group

	At 1 January	At 31 December			As at 31 March
	2017	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade receivables	20,725	32,772	42,811	74,247	147,277
Less: Allowance for credit losses	(481)	(238)	(865)	(4,951)	(16,496)
	20,244	32,534	41,946	69,296	130,781
Receivables from Android distribution channel operators (note a)		1,749	–	–	–
Deferred shares [REDACTED] costs		–	620	6,969	8,003
Deposits paid to suppliers		–	2,000	2,000	2,000
Rental and other deposits		179	1,800	2,287	2,371
Receivable for disposal of intangible assets (note b)		–	–	4,100	4,100
Other receivables		73	472	923	1,065
Less: Allowance for credit losses		(97)	(215)	(683)	(585)
		1,904	4,677	15,596	16,954
Total trade and other receivables and deposits		34,438	46,623	84,892	147,735
Analysis as					
Non-current		–	1,229	2,242	2,219
Current		34,438	45,394	82,650	145,516
		34,438	46,623	84,892	147,735

Notes:

- In respect of the Group’s game co-publishing business as disclosed in note 6, the Group received the agency fee from Android distribution channel operators on behalf of game developers. The amount represents the commission that is entitled by the game developers which are outstanding from Android distribution channel operators as at 31 December 2017. Corresponding payables to these game developers are disclosed in note 24.
- As disclosed in note 17, the Group disposed of its adaptation rights for production and distribution of television works and games for a consideration of RMB3,867,000 (excluding VAT) during the year ended 31 December 2019, which were fully settled in July 2020.

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The Group usually allows a credit period of 90 days to its customers which is interest free with no collateral. Aging of trade receivables net of allowance for credit losses, is prepared based on invoice dates, which approximated the respective revenue recognition dates, are as follows:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	30,146	31,352	54,026	106,107
3-6 months	1,818	9,772	4,329	19,872
6-12 months	570	342	9,746	4,323
1-2 years	–	480	1,195	479
	<u>32,534</u>	<u>41,946</u>	<u>69,296</u>	<u>130,781</u>

At 31 December 2018, 2019 and 31 March 2020, included in the Group’s trade receivables balance are debtors with aggregate carrying amounts of RMB10,594,000, RMB15,270,000 and RMB24,674,000 which were past due as at those dates. Out of the past due balance, RMB822,000, RMB643,000 and RMB4,802,000 have been past due 90 days or more and are not considered as in default because the amounts were due from a number of independent reputable customers with good credit rating. The Group considers that there is no significant change in these customers’ credit risk. The Group does not hold any collateral or other credit enhancement over these balances.

Included in the Group’s trade receivables balance are debtors with aggregate carrying amounts of RMB2,388,000 which were past due as at 31 December 2017 for which the Group has not provided for impairment loss. The Group has assessed the recoverability of trade receivables with reference to the debt aging, historical settlement experience, subsequent settlements, future expected settlement plan, business relationship with the customers and credit assessment of customers, and considered that there has not been a significant change in credit quality and the balances are still considered fully recoverable, and accordingly no impairment has been provided. No collateral over these balances is held.

Aging of trade receivables which were past due but not impaired as at 31 December 2017:

	At 31 December
	2017
	RMB'000
3-6 months	1,818
6-12 months	570
	<u>2,388</u>

Movements in the allowance for doubtful debts for trade and other receivables:

	Year ended 31 December
	2017
	RMB'000
At the beginning of the year	556
Impairment losses reversed	(191)
Amount written off	(30)
	<u>335</u>
At the end of the year	<u>335</u>

Details of impairment assessment of trade receivables and other receivables for the years ended 31 December 2018 and 2019 and the three-month periods ended 31 March 2019 and 2020 under IFRS 9 are set out in note 33.

The Company

The amount as at 31 December 2019 and 31 March 2020 entirely consisted of the deferred shares [REDACTED] costs.

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21. LOAN RECEIVABLES

Loan receivable as at 31 December 2018 represented an unsecured advance to a supplier originated on 7 December 2018 for the supplier’s liquidity purpose. The advance carried fixed interest rate at 12% per annum and was repaid together with the interests on 31 January 2019.

Loan receivable as at 31 December 2019 represented an unsecured advance to a supplier originated on 16 December 2019 for the supplier’s liquidity purpose. The advance carried fixed interest rate at 12% per annum and was repaid together with the interests on 21 January 2020.

Loan receivable as at 31 March 2020 represented an unsecured advance to a third party originated on 11 February 2020 for one year for the third party’s liquidity purpose. The advance carried fixed interest rate at 12% per annum.

Details of impairment assessment of loan receivables are set out in note 33.

22. PREPAYMENTS

The Group

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Current				
Prepayments for purchases of traffic	26,222	50,734	172,158	202,366
Prepaid share [REDACTED] cost or [REDACTED] expense	–	264	467	750
Other prepayments	607	1,130	1,013	1,935
	<u>26,829</u>	<u>52,128</u>	<u>173,638</u>	<u>205,051</u>
	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Non-current				
Prepayment for software development	–	1,887	–	–
Prepayments for acquisition of buildings (note)	–	1,642	1,642	1,642
Prepayment for short-form video making	–	–	2,000	2,000
	<u>–</u>	<u>3,529</u>	<u>3,642</u>	<u>3,642</u>

Note: On 28 June 2020, the Group disposed of these buildings under prepayments to an independent third party with a total cash consideration of RMB1,500,000, RMB800,000 of which was settled in June 2020.

The Company

The amount as at 31 December 2019 and 31 March 2020 entirely consisted of prepaid share [REDACTED] cost or [REDACTED] expense.

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23. BANK BALANCES AND CASH

The Group

Bank balances carried interest at market interest rate ranging from 0.01% to 0.40% per annum as at 31 December 2017, 2018 and 2019 and 31 March 2020. Bank balances and cash as at 31 December 2019 and 31 March 2020 amounting to RMB665,000 and RMB7,000 were denominated in US Dollar (“USD”). Bank balances and cash as at 31 March 2020 amounting to RMB139,000 were denominated in Hong Kong Dollar (“HKD”).

The Company

Bank balances carried interest at market interest rate of 0.01% per annum as at 31 December 2019 and 31 March 2020. Bank balances and cash as at 31 December 2019 and 31 March 2020 amounting to RMB317,000 and RMB1,000 were denominated in USD. Bank balances and cash as at 31 March 2020 amounting to RMB127,000 were denominated in HKD.

24. TRADE AND OTHER PAYABLES

The Group

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	10,825	10,452	13,357	26,153
Employee compensation payable	2,139	3,612	5,872	6,108
Other tax payable	3,190	5,096	2,119	7,766
Payables to game developers	6,494	–	–	–
Accrued [REDACTED] expense/shares [REDACTED] costs	–	2,385	16,499	16,993
Deposits received from customers	–	2,000	2,000	2,000
Amounts due to shareholders	–	–	1,496	1,507
Other payables and accruals	1,145	842	570	190
	<u>23,793</u>	<u>24,387</u>	<u>41,913</u>	<u>60,717</u>

The following is an aged analysis of trade payables by age presented based on the invoice date.

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	9,583	6,821	8,937	23,411
3-6 months	765	1,909	2,362	–
6-12 months	–	1,245	2,058	2,742
1-2 years	477	–	–	–
Over 2 years	–	477	–	–
	<u>10,825</u>	<u>10,452</u>	<u>13,357</u>	<u>26,153</u>

The average credit period on purchases of goods or services is 90 days.

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The Company

	At 31 December	At 31 March
	2019	2020
	RMB'000	RMB'000
Accrued [REDACTED] expense/shares [REDACTED] costs	16,499	16,993
Amounts due to a shareholder	336	355
	16,835	17,348

25. LEASE LIABILITIES

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current	–	5,373	7,064	6,659
Current	863	1,397	4,181	3,683
	863	6,770	11,245	10,342

Maturity analysis

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
No later than 1 year	902	1,501	4,390	3,867
Later than 1 year but not longer than 2 years	–	1,465	3,371	3,409
Later than 2 years but not longer than 5 years	–	4,919	4,756	4,186
	902	7,885	12,517	11,462
Less: future finance charges	(39)	(1,115)	(1,272)	(1,120)
	863	6,770	11,245	10,342

26. BANK BORROWINGS

Bank borrowings of an aggregate principal amount of RMB10,000,000 as at 31 December 2017 were two unsecured borrowings, repayable by 31 December 2018 and carried floating interests of 1-year Loan Prime Rate of the PRC (“LPR”) plus 48.5 and 92 basis points per annum, equivalent to effective interest rates of 5.05% and 5.49%, respectively. The borrowings were jointly guaranteed by Mr. Zhu Zinan (executive director and the Ultimate Controlling Shareholder of the Company), Ms. Wang Jin (the wife of Mr. Zhu Zinan) and independent third parties namely 北京中關村科技融資擔保有限公司 (Beijing Zhongguancun Sci-tech Financing Guarantee Co., Ltd) and 北京中小企業信用再擔保有限公司 (Beijing SMEs Credits Re-guarantee Co., Ltd).

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27. CONTRACT LIABILITIES

	At 1 January	At 31 December			At 31 March
	2017	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Performance-based we- media marketing service	215	215	356	–	–

Contract liabilities are expected to be settled within the Group’s normal operating cycle and are classified as current.

During the years ended 31 December 2017, 2018 and 2019, recognised revenue amounting to RMB nil, RMB215,000 and RMB356,000, respectively, relate to the contract liability balance at the beginning of the year.

There was no revenue recognised during the Track Record Period that related to performance obligations that were satisfied in prior years.

28. AMOUNT DUE TO A SUBSIDIARY

The Company

The amount due to a subsidiary is non-trade nature, unsecured, interest-free and repayable on demand.

29. SHARE CAPITAL

Combined capital of the Group

For the purpose of presentation of the consolidated statements of financial position before the completion of the Group Reorganisation, the balances of share capital of the Group as at 31 December 2017 and 2018 represented the share capital of Joy Spreader.

Share capital of the Company

	Number of shares	Share capital HK\$
Ordinary shares of HK\$0.001 each Authorised At 19 February 2019 (the date of incorporation) (Note)	50,000,000	50,000
At 31 December 2019 and 31 March 2020	50,000,000	50,000
Issued and fully paid At 19 February 2019 (the date of incorporation) (Note)	9,883,333	9,883
Issue of shares on 11 December 2019 (Note)	6,429,299	6,430
At 31 December 2019 and 31 March 2020	16,312,632	16,313

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	At 31 December	At 31 March
	2019	2020
	RMB’000	RMB’000
Presented as	14	14

Note: The Company was incorporated on 19 February 2019 with an initial authorised share capital of HK\$50,000 divided into 50,000,000 shares of a par value of HK\$0.001 each. On 19 February 2019 and 11 December 2019, 9,883,333 and 6,429,299 ordinary shares of HK\$16,313 in total were issued by the Company and allotted to the offshore holding companies wholly-owned by the legal shareholders of Joy Spreader, the holding company of the Group before the completion of the Group Reorganisation

30. RESERVES

The Company

	Accumulated losses
	RMB’000
At the date of incorporation	(1,860)
Loss and total comprehensive expense from the date of incorporation to 31 December 2019	(20,396)
Balance at 31 December 2019	(22,256)
Loss and total comprehensive expense for the three months ended 31 March 2020	(3,671)
Balance at 31 March 2020	(25,927)

The amounts of the Group’s reserves and the movements therein for each of the reporting periods are presented in the consolidated statements of changes in equity.

The principal reserves of the Group consist of the following:

Capital reserve

Capital reserve at 31 December 2017 and 2018 represented capital reserve of Joy Spreader.

On 11 December 2019, the Group completed the Group Reorganisation. As a result, the Company became the holding company of the Group since then. The relevant share capital of Joy Spreader was transferred to capital reserve of the Group. The capital reserve at 31 December 2019 and 31 March 2020 represented the share capital and capital reserve of Joy Spreader.

Statutory reserve

Pursuant to the relevant PRC rules and regulations, Joy Spreader which is incorporated in the PRC are required to transfer no less than 10% of its profits after taxation, after offsetting any prior years’ loss as determined under the PRC GAAP, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders of these PRC subsidiaries. Statutory reserve is non-distributable other than in liquidation and can be used to make good previous years’ losses, if any, and may be converted into paid-in capital in proportion to the existing interests of equity owners, provided that the balance after such conversion is not less than 25% of the registered capital.

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31. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

In October 2019, the Group acquired 100% of the equity interest in Beijing Hongcheng Xinglong Commerce and Trading Co., Ltd (“Beijing Hongcheng”) from an independent third party for a consideration of RMB425,000. This acquisition has been accounted for using the purchase method. Beijing Hongcheng is engaged in the trading business. Beijing Hongcheng was acquired by the Group to get the quota for purchasing vehicles in Beijing. The acquisition was accounted for as acquisition of assets as Beijing Hongcheng has not carried any business.

Consideration transferred

	<i>RMB’000</i>
Cash	425

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	<i>RMB’000</i>
Other current assets	2
Property, plant and equipment	423
	425

Net cash outflow on acquisition of Beijing Hongcheng

	<i>RMB’000</i>
Cash consideration paid	425
Less: cash and cash equivalents balances acquired	–
	425

32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern with maximising the return to shareholders through the optimisation of the debt and equity balance. The Group’s overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 26, net of bank balances and cash, and total equity of the Group, comprising share capital, retained earnings and reserves as disclosed in notes 29 and 30 respectively.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with the capital. Based on recommendations of the management, the Group will balance its overall capital structure through raising of new capital, issue of new debt or the redemption of the existing debts.

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33. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables (including bank balances and cash)	98,685	–	–	–
Financial assets at amortised cost	–	165,249	246,411	252,910
Financial assets at FVTPL	–	1,002	–	–
Equity instruments at FVTOCI	–	6,000	9,936	9,936

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Amortised cost	28,311	15,679	33,922	46,843

Financial risk management objectives and policies

The Group’s financial instruments consisted of trade and other receivables, loan receivables, bank balances and cash, financial assets at FVTPL, equity instruments at FVTOCI, trade and other payables, lease liabilities and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk, interest rate risk, credit risk and liquidity risk.

The policies on how to mitigate these risks are set out below. The management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Market risk

The Group’s activities expose it primarily to the financial risks of interest rates.

There has been no change to the Group’s exposure to market risks or the manner in which it manages and measures the risk during the reporting period.

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed-rate lease liabilities. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances, variable-rate bank borrowings due to the fluctuation of the prevailing market interest rate on bank deposits and bank borrowings carried at prevailing market interest rates based on or by reference to LPR.

The Group currently does not have interest rate hedging policy. However, management will consider hedging significant interest rate exposure should the need arise.

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Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank borrowings at variable rate at the end of each reporting periods. The analysis is prepared assuming the financial instruments outstanding at the end of each reporting periods were outstanding for the whole year. The bank balances are excluded from the sensitivity analysis as the management considers that the interest rate fluctuating is insignificant.

If variable rate bank borrowings had been 50 basis points higher and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately RMB42,500 for the year ended 31 December 2017.

Currency risk

Several companies within the Group have USD and/or HKD bank balances which expose the Group to foreign currency risk.

Sensitivity analysis

The management of the Group considers that any reasonably possible change in the RMB against the USD and HKD will not cause significant change to the fair value of the financial assets.

(ii) Price risk

The Group is exposed to equity price risk through its investment in equity security measured at FVTOCI. The Group invested in certain unquoted equity security for an investee operating in short-form video making industry sector for long term strategic purpose which had been designated as FVTOCI. The Group monitors the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date. Sensitivity analyses for unquoted equity securities with fair value measurement categorised within Level 3 were disclosed in note 33 "Fair values" section.

(iii) Credit risk and impairment assessment

Under IAS 39 and IFRS 9

At the end of each reporting periods, the Group's maximum exposure to credit risk which will cause a financial loss to the Group is due to failure to discharge an obligation by the counterparties for the carrying amounts of the financial assets at amortised cost/loans and receivables.

The Group mainly conducted transactions with customers with good quality and long term relationship, when accepting new customers, the Group considers the reputation of the customer before contract is signed. In order to minimise the credit risk, the management of the Group continuously monitors the credit quality and financial conditions of the debtors to ensure that follow-up action is taken to recover overdue debts.

To manage risk arising from receivable balances, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors.

The Group has concentration of credit risk as 35%, 33%, 43% and 18% of the total trade receivables were due from the Group's largest customer as at 31 December 2017, 2018, 2019 and 31 March 2020, 98%, 86%, 92% and 56% of the total trade receivables were due from the Group's five largest customers as at 31 December 2017, 2018, 2019 and 31 March 2020, respectively.

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Under IAS 39

The Group reviews the recoverable amount of receivables individually or collectively for debtors at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

For other receivables, the Directors are in the opinion that the failure of these entities to make required payments is unlikely after considering their past settlement records, and/or financial position of these entities.

To manage risk arising from bank balances and cash, the Group mainly transacts with state-owned or reputable financial institutions in mainland China. There has been no recent history of default in relation to these financial institutions.

Under IFRS 9

Trade receivables arising from contracts with customers

Starting from 1 January 2018, the Group reassesses lifetime ECL for trade receivables arising from contracts with customers to ensure that adequate impairment loss are made for significant increase in the likelihood or risk of a default occurring. The ECL on these assets are individually assessed for debtors with significant balances or collectively using a provision matrix appropriate groupings for the remaining balance. As part of the Group’s credit risk management, the Group uses the debtors’ aging to assess with the impairment for its customers because these customers consist of a large number of customers which share common risk characteristics that are representative of the customers’ abilities to pay all amounts due in accordance with the contractual terms. The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping and assessment are regularly reviewed by management to ensure relevant information about specific debtors is updated.

Loan receivables and other receivables

Before granting the loan receivables, the management of the Group has obtained an understanding to the credit background of the debtors and undertaken an internal credit approval process. The management of the Group has taken into account the economic outlook of the industries in which the debtors operate and reviewed the recoverable amount of each loan receivable at the end of the reporting period to ensure that adequate impairment loss was recognised for irrecoverable debts.

For all other instruments including other receivables and loan receivables with non-trade nature, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised based on significant increases in the likelihood or risk of a default occurring since initial recognition.

For the purpose of internal risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. The Group has assessed and concluded that the risk of default rate for the other instruments are steady based on the Group’s assessment of the financial health of the counterparties. Thus, the Group does not have any other significant concentration of credit risk associated with financial assets.

Bank balances and cash

The Group mainly transacts with banks with high credit ratings. The credit risk for bank balances as at 1 January 2018, 31 December 2018, 31 December 2019 and 31 March 2020 is considered as not material as such amount is placed in reputable banks. The Group assessed 12m ECL on these balances are by reference to probability of default and loss given default and concluded that the expected credit losses are insignificant upon application of IFRS 9 on 1 January 2018, 31 December 2018, 31 December 2019 and 31 March 2020 and thus no impairment loss was recognised.

The carrying amount of the Group’s financial assets at FVTPL (note 19) best represents their respective maximum exposure to credit risk. The Group holds no collateral over any of these balances.

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All loss allowances as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are disclosed in note 3.

The tables below detail the credit risk exposures of the Group’s financial assets, which are subject to ECL assessment:

31 March 2020	Notes	External rating credit	Internal rating credit	12m or lifetime ECL	Average loss rate	Gross carrying amount
						RMB’000
Financial assets at amortised cost						
Trade receivables – goods and services	20	N/A	(Note a)	Lifetime ECL (not credit impaired and assessed individually)	1.2%	68,336
				Lifetime ECL (assessed in provision matrix)	1.9%	64,501
				Lifetime ECL (credit impaired and assessed individually)	100%	14,440
Loan receivable	21	N/A	(Note b)	12m ECL (not credit impaired and assessed individually)	–	1,622
Other receivables	20	N/A	(Note b)	12m ECL (not credit impaired and assessed individually)	–	9,131
				Lifetime ECL (not credit impaired and assessed individually)	2.9%	4,629
				Lifetime ECL (credit impaired and assessed individually)	12.0%	3,779
Bank balances and cash	23	AAA	–	12m ECL (not credit impaired and assessed individually)	–	103,553

31 December 2019	Notes	External rating credit	Internal rating credit	12m or lifetime ECL	Average loss rate	Gross carrying amount
						RMB’000
Financial assets at amortised cost						
Trade receivables – goods and services	20	N/A	(Note a)	Lifetime ECL (not credit impaired and assessed individually)	1.2%	53,780
				Lifetime ECL (assessed in provision matrix)	3.0%	6,027
				Lifetime ECL (credit impaired and assessed individually)	28.4%	14,440
Loan receivable	21	N/A	(Note b)	12m ECL (not credit impaired and assessed individually)	–	30,030
Other receivables	20	N/A	(Note b)	12m ECL (not credit impaired and assessed individually)	–	7,851
				Lifetime ECL (not credit impaired and assessed individually)	5.0%	4,649
				Lifetime ECL (credit impaired and assessed individually)	12.0%	3,779
Bank balances and cash	23	AAA	–	12m ECL (not credit impaired and assessed individually)	–	131,489

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31 December 2018	Notes	External rating credit	Internal rating credit	12m or lifetime ECL	Average loss rate	Gross carrying amount RMB'000
Financial assets at amortised cost						
Trade receivables – goods and services	20	N/A	(Note a)	Lifetime ECL (not credit impaired and assessed individually)	1.7%	36,884
				Lifetime ECL (assessed in provision matrix)	4.0%	5,927
Loan receivable	21	N/A	(Note b)	12m ECL (not credit impaired and assessed individually)	–	20,230
Other receivables	20	N/A	(Note b)	12m ECL (not credit impaired and assessed individually)	–	837
				Lifetime ECL (not credit impaired and assessed individually)	5.0%	3,876
				Lifetime ECL (credit impaired and assessed individually)	12.0%	179
Bank balances and cash	23	AAA	–	12m ECL (not credit impaired and assessed individually)	–	98,396

Notes:

- a. For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for receivables with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items grouped by internal credit rating and past due status.

The Group’s internal credit risk grading assessment for trade receivables comprises the following categories:

- Low risk (Lifetime ECL – not credit impaired): The counterparty has a low risk of default and does not have any past-due amounts.
- Watch list (Lifetime ECL – not credit impaired): There have been insignificant increases in the credit risk since initial recognition.
- Doubtful (Lifetime ECL – not credit impaired): There have been significant increases in credit risk since initial recognition through information developed internally or external resources.
- Credit impaired (Lifetime ECL – credit impaired): There is evidence indicating the asset is credit impaired.
- Write-off (Amount is written off): There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.

- b. For loan receivables, other receivables and bank balances and cash, except for balances are credit-impaired, the Group has applied the 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL.

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The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 and 2019 and 31 March 2020 within lifetime ECL (not credit impaired). In addition, debtors with significant outstanding balances or credit impaired with gross carrying amount of RMB36,884,000, RMB68,220,000 and RMB82,776,000 as at 31 December 2018 and 2019 and 31 March 2020 were assessed individually. Impairment allowance of RMB630,000, RMB4,768,000 and RMB15,277,000 were made on debtors with significant balances as at 31 December 2018 and 2019, 31 March 2020, respectively.

At 31 March 2020			
	Average loss rate	Gross carrying amount	Impairment loss allowance
		RMB'000	RMB'000
Trade receivables			
Low risk	0.64%	56,799	367
Watch list	2.82%	2,107	59
Doubtful	14.17%	5,595	793
		<u>64,501</u>	<u>1,219</u>

At 31 December 2019			
	Average loss rate	Gross carrying amount	Impairment loss allowance
		RMB'000	RMB'000
Trade receivables			
Low risk	0.64%	5,159	34
Watch list	2.82%	–	–
Doubtful	17.18%	868	149
		<u>6,027</u>	<u>183</u>

At 31 December 2018			
	Average loss rate	Gross carrying amount	Impairment loss allowance
		RMB'000	RMB'000
Trade receivables			
Low risk	0.80%	3,931	31
Watch list	4.00%	1,222	49
Doubtful	20.00%	774	155
		<u>5,927</u>	<u>235</u>

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The following table shows the movements in lifetime ECL that have been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit- impaired)	Lifetime ECL (credit- impaired)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2017, under IAS 39	–	238	238
Adjustment upon application of IFRS 9	201	–	201
As at 1 January 2018 – IFRS 9	201	238	439
Changes due to financial instruments recognised as at 1 January 2018:			
– Impairment losses reversed	(201)	(208)	(409)
– Impairment losses recognised	–	90	90
New financial assets originated	745	–	745
As at 31 December 2018	745	120	865
Changes due to financial instruments recognised as at 1 January 2019:			
– Transfer to credit-impaired	(6)	6	–
– Impairment losses reversed	(676)	–	(676)
– Impairment losses recognised	86	624	710
– Written off during the year	–	(600)	(600)
New financial assets originated	700	3,952	4,652
As at 31 December 2019	849	4,102	4,951
Changes due to financial instruments recognised as at 1 January 2020:			
– Impairment losses reversed	(291)	–	(291)
– Impairment losses recognised	811	10,338	11,149
New financial assets originated	687	–	687
As at 31 March 2020	2,056	14,440	16,496
Unaudited			
As at 31 December 2018	745	120	865
Changes due to financial instruments recognised as at 1 January 2019:			
– Impairment losses reversed	(617)	–	(617)
– Impairment losses recognised	35	–	35
New financial assets originated	307	–	307
As at 31 March 2019	470	120	590

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The following table shows the reconciliation of loss allowance that has been recognised for loan receivables and other receivables.

	12m ECL	Lifetime ECL (not credit- impaired)	Lifetime ECL (credit- impaired)	Total
	RMB’000	RMB’000	RMB’000	RMB’000
As at 31 December 2017, under IAS 39	–	–	97	97
Adjustment upon application of IFRS 9	–	–	–	–
As at 1 January 2018 – IFRS 9	–	–	97	97
Changes due to financial instruments recognised as at 1 January 2018:				
– Impairment losses reversed	–	–	(87)	(87)
– Impairment losses recognised	–	–	11	11
New financial assets originated	–	194	–	194
As at 31 December 2018	–	194	21	215
Changes due to financial instruments recognised as at 1 January 2019:				
– Transfer to credit-impaired	–	(178)	178	–
– Impairment losses reversed	–	(16)	–	(16)
– Impairment losses recognised	–	–	252	252
New financial assets originated	–	232	–	232
As at 31 December 2019	–	232	451	683
Changes due to financial instruments recognised as at 1 January 2020:				
– Impairment losses reversed	–	(102)	–	(102)
New financial assets originated	–	4	–	4
As at 31 March 2020	–	134	451	585
Unaudited				
As at 31 December 2018	–	194	21	215
Changes due to financial instruments recognised as at 1 January 2019:				
– Impairment losses reversed	–	(66)	–	(66)
– Impairment losses recognised	–	409	–	409
As at 31 March 2019	–	537	21	558

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(iv) Liquidity risk management

In the management of liquidity risk, the Group’s management monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group’s operations and mitigate the effects of unexpected fluctuations in cash flows.

The following tables detail the Group’s remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived based on the interest rate outstanding at the end of each of the reporting periods.

	Weighted average interest rate	Less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<u>At 31 December 2017</u>						
Non-derivative financial liabilities						
Bank borrowings	4.79%-5.22%	9,985	–	–	9,985	9,847
Trade and other payables	–	18,464	–	–	18,464	18,464
		<u>28,449</u>	<u>–</u>	<u>–</u>	<u>28,449</u>	<u>28,311</u>
Lease liabilities	5.00%	<u>902</u>	<u>–</u>	<u>–</u>	<u>902</u>	<u>863</u>
<u>At 31 December 2018</u>						
Non-derivative financial liabilities						
Trade and other payables	–	<u>15,679</u>	<u>–</u>	<u>–</u>	<u>15,679</u>	<u>15,679</u>
Lease liabilities	5.00%	<u>1,501</u>	<u>1,465</u>	<u>4,919</u>	<u>7,885</u>	<u>6,770</u>
<u>At 31 December 2019</u>						
Non-derivative financial liabilities						
Trade and other payables	–	<u>33,922</u>	<u>–</u>	<u>–</u>	<u>33,922</u>	<u>33,922</u>
Lease liabilities	5.00%	<u>4,390</u>	<u>3,371</u>	<u>4,756</u>	<u>12,517</u>	<u>11,245</u>
<u>At 31 March 2020</u>						
Non-derivative financial liabilities						
Trade and other payables		<u>46,843</u>	<u>–</u>	<u>–</u>	<u>46,843</u>	<u>46,843</u>
Lease liabilities	5.00%	<u>3,867</u>	<u>3,409</u>	<u>4,186</u>	<u>11,462</u>	<u>10,342</u>

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Fair values

(i) Financial instruments carried at fair value

The Group measures its following financial instruments at fair value at the end of each of the reporting period on a recurring basis:

Financial assets	Fair value as at 31 March 2020	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Inputs as at 31 March 2020	Relationship of unobservable inputs to fair value
Unlisted equity securities	RMB9,936,000	Level 3	Income approach – the discounted cash flow method was used to capture the present value of the expected future economic benefits, to be derived from the ownership of this investee, based on an appropriate discount rate	Long-term revenue growth rate Discount rate	3% 21%	The higher the long term revenue growth rate, the higher the fair value, vice versa (Note a) The higher the discount rate, the lower the fair value, vice versa (Note b)
Financial assets	Fair value as at 31 December 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Inputs as at 31 December 2019	Relationship of unobservable inputs to fair value
Unlisted equity securities	RMB9,936,000	Level 3	Income approach – the discounted cash flow method was used to capture the present value of the expected future economic benefits, to be derived from the ownership of this investee, based on an appropriate discount rate	Long-term revenue growth rate Discount rate	3% 21%	The higher the long-term revenue growth rate, the higher the fair value, vice versa (Note a) The higher the discount rate, the lower the fair value, vice versa (Note b)
Financial assets	Fair value as at 31 December 2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Inputs as at 31 December 2018	Relationship of unobservable inputs to fair value
Unlisted equity securities	RMB6,000,000	Level 2	Market approach	Recent transaction price	N/A	N/A
Investment in financial products, at fair value	RMB1,002,000	Level 3	Future cash flows are estimated based on expected estimated return, and discounted at a rate that reflects the risk of underlying investments	Estimated return	4.30%	The higher estimated return, the higher the fair value, vice versa (Note c)

Notes:

- A 1% increase/decrease in the long-term growth rate holding all other variables constant would increase/decrease the carrying amount of unlisted equity securities by RMB314,000 and RMB316,000 as at 31 December 2019 and 31 March 2020.
- A 1% increase/decrease in the discount rate holding all other variables constant would decrease/increase the carrying amount of unlisted equity securities by RMB445,000 and RMB439,000 as at 31 December 2019 and 31 March 2020.
- A 1% increase/decrease in the estimated return holding all other variables constant would increase/decrease the carrying amount of investment in financial products by RMB500 as at 31 December 2018.

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The fair value of the unlisted equity securities as at 31 December 2019 and 31 March 2020 has been arrived based on a valuation carried out by an independent valuer, AVISTA Group, 23rd Floor, Siu On Centre, No. 188 Lockhart Road, Wan Chai, Hong Kong.

The unlisted equity securities represent equity instruments at fair value through other comprehensive income of the Group (see note 19). Such equity interests in Yingyi Technology were acquired by the Group on 24 December 2018 by a cash capital consideration of RMB6,000,000 injected into this investee which was newly incorporated on 21 December 2018. As the investment was made a few days prior to the end of 2018 and the investee was not yet commenced its business activities prior to 31 December 2018, the Company’s management determined the fair value of these equity instruments at 31 December 2018 by reference to this most recent transaction price in December 2018 and accordingly, classified the fair value measurement of these equity instruments as level 2 at 31 December 2018.

As there was no equity transaction of Yingyi Technology happened during the year of 2019, the Company could not get available recent transaction price information in the market to determine the fair value of Yingyi Technology as at 31 December 2019. As a result, these equity instruments were transferred from level 2 to level 3 at the year ended 31 December 2019 and were determined based on an independent valuation report.

(ii) Reconciliation of level 3 measurements

The following table represents the reconciliation of level 3 measurements throughout the Track Record Period.

	Investment in financial products at fair value	Unlisted equity securities	Total
	RMB’000	RMB’000	RMB’000
As at 31 December 2017	–	–	–
Purchase	1,000	–	1,000
Net gain in profit or loss	2	–	2
As at 31 December 2018	1,002	–	1,002
Purchase	80,000	–	80,000
Transfer from level 2 to level 3	–	6,000	6,000
Redemption	(82,043)	–	(82,043)
Interest income on financial assets as FVTPL	1,041	–	1,041
Net gain in other comprehensive income	–	3,936	3,936
At 31 December 2019 and 31 March 2020	–	9,936	9,936

(iii) Fair values of financial instruments carried at other than fair value

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

34. RETIREMENT BENEFIT SCHEME

The employees of the Group are members of a state-managed retirement benefits scheme operated by the PRC Government. The Group is required to contribute a specific percentage of the total monthly basic salaries of its current employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total cost charged to the consolidated statements of profit or loss and other comprehensive income of approximately RMB693,000, RMB1,061,000, RMB1,371,000, RMB370,000 (unaudited) and RMB133,000 for the years ended 31 December 2017, 2018 and 2019 and the three-month periods ended 31 March 2019 and 2020, respectively, represented contributions paid and/or payable to the scheme by the Group for the reporting period.

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35. MAJOR NON-CASH TRANSACTIONS

During the years ended 31 December 2018 and 2019 and the three-month periods ended 31 March 2019 and 2020, the Group entered into new lease agreements for buildings with a lease term of 2 to 5 years and recognised right-of-use assets of RMB6,802,000, RMB5,615,000, RMB1,501,000 (unaudited) and RMB nil and lease liabilities of RMB6,802,000 and RMB5,615,000, RMB1,501,000 (unaudited) and RMB nil, respectively.

36. RELATED PARTY TRANSACTIONS

During the years ended 31 December 2017, 2018 and 2019 and the three-month periods ended 31 March 2019 and 2020, the Group entered into the following related party transactions:

Name of the enterprises	Relationship with the Company
Mr. Zhu Zinan	Director and the Ultimate Controlling Shareholder
Ms. Wang Jin	The wife of Mr. Zhu Zinan

(a) Guarantees to bank borrowings by related parties

The bank borrowings as at 31 December 2017 were jointly guaranteed by Mr. Zhu Zinan and Ms. Wang Jin. The amounts were fully settled during the year ended 31 December 2018 and the guarantees by Mr. Zhu Zinan and Ms. Wang Jin were released accordingly.

(b) Purchase of a car from a related party

On 11 November 2019, the Group purchased a car from Mr. Zhu Zinan for a consideration of RMB798,000. As at 31 December 2019 and 31 March 2020, the outstanding payable for the purchase was RMB798,000 and was included in amounts due to shareholders set out in note 24. Such payable was subsequently fully settled in April 2020.

(c) Compensation of key management personnel

	Year ended 31 December			Three months ended 31 March	
	2017	2018	20219	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Fees	5	68	62	16	31
Salaries and other benefits-in-kind	763	981	968	237	231
Contributions to retirement benefits scheme	170	269	248	68	19
Discretionary bonus	485	914	1,286	356	258
	<u>1,423</u>	<u>2,232</u>	<u>2,564</u>	<u>677</u>	<u>539</u>

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37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group’s statements of cash flows as cash flows from financing activities.

	Bank borrowings	Lease liabilities	Accrued share [REDACTED] cost	Total
	RMB’000	RMB’000	RMB’000	RMB’000
At 1 January 2017	–	107	–	107
Increase of lease liabilities	–	823	–	823
Financing cash flows	9,616	(72)	–	9,544
Finance costs	231	5	–	236
At 31 December 2017	9,847	863	–	10,710
Increase of lease liabilities	–	6,802	–	6,802
Accrued share [REDACTED] costs (Note 20)	–	–	620	620
Financing cash flows	(10,138)	(938)	(90)	(11,166)
Finance costs	291	43	–	334
At 31 December 2018	–	6,770	530	7,300
Increase of lease liabilities	–	5,615	–	5,615
Accrued share [REDACTED] costs (Note 20)	–	–	6,349	6,349
Financing cash flows	–	(1,479)	(3,042)	(4,521)
Finance costs	–	339	–	339
At 31 December 2019	–	11,245	3,837	15,082
Increase of lease liabilities	–	–	–	–
Accrued share [REDACTED] costs (Note 20)	–	–	1,034	1,034
Financing cash flows	–	(1,044)	(1,563)	(2,607)
Finance costs	–	141	–	141
At 31 March 2020	–	10,342	3,308	13,650
Unaudited				
At 31 December 2018	–	6,770	530	7,300
Increase of lease liabilities	–	1,501	–	1,501
Accrued share [REDACTED] costs	–	–	2,498	2,498
Financing cash flows	–	(369)	(2,036)	(2,405)
Finance costs	–	85	–	85
At 31 March 2019	–	7,987	992	8,979

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38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

At the date of this report, the Company has direct and indirect interests in the following subsidiaries, particulars of which are set out below:

Name of subsidiaries	Legal form	Place and date of establishment/ incorporation and operation	Issued share capital/paid up registered capital	Proportion of interest and voting power held by the Group					Principal activities
				At 31 December			At 31 March	At the date of this report	
				2017	2018	2019	2020		
				%	%	%	%	%	
Directly held:									
Joy Spreader Interactive Technology (HK) Limited	Limited liability company	Hong Kong 28 March 2019	HKD1	N/A	N/A	100	100	[100]	Investment holding
Indirectly held:									
北京樂享互動科技有限公司 Beijing Joy Spreader Interactive Technology Co., Ltd ⁽ⁱ⁾	Wholly-foreign owned enterprise	PRC 22 May 2019	RMB500,000,000	N/A	N/A	100	100	[100]	Investment holding
北京宏成興隆商貿有限公司 Beijing Hongcheng Xinglong Commerce and Trading Co., Ltd ⁽ⁱ⁾	Limited liability company	PRC 01 March 2004	RMB1,000,000	N/A	N/A	100	100	[100]	Trading business
霍爾果斯樂享互動網絡科技有限公司 Horgos Joyspreader Interactive Technology Co., Ltd ⁽ⁱ⁾	Limited liability company	PRC 24 March 2020	RMB10,000,000	N/A	N/A	N/A	100	[100]	Digital marketing business and the relevant services
Consolidated Affiliated Entities:									
北京樂享互動網絡科技股份有限公司 Beijing Joy Spreader Interactive Network Technology Co., Ltd ⁽ⁱ⁾	Joint stock limited liability company	PRC 9 October 2008	RMB16,312,632	100	100	100	100	[100]	Digital marketing business and the relevant services
伍遊(北京)科技有限公司 Beijing Wuyou Technology Co., Ltd ⁽ⁱ⁾	Limited liability company	PRC 30 July 2014	RMB10,000,000	100	100	100	100	[100]	Digital marketing business and the relevant services
霍爾果斯耀西網絡科技有限公司 Horgos Yaoxi Internet Technology Co., Ltd ⁽ⁱ⁾	Limited liability company	PRC 19 March 2017	RMB10,000,000	100	100	100	100	[100]	Digital marketing business and the relevant services

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Name of subsidiaries	Legal form	Place and date of establishment/ incorporation and operation	Issued share capital/paid up registered capital	Proportion of interest and voting power held by the Group					Principal activities
				At 31 December			At 31 March	At the date of this report	
				2017	2018	2019	2020	%	
				%	%	%	%	%	
霍爾果斯伍遊網絡科技有限公司 Horgos Wuyou Internet Technology Co., Ltd ⁽ⁱ⁾	Limited liability company	PRC 20 March 2017	RMB10,000,000	100	100	100	100	[100]	Digital marketing business and the relevant services
Joy Spreader Interactive Group (HK) Limited	Limited liability company	Hong Kong 25 October 2019	HKD10,000	N/A	N/A	100	100	[100]	Investment holding
霍爾果斯智普數聯網絡科技有限公司 Horgos Zhipu Shulian Internet Technology Co., Ltd ⁽ⁱ⁾	Limited liability company	PRC 7 January 2020	RMB10,000,000	N/A	N/A	N/A	100	[100]	Digital marketing business and the relevant services

(i) The English translation of the names is for reference only. The official names of these entities are in Chinese.

Joy Spreader, a joint stock limited liability company, was listed on the National Equities Exchange and Quotations in the PRC from November 2016 to November 2018.

The statutory financial statements of Joy Spreader for the years ended 31 December 2017, 2018 and 2019 were prepared in accordance with relevant accounting principles applicable in the PRC and were audited by Zhongxingcai Guanghua Certified Public Accountants LLP, certified public accountants registered in the PRC.

No audited financial statements of other subsidiaries have been prepared since there are no statutory audit requirements in those jurisdictions.

None of the subsidiaries had issued any debt securities at the end of each reporting periods.

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ACCOUNTANTS’ REPORT

39. EVENTS AFTER THE REPORTING PERIOD

- (a) Subsequent to 31 March 2020, the outbreak of the pneumonia caused by the novel coronavirus (the “COVID-19”) was still occurring around the world and causing severe disruptions to global economic and travel activities. The prevention and control measures to contain the COVID-19 are continuously taken worldwide. Despite both nationwide and regional economic activities have gradually resumed, the COVID-19 would still have some negative impact on the overall economic and business operation, and some industries. Up to the date of this report, COVID-19 has not resulted in material impact to the Group. The Group will continue to pay close attention to the development of pneumonia, evaluate the related impact on the Group’s consolidated results of operations, cash flows and financial condition, and adjust its business plans when necessary.
- (b) On 26 August 2020, a written resolution was passed by the shareholders of the Company to approve the subdivision of each share in the Company’s issued and unissued share capital with par value of HK\$0.001 each into 100 shares of the corresponding class with par value of HK\$0.00001 each before the [REDACTED], details of which are set out in the section headed “History, Reorganization and Corporate Structure” of the Document (the “Share Subdivision”). According to the Share Subdivision, 1,614,950,568 Shares were issued to existing shareholders of the Company in proportion to their shareholding in the Company before the [REDACTED]. The written resolution was conditional upon the Listing Committee of the Hong Kong Stock Exchange granting the [REDACTED] to [REDACTED], the shares in issue and to be issued pursuant to the Share Subdivision, and such [REDACTED] not having been subsequently revoked prior to the commencement of [REDACTED] the shares on the Hong Kong Stock Exchange.

40. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of the subsidiaries have been prepared in respect of any period subsequent to 31 March 2020.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANIES LAW

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on August 26, 2020 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 Cayman Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection".

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on August 26, 2020 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The authorized share capital of the Company at the date of adoption of the Articles is HK\$50,000.00 divided into 5,000,000,000 shares of HK\$0.00001 each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Cayman Companies Law 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 Cayman Companies Law and to any special rights

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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 Cayman Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Law 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 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).

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
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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 realized 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;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
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- (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 traveling 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.

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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANIES LAW

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 number of Directors shall not be less than two.

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.

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 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. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the number of Directors and which Directors who are to retire by rotation at such meeting.

No person shall, unless recommended by the Board, 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 dispatch 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 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.

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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 a 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.

(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.

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(j) Proceedings of the Board

The Directors may meet together for the dispatch 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 chairman 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 Cayman Companies Law, 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 authorized 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 authorized 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 ratably 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 canceled subject to the provisions of the Cayman Companies Law; 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 Cayman Companies Law, 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 authorized and subject to any conditions prescribed by the Cayman Companies Law.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANIES LAW

2.6 Special resolution-majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Law, 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, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorized representatives, 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 signed by all members for the time being entitled to receive notice of and to attend and vote at general meetings (or being corporations by their duly appointed representatives), and any such resolution shall be deemed to have been passed at a meeting held on the date on which it was signed by the last member to sign.

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, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorized representatives, 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 authorized 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 authorized 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 chairman 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 recognized clearing house (or its nominee(s)) is a member of the Company it may authorize 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 authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized 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 authorization, 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 authorize). The annual general meeting shall be specified as such in the notices calling it.

Extraordinary general meetings may be convened on the requisition of two or more shareholders (or any one member which is a recognized clearing house (or its nominee(s)) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings.

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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 Cayman Companies Law.

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 the 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 Cayman Companies Law or any other relevant law or regulation or as authorized 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 statement of financial position 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 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.

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.

2.10 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

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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.

2.11 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.

The Directors may, in its absolute discretion, and without assigning any reason, 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 canceled) 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;

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- (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 favor 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).

2.12 Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law 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 canceled upon the repurchase. The holder of the shares being purchased shall be bound to deliver up to the Company at its principal place of business in Hong Kong or such other place as the Directors shall specify the certificate(s) thereof, if any, for cancellation and thereupon the Company shall pay to him the purchase or redemption monies in respect thereof.

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2.13 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.

2.14 Dividends and other methods of distribution

Subject to the Cayman Companies Law 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 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, installments or otherwise.

No dividend shall carry interest against the Company.

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

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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.

Whenever the Directors or the Company in general meeting have resolved that a dividend may be paid or declared, the Directors may further resolve that such 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 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.

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2.15 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 favor 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 authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized 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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2.16 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 installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments 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 installment 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 installment 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 installment is unpaid will be liable to be forfeited.

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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 installments 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.

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.

2.17 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.

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2.18 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 of a chairman 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.

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 authorized 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.

2.19 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.

2.20 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.

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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 Cayman Companies Law, 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 Cayman Companies Law, 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.

2.21 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.

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SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, 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 February 19, 2019 under the Cayman Companies Law. 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 authorized share capital.

3 Share Capital

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Law 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 cancelation of shares in any other company and issued at a premium. The Cayman Companies Law 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 Cayman Companies Law);
- (d) writing-off the preliminary expenses of the company;

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- (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 Cayman Companies Law 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 authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized 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 authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized 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.

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4 Dividends and Distributions

With the exception of section 34 of the Cayman Companies Law, 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 Cayman Companies Law 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.

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 Cayman Companies Law 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANIES LAW

8 Accounting and Auditing Requirements

The Cayman Companies Law 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.

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 Cayman Companies Law 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 Cayman Companies Law 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 Cayman Companies Law 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 authorized by the articles of association of the company.

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12 Subsidiary Owning Shares in Parent

The Cayman Companies Law 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 Cayman Companies Law 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 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 authorized by (a) a special resolution of each constituent company and (b) such other authorization, 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.

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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.

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, ratably 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.

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19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) 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 Law (2018 Revision).

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

Campbells, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V. 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 IV

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 Law as an exempted company with limited liability on February 19, 2019. Accordingly, our Company’s corporate structure and Articles are subject to relevant laws of the Cayman Islands. A summary of our Articles and Memorandum of Association is set out in Appendix III of this document. Our registered office is at the office of Sertus Incorporations (Cayman) Limited, Sertus Chambers, Governors Square, Suite #5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1-1104, Cayman Islands.

Our principal place of business in Hong Kong is at 40th Floor, Sunlight Tower, No. 248 Queen’s Road East, Wan Chai, Hong Kong. Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on June 18, 2019. Mr. Lei Kin Keong 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 at 40th Floor, Sunlight Tower, No. 248 Queen’s Road East, Wanchai, Hong Kong.

As at the date of this document, our Company’s headquarter is located at Building 54, Jialin Garden, No. 1 Jialin Road, Chaoyang District, Beijing, PRC.

2. Changes in share capital of our Company

As at the date of the Company’s incorporation, the authorized share capital of our Company was divided into 50,000,000 Shares with par value of HK\$0.001 each.

On February 19, 2019, our Company issued a total of 9,883,333 Shares to the offshore holding companies owned by each of our individual shareholders. Upon completion of the subscription, our share capital was increased to HK\$9,883.3.

On December 11, 2019, our Company issued a total of 6,429,299 Shares to the offshore holding companies owned by each of our corporate shareholders. Upon completion of the subscription and the transfer, our issued share capital was increased to HK\$16,312.632.

Please see “History, Reorganization and Corporate Structure — Reorganization” in this document for details of the reorganization before the [REDACTED].

Please see “History, Reorganization and Corporate Structure — Share Subdivision” in this document for details of the Share Subdivision before the [REDACTED].

Please see “Share Capital” for details of our share capital during the Reorganization and following completion of the Share Subdivision and the [REDACTED].

Save as disclosed above, there has been no other alteration in the share capital of our Company since its incorporation.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

3. Changes in share capital of our subsidiaries and Consolidated Affiliated Entities

A summary of the corporate information and the particulars of our subsidiaries are set out in the Note 1 and Note 35 of the Accountants’ Report in Appendix 1 to this document.

The following changes in the share capital of our subsidiaries and Consolidated Affiliated Entity have taken place within the two years immediately preceding the date of this document:

Beijing Joyspreader

In March, 2019, Nanjing Pingheng Capital subscribed for 271,877 shares of Beijing Joyspreader. On April 9, 2019, Jiaying Baozheng subscribed for 1,087,509 shares of Beijing Joyspreader. Upon completion of the subscription, the registered share capital of Beijing Joyspreader was increased from RMB14,953,246 to RMB16,312,632.

Joyspreader HK

On March 28, 2019, Joyspreader HK was incorporated in Hong Kong. Upon its incorporation, one share was allotted and issued to Joy Spreader BVI. On May 16, 2019, Joy Spreader BVI transferred the entire equity interests in Joyspreader HK to our Company at a consideration of HK\$1.00, being the share capital of Joyspreader HK. Following the said transfer, Joyspreader HK became a wholly-owned subsidiary of our Company.

Joyspreader Group HK

On October 25, 2019, Joyspreader Group HK was incorporated in Hong Kong as a wholly-owned subsidiary of Beijing Joyspreader. Upon its incorporation, 10,000 shares were allotted and issued to Beijing Joyspreader. On January 9, 2020, Beijing Joyspreader transferred the entire equity interests in Joyspreader Group HK to Joyspreader HK at a consideration of US\$3 million. Following the said transfer, Joyspreader Group HK became a wholly-owned subsidiary of Joyspreader HK.

Zhipu Shulian

On January 7, 2020, Zhipu Shulian was established in the PRC as a wholly-owned subsidiary of Beijing Joyspreader with a registered capital of RMB10 million.

Horgos Joyspreader

On March 24, 2020, Horgos Joyspreader was established in the PRC as a wholly-owned subsidiary of WFOE with a registered capital of RMB10 million.

Save as disclosed above, there is no alternation in the share capital of any of the subsidiaries or Consolidated Affiliated Entity of the Company within the two years immediately preceding the date of this document.

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4. Resolutions in writing of the shareholders passed on August 26, 2020

- (i) Pursuant to written resolutions of the Shareholders of our Company passed on August 26, 2020:
 - (a) our Company approved and adopted the Memorandum and Articles of Association, which will come into effect upon the [REDACTED];
 - (b) conditional upon (i) the Listing Committee of the Stock Exchange granting [REDACTED], the Shares in issue and to be issued pursuant to the Share Subdivision, the [REDACTED] and the exercise of the [REDACTED], and such [REDACTED] not having been subsequently revoked prior to the commencement of [REDACTED] the Shares on the Stock Exchange; (ii) the entering into of the [REDACTED] between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company; and (iii) the obligations of the [REDACTED] under the [REDACTED] becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in such agreements:
 - (1) the [REDACTED] was approved and our Directors were authorized to effect the same and to allot and issue the new Shares pursuant to the [REDACTED];
 - (2) the granting of the [REDACTED] by our Company to the [REDACTED] (for themselves and on behalf of the [REDACTED]) was approved and the Directors were authorized to effect the same and to allot and issue up to [REDACTED] Shares upon the exercise of the [REDACTED]; and
 - (c) the Share Subdivision was approved and our Directors were authorized to take all actions as they consider necessary or desirable to implement the Share Subdivision on or about September 10, 2020 and that upon the written instruction from any Director of our Company and/or legal adviser of our Company, entries be made in the register of members of our Company accordingly to reflect the Share Subdivision and that all the relevant share certificates (if any) be cancelled and that any Director be authorized to prepare, sign, seal (if necessary) and deliver for and on behalf of our Company the new share certificates pursuant to the articles of association of our Company to the existing Shareholders of our Company;
 - (d) a general unconditional mandate was granted to our Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividendschemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of our Company as amended and varied from time to time or pursuant to a specific authority granted by the Shareholders in

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general meeting, unissued Shares not exceeding the aggregate of 20% of the number of issued Shares immediately following completion of the [REDACTED] (but taking no account of any Shares which may be allotted and issued pursuant to the exercise 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 by the articles of association of our Company as amended and varied from time to time or any applicable laws to be held, or until revoked, varied or renewed by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;

- (e) a general unconditional mandate (the “**Buyback Mandate**”) was granted to our Directors and our Directors were authorized to exercise all powers of our Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the number of issued Shares immediately following completion of the [REDACTED] (but taking no account of any Shares which may be allotted and issued pursuant to the exercise 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 by the articles of association of our Company as amended and varied from time to time or any applicable laws to be held, or until revoked, varied or renewed by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;
- (f) the general unconditional mandate as mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the Buyback Mandate referred to in paragraph (e) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Share Subdivision and the [REDACTED], excluding any Shares which may fall to be issued pursuant to the exercise of the [REDACTED]).

5. Reorganization

For details of the Reorganization which was effected in preparation for the [REDACTED], please refer to the section headed “History, Reorganization and Corporate Structure” in this document.

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6. Restriction on Share Repurchase

(i) *Provisions of Hong Kong Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board of the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(a) *Shareholders’ approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the written resolutions passed by the Shareholders of our Company on August 26, 2020, a general unconditional mandate (the “**Buyback Mandate**”) was granted to our Directors authorizing the repurchase of shares by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, with the total number of Shares not exceeding 10% of the total number of Shares in issue and to be issued as mentioned herein, at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by an applicable law or the Articles to be held or when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

(b) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with our Articles and the laws of the Cayman Islands. A listed 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 in effect from time to time.

(c) *Trading Restrictions*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 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. The Listing Rules also prohibit a listed company from

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repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(d) Status of Repurchased Shares

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the inside has been made publicly available. In particular, 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 a listed 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 publication of an announcement of a listed 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 ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(e) Reporting Requirements

Certain information relating to repurchases of securities 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 following business day. In addition, a listed company’s annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

(f) Core Connected Persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a “core connected person,” that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their close associates and a core connected person is prohibited from knowingly selling his securities to the company.

(ii) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have general authority from our Shareholders to enable our Directors to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and its

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members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and its assets and/or its earnings per Share.

(iii) 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 of the Cayman Islands.

It is presently proposed that any repurchase of Shares will be made out of the profits of our Company, the share premium amount of our Company or the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase over the par value of the Shares to be repurchased must be provided for, out of either or both of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Cayman Companies Law, out of capital.

Our Directors do not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company. However, there might be a material adverse impact on the working capital or gearing level as compared with the position disclosed in this document in the event that the Buyback Mandate is exercised in full.

(iv) Share capital

Exercise in full of the Buyback Mandate, on the basis of [REDACTED] Shares in issue immediately after the [REDACTED] (but not taking into account our Shares which may be issued pursuant to the exercise of the [REDACTED]), could accordingly result in up to [REDACTED] Shares being repurchased by our Company during the period until:

- (a) the conclusion of the next annual general meeting of our Company;
- (b) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Articles to be held; or
- (c) the date on which the Buyback Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever occurs first.

(v) General

None of our Directors nor, to the best of their knowledge, information and belief, having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares or our subsidiaries.

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Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules, the Articles of Association, and the applicable laws of the Cayman Islands.

No core connected person (as defined in the Listing Rules) has notified us that he/she/it has a present intention to sell Shares to us, or has undertaken not to do so, if the Buyback Mandate is approved and exercised by the Directors.

If as a result of a securities repurchase pursuant to the Buyback Mandate, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder, or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of the shareholders' interest, 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 as a result of any such increase. Our Directors are not aware of any other consequences which may arise under the Takeovers Code if the Buyback Mandate is exercised.

If the Buyback Mandate is fully exercised immediately following completion of the Share Subdivision and the [REDACTED] (but not taking into account our Shares which may be issued pursuant to the exercise of the [REDACTED]), the total number of Shares which will be repurchased pursuant to the Buyback Mandate will be [REDACTED] Shares, being [REDACTED] of the total number of Shares based on the aforesaid assumptions. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage 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 public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Buyback Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue may only be implemented with the approval of the Stock Exchange to waive the requirement regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Buyback Mandate to such an extent that, under the circumstances, there would be insufficient public float.

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B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or any member of our Group within the two years preceding the date of this document and are or may be material:

- (a) the capital increase and subscription agreement (增資擴股協議) dated March 2019 entered into between Mr. Zhu, Beijing Joyspreader and Nanjing Pingheng Capital;
- (b) the share transfer agreement (股份轉讓協議) dated April 8, 2019 entered into between Mr. Zhu, Beijing Joyspreader and Nanjing Pingheng Capital;
- (c) the capital increase and subscription agreement (增資擴股協議) dated April 9, 2019 entered into between Mr. Zhu, Beijing Joyspreader and Jiaxing Baozheng;
- (d) the exclusive management and consultation service agreement (獨家管理諮詢服務協議) dated December 11, 2019, entered into by and between WFOE and Beijing Joyspreader;
- (e) the exclusive option agreement (獨家購買權協議) dated December 11, 2019, entered into by and among WFOE, Mr. Zhu, Beijing Daoyoudao, Beijing Zinan and Friends, Shenzhen Nanhai Chengzhangtongying, Nantong Pinghengchuangye, Jiaxing Baozheng, Mr. Zhang, Mr. Chen Liang, Shanghai Jinjia, Mr. Guo Zhiwei, Ms. Zhang Yue, Ms. Zhang Wenyan, Ms. Xue Xiaoli, Ms. Zhu Xifen, Mr. Xiong Chi, Nanjing Pingheng Capital, Ms. Huang Huijuan and Beijing Joyspreader;
- (f) the equity pledge agreement (股份質押協議) dated December 11, 2019, entered into by and among WFOE, Mr. Zhu, Beijing Daoyoudao, Beijing Zinan and Friends, Shenzhen Nanhai Chengzhangtongying, Nantong Pinghengchuangye, Jiaxing Baozheng, Mr. Zhang, Mr. Chen Liang, Shanghai Jinjia, Mr. Guo Zhiwei, Ms. Zhang Yue, Ms. Zhang Wenyan, Ms. Xue Xiaoli, Ms. Zhu Xifen, Mr. Xiong Chi, Nanjing Pingheng Capital, Ms. Huang Huijuan and Beijing Joyspreader;
- (g) the shareholder’s rights proxy agreement (股東權利委託協議) dated December 11, 2019, entered into by and among WFOE, Mr. Zhu, Beijing Daoyoudao, Beijing Zinan and Friends, Shenzhen Nanhai Chengzhangtongying, Nantong Pinghengchuangye, Jiaxing Baozheng, Mr. Zhang, Mr. Chen Liang, Shanghai Jinjia, Mr. Guo Zhiwei, Ms. Zhang Yue, Ms. Zhang Wenyan, Ms. Xue Xiaoli, Ms. Zhu Xifen, Mr. Xiong Chi, Nanjing Pingheng Capital, Ms. Huang Huijuan and Beijing Joyspreader;

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- (h) the share transfer agreement dated December 5, 2019, entered into by and among Mr. Zhu and Jiaxing Guangda, pursuant to which Jiaxing Guangda transferred 711,111 shares in Beijing Joyspreader to Mr. Zhu at a consideration of RMB19,498,079.15;

[REDACTED]

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2. Intellectual Property Rights

(a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which we consider to be material to our business:

No.	Trademark	Class	Registered owner	Place of registration	Registration number	Date of registration	Expiration date
1.		42	Beijing Wuyou	PRC	20154135	July 21, 2017	July 20, 2027
2.		39	Beijing Wuyou	PRC	20154010	July 21, 2017	July 20, 2027
3.		38	Beijing Wuyou	PRC	20153893	July 21, 2017	July 20, 2027
4.		36	Beijing Wuyou	PRC	20153831	July 21, 2017	July 20, 2027
5.		9	Beijing Wuyou	PRC	20153726	July 21, 2017	July 20, 2027
6.		35	Beijing Wuyou	PRC	20153891	October 7, 2017	October 6, 2027
7.		41	Beijing Wuyou	PRC	20154114	October 7, 2017	October 6, 2027
8.		9, 35, 38, 41, 42	Beijing Joyspreader	Hong Kong	304802030	January 15, 2019	January 14, 2029
9.		9, 35, 38, 41, 42	Beijing Wuyou	Hong Kong	304798801	January 11, 2019	January 10, 2029

As at the Latest Practicable Date, we had applied for the registration of the following trademarks which we consider to be material to our business:

No.	Trademark	Class	Applicant	Place of registration	Registration number	Date of application
1.	乐享互动	35	Beijing Joyspreader	PRC	44616996	March 16, 2020
2.	乐享互动	42	Beijing Joyspreader	PRC	44616999	March 16, 2020

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(b) Domain Names

As of the Latest Practicable Date, we had registered the following domain names which we consider to be material to our business:

<u>No.</u>	<u>Domain name</u>	<u>Registered owner</u>	<u>Date of registration</u>	<u>Expiry date</u>
1.	adjoy.com.cn	Beijing Joyspreader	June 8, 2009	June 8, 2022
2.	5you.cc	Beijing Wuyou	October 15, 2014	October 15, 2022
3.	hegsyoshi.com	Horgos Yaoxi	March 6, 2019	March 6, 2021
4.	hegs5you.com	Horgos Wuyou	March 6, 2019	March 6, 2021
5.	hegssmart.com	Zhipu Shulian	March 25, 2020	March 25, 2021

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C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) *Disclosure of Interests — Interests and short positions of the Directors and the chief executive in the Shares, underlying shares or debentures of our Company and our associated corporations*

Immediately following completion of the Share Subdivision and the [REDACTED] (assuming that the [REDACTED] is not exercised), the interests or short positions of our Directors or chief executive of our Company in the Shares, underlying Shares and debentures of our Company and/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 or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once our Shares are listed, will be as follows:

(i) *Interests in Shares*

Name of Director	Nature of interest	Number of Shares	Approximate percentage of interest in the Company immediately after the Share Subdivision and the [REDACTED] (assuming that the [REDACTED] is not exercised)
Mr. Zhu	Interest in controlled corporation ⁽¹⁾	858,409,400	[REDACTED]
	Interest of a party to an agreement ⁽²⁾	66,750,000	[REDACTED]
Mr. Zhang	Interest of controlled corporation	66,750,000	[REDACTED]
	Interest of a party to an agreement ⁽²⁾	858,409,400	[REDACTED]

Notes:

- (1) As at the Latest Practicable Date, Mr. Zhu held 100% interests of ZZN. Ltd. and 90% interests of Laurence mate. Ltd., which in turn held 1,111,111 Shares, and therefore Mr. Zhu is deemed to be interested in the Shares held by ZZN. Ltd. and Laurence mate. Ltd. under the SFO.
- (2) Pursuant to the Concert Party Agreement between Mr. Zhu and Mr. Zhang, they have agreed to act in concert by aligning their votes at Shareholders' meetings of the Company. Therefore, they are deemed to be jointly interested in the aggregate number of Shares held by ZZN. Ltd., ZZD. Ltd. and Laurence mate. Ltd..

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(ii) *Interests in Beijing Joyspreader*

Name of Director	Nature of interest	Number of share of Beijing Joyspreader	Approximate percentage of interest in Beijing Joyspreader
Mr. Zhu	Beneficial owner	7,472,983	45.811%
	Interest in controlled corporation ⁽¹⁾	1,111,111	6.811%
	Interest of a party to an agreement ⁽²⁾	667,500	4.092%
Mr. Zhang	Beneficial owner	667,500	4.092%
	Interest of a party to an agreement ⁽²⁾	8,584,094	52.622%

Notes:

- (1) As at the Latest Practicable Date, Mr. Zhu held 90% equity interests of Beijing Zinan and Friends, which in turn held 1,111,111 shares of Beijing Joyspreader, and therefore Mr. Zhu is deemed to be interested in the shares held by Beijing Zinan and Friends in Beijing Joyspreader under the SFO.
- (2) Pursuant to the Concert Party Agreement between Mr. Zhu and Mr. Zhang, they have agreed to act in concert by aligning their votes at shareholders’ meetings of Beijing Joyspreader. Therefore, they are deemed to be interested in the shares of Beijing Joyspreader held by each other under the SFO.

(b) *Interests of and short positions of the substantial Shareholders in the Shares, underlying shares or debentures of our Company and our associated corporations*

Save as disclosed in the section headed “Substantial Shareholders” in this document, our Directors are not aware of any other person who will, immediately following the completion of the Share Subdivision and the [REDACTED] (assuming that the [REDACTED] is not exercised), have an interest or short position in the Shares or the underlying Shares which would required to be disclosed to our Company and the Stock Exchange under the provisions of Division 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.

2. Particulars of Directors’ Service Contracts and Appointment Letters

Each of our executive Directors has entered into a service agreement with our Company with an initial term of three years commencing from the [REDACTED], and will continue thereafter until terminated by not less than three months’ notice in writing served by either party on the other. Each of our executive Directors is entitled to their respective basic salary set out below.

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Each of our non-executive Directors and independent non-executive Directors has entered into a letter of appointment with our Company. The terms and conditions of each of such letters of appointment are similar in all material respects. Each of our non-executive Directors and independent non-executive Directors is appointed with an initial term of three years commencing from the [REDACTED] subject to termination in certain circumstances as stipulated in the relevant letters of appointment.

The Principle particulars of these service contracts and appointment letters are: (a) each of the service contracts and appointment letters is for a term of three years following each Director's respective appointment date and (b) each of the service contracts and appointment letters is subject to termination in accordance with their respective terms. The service contracts and appointment letters may be renewed in accordance with our Articles of Associations and applicable rules.

3. Director's Remuneration

The aggregate amount of the remuneration (including fees, salaries, bonuses, share-based compensation expenses, contributions to pension schemes, other social security costs and other employee benefits) we paid to our directors for the financial years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020 were RMB693,000, RMB1,375,000, RMB1,374,000 and RMB312,000, respectively.

Under the arrangements currently in force, we estimate the aggregate remuneration payable to, and benefits in kind receivable by the Directors for the year ended December 31, 2020 to be approximately RMB1.8 million.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended December 31, 2017 and 2018, 2019 and the three months ended March 31, 2020.

4. Agent fees or commissions received

Save as disclosed in this document, no commissions, discounts, brokerage or other terms were granted 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.

5. Disclaimers

Save as disclosed in this document:

- (i) none of our Directors or chief executives of our Company has any interest or short position in our shares, underlying shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO,

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to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers once our Shares are [REDACTED];

- (ii) none of our Directors or experts referred to under the paragraph headed “– E. Other Information – 6. Qualification of Experts” in this Appendix 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;
- (iii) none of our Directors 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;
- (iv) none of our Directors has any existing or proposed service contracts 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));
- (v) taking no account of Shares which may be taken up under the [REDACTED], none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Share Subdivision and the [REDACTED], have an interest or short position in our Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the issued voting shares of any member of our Group;
- (vi) none of the experts referred to under the paragraph headed “– E. Other Information – 6. Qualification of Experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (vii) to the best knowledge of our Directors as at the Latest Practicable Date, none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

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D. RSU SCHEME

The following is a summary of the principal terms of the RSU Scheme approved and adopted by our Company on August 26, 2020. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares.

1. Purpose of the RSU Scheme

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

2. RSUs

A RSU gives a participant in the RSU Scheme (the “**RSU Participant**”) a conditional right to obtain Shares, less any tax, stamp duty and other charges applicable, as determined by our Board in its absolute discretion.

3. Appointment of the RSU Administrator

Our Company has appointed Mr. Zhu as the administrator (the “**RSU Administrator**”) to assist in the administration and vesting of the RSU Scheme. Our Company may (i) allot and issue Shares to Laurence mate. Ltd., which will be used to satisfy the RSUs upon exercise and/or (ii) direct and procure Laurence mate. Ltd. to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the RSUs upon exercise.

4. Participants in the RSU Scheme

Persons eligible to receive RSUs under the RSU Scheme are existing employees, Directors (whether executive or non-executive, but excluding independent non-executive directors), senior management of our Company or any member of our Group (the “**RSU Eligible Persons**”). The RSU Administrator selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion.

5. Terms of the RSU Scheme

The RSU Scheme will be valid and effective for a period of ten (10) years, commencing from the adoption date of RSU Scheme, being August 26, 2020 (unless it is terminated earlier in accordance with its terms) (the “**RSU Scheme Period**”).

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6. Grant and Acceptance

(a) Making an offer

An offer to grant a RSU will be made to a RSU Eligible Person selected by the RSU Administrator (the “**RSU Selected Person**”) by a letter, in such form as our Board may determine (the “**RSU Grant Letter**”). The RSU Grant Letter will specify the RSU Selected Person’s name, the manner of acceptance of the RSUs, the number of RSUs granted and the number of underlying Shares represented by the RSUs, the vesting criteria and conditions, the vesting schedule, the exercise price of the RSUs (where applicable) and such other details as the RSU Administrator considers necessary. The RSU Selected Person shall undertake to hold the RSUs on the terms on which it is granted and be bound by the provisions of the RSU Scheme. The RSU Grant Letter shall be the only proof for the grant of the RSUs.

(b) Acceptance of an offer

A RSU Selected Person may accept an offer of the grant of RSUs in such manner as set out in the RSU Grant Letter. Once accepted, the RSUs are deemed granted from the date of the RSU Grant Letter (the “**RSU Grant Date**”).

(c) Restrictions on Grants

The RSU Administrator may not grant any RSUs to any RSU Selected Persons in any of the following circumstances:

- (a) where the requisite approval from any applicable regulatory authorities has not been granted;
- (b) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of the RSUs or in respect of the RSU Scheme, unless the RSU Administrator determines otherwise;
- (c) where granting the RSUs would result in a breach by our Company, any member of our Group or any of their directors of any applicable laws, rules or regulations;
- (d) where such grant of any RSUs would result in a breach of the limits of the RSU Scheme (as set out in paragraph 6 below).

No RSU will be granted on or before the [REDACTED].

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7. Maximum number of Shares pursuant to RSUs

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been canceled in accordance with the rules of the RSU Scheme) shall be such number of Shares held or to be held by Laurence mate. Ltd. for the purpose of the RSU Scheme from time to time.

8. Rights attached to RSUs

A RSU Participant does not have any contingent interest in any Shares underlying the RSUs and may not exercise voting rights in respect of the Shares underlying the RSUs unless and until such Shares are actually transferred to the RSU Participant and, unless otherwise specified by the RSU Administrator in its entire discretion in the RSU Grant Letter to the RSU Participant, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the RSUs.

9. Rights attached to Shares

Any Shares transferred to a RSU Participant in respect of any RSUs will be subject to all the provisions of the Articles and will rank *pari passu* with the fully paid Shares in issue on the date of the transfer or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members, and accordingly will entitle the holder to participate in all dividends or other distributions paid or made on or after the date of the transfer or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members.

10. Assignment of RSUs

The RSUs granted pursuant to the RSU Scheme are personal to each RSU Participant, and are not assignable. RSU Participants are prohibited from selling, transferring, assigning, charging, mortgaging, encumbering, hedging or creating any interest in favor of any other person over or in relation to any property held by the RSU Administrator (as defined in paragraph 11 below) on trust for the RSU Participants, the RSUs, or any interest or benefits therein.

11. Vesting of RSUs

The RSU Administrator can determine the vesting criteria, conditions and the time schedule when the RSUs will vest and such criteria, conditions and time schedule shall be stated in the RSU Grant Letter. After the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, the RSU Administrator will send a vesting notice (the "Vesting Notice") to each of the relevant RSU Participants. The Vesting Notice will confirm the extent to which the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, and the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) involved.

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12. Rights on a takeover

If a general offer to acquire the Shares (whether by takeover offer, merger, or otherwise in a like manner) is made to all of our Shareholders (or Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and the general offer to acquire the Shares is approved and the offer becomes or is declared unconditional in all respects, a RSU Participant's RSUs will vest immediately, even if the vesting period has not yet commenced.

13. Rights on a compromise or arrangement

If a compromise or arrangement between our Company and our Shareholders or creditors is proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies and a notice is given by our Company to our Shareholders to convene a general meeting to consider and if thought fit approve such compromise or arrangement and such Shareholders' approval is obtained, a RSU Participant's RSUs will vest immediately, even if the vesting period has not yet commenced.

14. Rights on voluntary winding-up

If an effective resolution is passed during the RSU Scheme Period for the voluntary winding-up of the Company (other than for the purposes of a reconstruction, amalgamation or scheme of arrangement), all outstanding RSUs shall be treated as having vested immediately. No Shares will be transferred, and no cash alternative will be paid, to the RSU Participant, but the RSU Participant will be entitled to receive out of the assets available in liquidation on an equal basis with our Shareholders such sum as they would have received in respect of the RSUs.

15. Lapse of RSUs

(a) Full lapse of RSU

Any unvested RSU will automatically lapse immediately in the following circumstances under the RSU scheme:

- such RSU Participant's employment or service terminates for any reason; or
- such RSU Participant makes any attempt or takes any action to sell, transfer, assign, charge, mortgage, encumber, hedge or create any interest in favor of any other person over or in relation to any RSUs or any interests or benefits pursuant to the RSUs.

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(b) *If at any time, a RSU Participant:*

- ceases to be an employee;
- fails, during the course of his employment, to devote the whole of his time and attention to the business of our Group or to use his best endeavors to develop the business and interests of our Group;
- is concerned during the course of his employment with our Group (without the prior written consent of our Company) with any (competitive or other) business other than that of our Group;
- is in breach of his contract of employment with or any other obligation to our Group (including without limitation certain restrictive covenants); and/or
- ceases to be an RSU Eligible Persons in the opinion of the RSU Administrator.

Then all vested and unvested RSUs shall automatically lapse and such RSU Participant shall have no claim whatsoever in respect of the RSUs or the underlying Shares.

16. Cancellation of RSUs

Our Board may at its discretion cancel any RSU that has not vested or lapsed, provided that:

- (a) our Company or any member of our Group pays to the RSU Participant an amount equal to the fair value of the RSU at the date of the cancellation as determined by the Board, after consultation with our auditors or an independent financial advisor appointed by our Board;
- (b) our Company or any member of our Group provides to the RSU Participant a replacement award (or a grant or option under any other restricted share unit scheme, share option scheme or share-related incentive scheme) of equivalent value to the RSUs to be canceled; or
- (c) our Board makes any arrangement as the RSU Participant may agree in order to compensate him/her for the cancellation of the RSUs.

17. Reorganization of capital structure

In the event of any capitalization issue, rights issue, consolidation, sub-division or reduction of the share capital of our Company, the RSU Administrator may make such equitable adjustments, designed to protect the RSU Participants' interests, to the number of Shares underlying the outstanding RSUs or to the amount of the equivalent value, as it may deem appropriate at its absolute discretion.

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18. Amendment of the RSU Scheme

Save as provided in the RSU Scheme, our Board may alter any of the terms of the RSU Scheme at any time. Written notice of any amendment to the RSU Scheme shall be given to all RSU Participants.

Any alterations to the terms and conditions of the RSU Scheme which are of a material nature or any changes to the terms of the RSUs granted which shall operate to affect materially adversely any subsisting rights of any RSU Participant shall be subject to the consent of the RSU Participants amounting to three-fourths in nominal value of all underlying RSUs so held by the RSU Participants on the date of the relevant resolution passed by our Board in approving the amendment of the RSU Scheme or the terms of the RSUs granted (as the case may be), except where the alterations or changes take effect automatically under the existing terms of the RSU Scheme. Our Board's determination as to whether any proposed alteration to the terms and conditions of the RSU Scheme or the terms of the RSUs granted (as the case may be) is material shall be conclusive.

19. Termination of the RSU Scheme

Our Board may terminate the RSU Scheme at any time before the expiry of the RSU Scheme Period. The provisions of the RSU Scheme shall remain in full force and effect in respect of RSUs which are granted pursuant to the rules of the RSU Scheme prior to the termination of the operation of the RSU Scheme. Our Company or our relevant subsidiary shall notify the RSU Administrator and all RSU Participants of such termination and of how any property held by Laurence mate. Ltd. for the RSU Participants (including, but not limited to, any Shares held) and the outstanding RSUs shall be dealt with.

20. Administration of the RSU Scheme

Our Board has the power to administer the RSU Scheme, including the power to construe and interpret the rules of the RSU Scheme and the terms of the RSUs granted under it. Our Board may delegate the authority to administer the RSU Scheme to a committee of our Board. Our Board may also appoint one or more independent third-party contractors to assist in the administration of the RSU Scheme and delegate such powers and/or functions relating to the administration of the RSU Scheme as our Board thinks fit. Our Board's determinations under the RSU Scheme need not be uniform and may be made by it selectively with respect to persons who are granted, or are eligible to be granted, RSUs under it. If a Director is a RSU Participant he may, notwithstanding his own interest and subject to our Articles, vote on any Board resolution concerning the RSU Scheme (other than in respect of his own participation in it), and may retain RSUs under it. Each RSU Participant waives any right to contest, amongst other things, the value and number of RSUs or Shares or equivalent value of cash underlying the RSUs or Shares and our Board's administration of the RSU Scheme.

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E. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any member of our Group.

2. Litigation

As of the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial conditions.

3. Joint Sponsors

The Joint Sponsors have made an [REDACTED] on our behalf to the Listing Committee of the Stock Exchange for the [REDACTED], the Shares in issue and the Shares to be issued pursuant to the [REDACTED] (including the additional Shares which may be issued pursuant to the exercise of the [REDACTED]). The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The total fees payable to the Joint Sponsors in respect of its services as sponsors for the [REDACTED] are approximately RMB8.5 million and are payable by us.

4. Preliminary Expenses

The preliminary expenses of our Company are approximately RMB35,060 and have been paid by us.

5. Taxation of holder of Shares

(a) Hong Kong

The sale, purchase and transfer of Shares registered with our Hong Kong branch register or members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, of the value of the Shares being sold or transferred. Profits from dealings in the shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

Under present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of Shares if they are executed and remain outside the Cayman Islands and the Company does not hold any interest in land in Cayman Islands.

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(c) *PRC*

We may be treated as a PRC resident enterprise for PRC EIT purposes as described in “Risk Factors — Risks Relating to Conducting Business in the PRC — The Company may be deemed a PRC resident enterprise for PRC EIT purposes under the EIT Law and be subject to PRC taxation on our global income.” In that case, distributions to our Shareholders may be subject to PRC withholding tax and gains from dispositions of our Shares may be subject to PRC tax. See “Risk Factors — Risks Relating to Conducting Business in the PRC — You may be subject to PRC income tax on dividends from us or on any gain realized on the sale or other disposition of our Shares under PRC law.”

(d) *Consultation with professional advisors*

Potential [REDACTED] in the [REDACTED] are urged to consult their professional tax advisors if they are in any doubt as to the taxation implications of [REDACTED] our shares (or exercising rights attached to them). None of us, the Joint Sponsors, [REDACTED], any of their respective directors or any other person or party involved in the [REDACTED] accept responsibility for any tax effects on, or liabilities of, any person, resulting from the [REDACTED], holding or disposal of, [REDACTED] or the exercise of any rights in relation to our Shares.

6. Qualification of Experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who gave opinions or advice which are contained in this document:

Name	Qualifications
China Securities (International) Corporate Finance Company Limited	A licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities (as defined under SFO)
China Merchants Securities (HK) Co., Limited	A licensed corporation to conduct Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities (as defined under SFO)

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Name	Qualifications
BOCOM International (Asia) Limited	A licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities (as defined under SFO)
Deloitte Touche Tohmatsu	Certified Public Accountants
Beijing Jingtian & Gongcheng Law Firm	PRC Legal Advisors
Campbells	Cayman Legal Advisors
Frost & Sullivan	Industry Consultant

7. Consent of Experts

Each of the experts whose names are set out in paragraph 7 above has given and has not withdrawn their respective written consents to the issue of this document with the inclusion of their reports and/or letters and/or legal opinion (as the case may be) and references to their names included in the form and context in which it respectively appears.

None of experts named above has any shareholders' interests in our Company or any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for interests in our Company or any member of our Group.

8. Bilingual Document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

9. Binding Effect

This document shall have the effect, if an [REDACTED] is made pursuant hereof, 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 so far as applicable.

10. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since December 31, 2018 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

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11. Miscellaneous

- (a) Save as disclosed in this document :
 - (i) within the two years immediately preceding the date of this document, neither our Company nor any member of the Group has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or a consideration other than cash;
 - (ii) no share or loan capital of our Company or any member of the Group is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) within the two years immediately preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any member of the Group;
 - (iv) within the two years immediately preceding the date of this document, no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any member of our Group;
 - (v) there are no founders, management or deferred shares of our Company or any member of our Group have been issued or agreed to be issued;
 - (vi) our Company has no outstanding convertible debt securities or debentures;
 - (vii) there is no arrangement under which the future dividends are waived or to be waived or is agreed conditionally or unconditionally to be put under option;
 - (viii) our Directors confirm that there has not been any interruption in the business of our Company which may have or have had a material and adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this document;
- (b) Our principal register of members will be maintained by our principal registrar, [REDACTED], in the Cayman Islands and our Hong Kong branch register of members will be maintained by our Hong Kong Share Registrar, [REDACTED]. Unless the Directors otherwise agree, all transfers and other documents of title of the Shares must be lodged for registration with and registered by our Hong Kong Share Registrar and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS; and
- (c) No company within our Group is presently listed on any stock exchange or traded on any trading system and no listing or permission to deal is being or is proposed to be sought.

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a company of this document and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the [REDACTED];
- (b) the written consents referred to in the section headed “Appendix IV — Statutory and General Information — E. Other Information — 7. Consent of Experts” in this document; and
- (c) a copy of each of the material contracts referred to in “Appendix IV — Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts” in this document.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company’s principal place of business in Hong Kong during normal business hours from up to and including the date which is 14 days from the date of this document:

- (a) the Articles of Association;
- (b) the Accountants’ Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in “Appendix I — Accountants’ Report” to this document;
- (c) the consolidated financial statements of companies comprising our Group for the three years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020;
- (d) the report on unaudited pro forma financial information from Deloitte Touche Tohmatsu, the text of which is set out in “Appendix II — Unaudited Pro Forma Financial Information” to this document;
- (e) the letter of advice prepared by Campbells, the legal advisors to the Company as to the law of Cayman Islands, summarizing certain aspects of the Cayman Islands company law as referred to in “Appendix III — Summary of the Constitution of the Company and Cayman Companies Law” in this document;
- (f) the Cayman Islands Companies Law;
- (g) the material contracts referred to in the section headed “Appendix IV — Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts” in this document;

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- (h) the service contracts and letters of appointment referred to in the section headed “Appendix IV — Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 2. Particulars of Directors’ Service Contracts and Appointment Letters” in this document;
- (i) the written consents referred to in the section headed “Appendix IV — Statutory and General Information — E. Other Information — 7. Consent of experts” in this document;
- (j) the PRC legal opinion issued by Beijing Jingtian & Gongcheng Law Firm, our PRC Legal Advisors, in respect of certain aspects of our Group;
- (k) the rules of the RSU Scheme; and
- (l) the industry report issued by Frost & Sullivan, our industry consultant.