The following discussion and our analysis should be read in conjunction with our consolidated financial statements included in the Accountants' Report in Appendix I, together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with the IFRS Accounting Standards.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including but not limited to the sections headed "Risk Factors" and "Business".

For the purposes of this section, unless the context otherwise requires, references to the years of 2023 and 2024 refer to the years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis. In addition, the following discussion and analysis contains certain amounts and percentage figures that have been subject to rounding adjustments, Accordingly, figures shown as totals in certain tables may not be arithmetic aggregation of the figures preceding them, and all monetary amounts and percentages shown are approximate amounts only.

OVERVIEW

We are a leading AI-driven digital entertainment platform, primarily providing (i) online literature content in China and (ii) micro dramas overseas. We strive to build a next-generation, full-industry-chain digital content ecosystem. Over 25 years, we have amassed a vast library of original digital content and a rich network of creators, forming our formidable competitive moat. Leveraging our evolving technology and innovation capabilities, particularly application of AI technology, we have successfully transformed from a digital publishing company to a content leader in the AI era. We empower our diverse content formats including online literature, audiobooks, comics, AI motion comics, animations and micro dramas with AI technology, expanding our business footprint from China to the world. We connect renowned creators, publishers, distribution channels and global users, building an AI-driven business encompassing content creation, IP incubation, IP development and operation across multiple formats as well as global distribution. This allows us to constantly deliver high-quality digital content to users worldwide.

According to Frost & Sullivan, we ranked 3rd among the copyright-driven content platforms in China online literature market in terms of revenue in 2024, with a market share of 1.6%; and among overseas micro drama platforms, we ranked 8th by revenue in September 2025 and 2nd in terms of the MAUs during the initial seven-months period following launch.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition have been and will continue to be affected by a number of factors, which primarily include the following:

Improve Quality of Our Digital Content and Micro Dramas

High quality digital content is crucial to our success. Superior content boosts user acquisition and retention, and average revenue per user ("**ARPU**"), thereby enhancing our monetization.

Our self-developed "Xiaoyao" AI empowers us and global writers to create novels, script and animation generation. By integrating data-driven insights from our AI-empowered platforms with our deep industry expertise, we carry out comprehensive assessments of our digital content library to screen out high commercial potential IPs which are then shortlisted for subsequent IP development plans, spanning from literature to audiobooks, comics, AI motion comics, animations, micro dramas, films, and accessories.

For literature content, we offer high quality digital content both on our self-owned online literature platforms and through third-party distribution channels. We devote our efforts in talent recruitments and AI empowerment. We are going to offer more competitive customized licensing agreements to writers with development potential; expand the editorial team and build AI-empowered content production toolkits to enable writers to create content more efficiently on our platforms; and establish incentive funds and/or organize activities to attract talented writers to submit literary works to us.

For micro dramas, we primarily focus on overseas business, devote our efforts in building capable production and operation teams with AI empowerment to ensure our superior content quality. We have established cross-border collaborations between domestic and local screenwriters with localized team across North America, Japan and China. We are going to expand our capacities by hiring more screenwriting talents as well as pursuing strategic cooperations with screenwriting studios and/or production companies. High-quality micro-dramas, tailored to local tastes and cultural nuances, enhance viewer satisfaction, foster loyal communities, and directly translate to stronger market penetration and higher ARPU.

Improve Operation of Online Literature and Related Business

Online literature business has been our revenue foundation, primarily generated from third party distribution channels. We usually receive from distribution customers (i) a share of the revenue generated from such literary works on distribution customers' platforms or (ii) a combination of fixed fee based on the number of licensed literary works and the shared revenue.

We have been working on maintaining or, where possible, increasing the amount of fixed fee and securing favorable revenue-sharing ratios in negotiations with our existing major channel partners in terms of copyright cooperation agreements. Also, we are enhancing content quality and cultivating potential hit titles capable of forming valuable IPs, thereby strengthening our bargaining position with our channel partners and pursue the expansion of our partner network by engaging new and diverse large platforms in non-online literature industries.

Improve Operation of Micro Dramas and IP Derivatives Business

We primarily focus on expansion of the untapped overseas micro drama market. We are continuously expanding the reach of our micro drama business by both increasing the penetration rate among geographies where we already operated in, as well as expanding into new markets. Typically overseas users in North America and Europe have higher purchasing power, thus we could potentially achieve higher ARPU in those markets with high-quality content. By successfully introducing micro drama series to new overseas audiences, we are driving a step-change in user acquisition.

Further, its growth fundamentally depends on three key operational metrics: increasing the number of active audience on our platform, improving the conversion rate of these active audience into paying users, and enhancing the ARPU. A larger base of active audience directly boosts advertising revenue, from this expanded base, a higher conversion rate leads to a greater number of paying users, who contribute through monthly subscriptions and in-app purchases. Finally, by improving user retention and increasing ARPU, we are driving sustainable revenue growth.

Our Ability to Increase Our Production Efficiency

We utilize our AI technology, Xiaoyao AI and suite of AI toolkits, to empower core content production processes, enhance operation efficiency and reduce costs across business lines. We primarily leverage AI capabilities to lower production costs and operating expenses through content generation and process automation.

As of the Latest Practicable Date, we have applied AI technology to cover 60% of our literary content production processes. This has driven a more than 40% increase in our production efficiency in terms of average daily word count generated and reduced our average translation costs by over 90% as compared with traditional non-AI processes, significantly enhancing our competitiveness in the global literary content market.

Implementation of effective advertising and marketing models and strategies is essential to achieving a competitive advantage in this industry. As of the Latest Practicable Date, our AI agent has promoted over 27,000 titles of our literary works, increasing the average daily readership of high-quality literary content by more than 48 times, raising the average daily reading time of our paying readers by over 20% and enhancing our placement efficiency by more than 20 times in terms of average daily number of advertisement managed per person as compared with traditional non-AI processes.

Strategic Focus on Higher-margin Businesses and Improve Cashflow

We constantly optimize our allocation of capitals among our business lines. This entails shifting towards third-party distribution customers of online literature and premium micro dramas that typically incur no distribution costs, thereby improving overall profit margin. Also, we are working on improving the profit margin of our FlareFlow business. First, improving content quality means that while keeping production costs under cost of sales unchanged, we can generate higher revenue, attract more viewership, expand our audience base, and increase subscriptions. This, in turn, will enhance our gross profit margin. Second, improving the efficiency of our selling and marketing efforts will enable us to generate increased revenue, while production costs remain unchanged. This will ultimately lead to an enhancement in our gross profit margin.

As the business scales and establishes greater brand awareness, reputation, and customer loyalty, FlareFlow's prepaid recharge model ensures upfront cash collection from customers, and the rising efficiency of our selling and marketing expenses will further amplify the business's cash flow performance.

Strategic Change in Business Models

Due to the rapidly evolving industry landscape in both online literature and micro dramas spaces, our business models have undergone a few changes during the Track Record Period. We believe these strategic changes are critical to the survival of our overall business and are common to our peers in the digital entertainment industry.

In April 2023, we deconsolidated Crazy Maple Studio, which operated overseas online literature and micro dramas businesses back then, for reasons as set out in "History, Development and Corporate Structure — Deconsolidation of Crazy Maple Studio".

From 2023 to 2024, for domestic micro dramas business, we started shifting our focus from to-C model to to-B model and prioritized partnering with leading third party platforms backed by internet giants, given that the gross profit margin for to-C model (through mini programs) is declining due to increasing level of distribution costs, with more intense competition in China. From 2025 onwards, we made similar strategic shift of focus from to-C (through mini programs) to to-B for our domestic online literature business.

On the other hand, we started exploring the overseas micro dramas market through launching the Sereal platform in 2023, where the overall penetration rate of micro dramas was much lower. In 2025, we launched our flagship overseas micro dramas business, FlareFlow, and concurrently are phasing out the Sereal business from mid year of 2025. The launch of Sereal and FlareFlow led to increase in revenue in our micro drama business, but also incurred relatively higher production costs, content costs, and selling and marketing expenses to achieve rapid user base expansion.

We have also gradually ramped up our overseas online literature business in 2025 through our self-owned platform, Rocnovel, with most of its content generated through AI leveraging our domestic digital content and IPs.

BASIS OF PRESENTATION

Our historical financial information has been prepared in accordance with IFRS Accounting Standards. For the purpose of preparing the historical financial information, we have adopted all applicable new and revised IFRS Accounting Standards to the Track Record Period, except for any new and revised or amended standards that are not yet effective for the accounting period beginning on January 1, 2025. New and revised accounting standards and interpretations issued but not yet effective for the accounting period beginning on January 1, 2025 are set out in Note 32 to the Accountants' Report in Appendix I to this document.

MATERIAL ACCOUNTING POLICY INFORMATION AND CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The financial information is presented in RMB, which is the same as our Company's functional currency and all values are rounded to the nearest thousand unless otherwise indicated. The preparation of the historical financial information in conformity with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the historical financial information. For details on the description of our material accounting policy information, as well as critical accounting estimates and judgments, see Notes 2 and 3 to the Accountants' Report in Appendix I to this document.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table summarizes our Company's consolidated statements of profit or loss and other comprehensive income for the years/periods indicated, details of which are set out in the Accountants' Report in Appendix I to this document.

	Year ended December 31,		Nine months ended September 30,	
	2023	**2024**	**2024**	**2025**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000* (unaudited)
Revenue	1,408,857	1,159,119	808,049	1,011,039
Cost of sales	(779,291)	(777,768)	(563,702)	(663,736)
Gross profit	**629,566**	**381,351**	**244,347**	**347,303**
Other net income/(loss)	57,430	6,493	5,530	(7,803)
Selling and marketing expenses	(481,166)	(464,925)	(340,961)	(660,271)
Administrative expenses	(107,103)	(109,676)	(74,240)	(89,515)
Research and development expenses	(86,251)	(61,575)	(37,622)	(53,370)
Reversal of impairment loss/(impairment loss) on trade receivables, prepayment and other receivables	29,154	(10,330)	8,718	1,056
Fair value changes of financial assets measured at fair value through profit or loss ("**FVTPL**")	(11,529)	22,669	16,830	3,131
Profit/(Loss) from operations	**30,101**	**(235,993)**	**(177,398)**	**(459,469)**
Gain on remeasurement of remaining equity interest at fair value after loss of control	55,105	–	–	–
Share of profit less loss of associates	12,498	9,925	1,735	(45,000)
Finance costs	(9,334)	(12,411)	(9,092)	(7,994)
Profit/(Loss) before taxation	**88,370**	**(238,479)**	**(184,755)**	**(512,463)**
Income tax	1,612	(4,139)	(2,038)	(4,431)
Profit/(Loss) for the year/period	**89,982**	**(242,618)**	**(186,793)**	**(516,894)**
Profit/(Loss) for the year/period attributable to:				
Equity shareholders of the Company	89,437	(242,890)	(188,116)	(520,405)
Non-controlling interests	545	272	1,323	3,511
	89,982	**(242,618)**	**(186,793)**	**(516,894)**

DESCRIPTION OF SELECTED ITEMS IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

Revenue by Business Line

The following table sets forth the breakdown of our revenue by business line and as a percentage of total revenue for the years/periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2023		2024		2024		2025	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000* (unaudited)	*%*
Online literature and related business	669,634	47.5	685,998	59.2	487,115	60.3	480,090	47.5
Micro dramas and IP derivatives business	622,019	44.2	398,195	34.4	291,005	36.0	474,129	46.9
Others*(Note 1)*	117,204	8.3	74,926	6.4	29,929	3.7	56,820	5.6
Total	**1,408,857**	**100.0**	**1,159,119**	**100.0**	**808,049**	**100.0**	**1,011,039**	**100.0**

Note:

(1) Primarily including revenue from provision of educational products and services, rentals, content reviewing services and other technical operation services mainly represent mini program operation services to small business customers.

Online Literature and Related Business

We primarily distribute our online literature content to readers through our diverse third-party distribution channels as well as our proprietary online literature platforms. In addition, we also generate revenue from licensing of our online literary content to IP adaptation partners.

To enhance the commercial value of the online literature content in our digital content library, we may also license them to IP adaptation partners for adaptation into various products, such as translated works, audiobooks, animations, as well as television and films. We typically receive from such IP adaptation partners fixed licensing fee and/or a combination of a fixed licensing fee and revenue or profit sharing from the adapted products in return.

During the Track Record, we have been shifting our focus from to-C model to to-B model, where the revenue decline from domestic market has been largely offset by the increase in revenue from to-B online literature business.

Micro Dramas and IP Derivatives Business

For overseas micro drama, we mainly offer both our in-house and third-party produced micro dramas through our flagship micro drama platform, FlareFlow. Initial episodes of our micro drama series are offered for free to drive audience engagement, after which audiences may either pay certain fees to unlock subsequent episodes or subscribe to a membership for unlimited access to our full micro drama series. Our revenue is primarily attributable to customers' subscription fees and top up fees. For non-paying audiences, they may choose to access a limited number of episodes daily in exchange for viewing advertisements.

For domestic micro dramas, we produce our own micro dramas and distribute them on leading domestic micro drama platforms and other video platforms such as Hongguo. We will receive from the customers fixed fees based on the number of micro dramas and shared revenue from the broadcasting of micro dramas.

Revenue from our micro dramas and IP derivatives business declined from 2023 to 2024 due to intense domestic market competition and a strategic shift towards premium micro dramas in the domestic market. However, it rebounded strongly with a 62.9% year-on-year increase for the nine months ended September 30, 2025, driven by growth in overseas micro dramas, higher revenue-sharing from premium micro drama collaborating with Hongguo, and increased revenue from IP derivatives associated with Hei.

Revenue by Geographical Location *(Note 1)*

The following table sets forth the breakdown of our revenue by geographical location for the years/periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2023		2024		2024		2025	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000* (unaudited)	*%*
Chinese Mainland and Hong Kong	1,281,542	91.0	859,112	74.1	598,517	74.1	606,990	60.0
Other countries or regions other than Chinese Mainland and Hong Kong *(Note 2)*	127,315	9.0	300,007	25.9	209,532	25.9	404,049	40.0
Total	**1,408,857**	**100.0**	**1,159,119**	**100.0**	**808,049**	**100.0**	**1,011,039**	**100.0**

Notes:

(1) The geographical location of customers is based on the location where our Group's platform being registered.

(2) Other countries or regions other than Chinese Mainland and Hong Kong primarily including United States and Singapore.

While domestic contributions have generally trended downward, overseas revenue is experiencing robust growth, demonstrating the efficacy of our strategic expansion into overseas markets. Our successful strategic pivot is exemplified by the launch of our flagship overseas micro drama platform, FlareFlow, in April 2025, leading to an impressive 92.8% year-on-year increase in overseas revenue for the nine months ended September 30, 2025. We anticipate that our focused discovery and cultivation of the overseas market will continue to be a primary driver of our future financial performance.

Cost of Sales

The following table sets forth the breakdown of our cost of sales by nature for the years/periods indicated:

	For the year ended December 31,				For the nine months ended September 30,			
	2023		2024		2024		2025	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000* (unaudited)	*%*
Distribution costs	563,557	72.3	471,672	60.6	343,155	60.9	308,222	46.4
Production costs	1,698	0.2	60,010	7.7	44,870	8.0	137,263	20.7
Content costs	132,847	17.1	185,645	23.8	130,328	23.1	153,237	23.1
Personnel salary, share-based payments and welfare	35,171	4.5	26,356	3.4	18,942	3.4	27,083	4.1
Others	46,018	5.9	34,085	4.5	26,407	4.6	37,931	5.7
Total	**779,291**	**100.0**	**777,768**	**100.0**	**563,702**	**100.0**	**663,736**	**100.0**

During the Track Record Period, our cost of sales comprised (i) distribution costs for user and traffic acquisition, (ii) production costs for production of dramas, (iii) content costs including amortization of intangible assets arising from copyright and payment of a certain percentage of the revenues earned from content posted on self-owned and distribution channel parters' platforms, (iv) personnel salary, share-based payments and welfare and (v) others including copyright protection costs and costs of merchandise. It decreased slightly from 2023 to 2024, primarily due to a decrease in distribution costs as a result of our strategic shift to domestic to-B micro dramas business and discontinuation of domestic to-C micro dramas business, which was partially offset by (i) an increase in distribution costs as a result of Company's increase in domestic to-C online literature business through online reading mini programs, (ii) an increase in production costs largely due to increased business scale of Sereal and (iii) an increase in content costs due to increased Sereal business, and increased domestic online literature business (both to-C and to-B). However, for the nine months ended September 30, 2025, cost of sales increased from September 30, 2024, significantly, primarily attributable to increased production costs following the expanded production of our overseas micro drama series.

The following table sets forth the breakdown of our cost of sales by business line and as a percentage of the total cost of sales for the years/periods indicated:

	For the year ended December 31,				For the nine months ended September 30,			
	2023		2024		2024		2025	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000* (unaudited)	*%*
Online literature and related business	397,820	51.0	518,284	66.6	386,270	68.5	328,759	49.5
Micro dramas and IP derivatives business	344,796	44.2	209,605	26.9	154,606	27.4	311,062	46.9
Others *(Note 1)*	36,675	4.8	49,879	6.5	22,826	4.1	23,915	3.6
Total	**779,291**	**100.0**	**777,768**	**100.0**	**563,702**	**100.0**	**663,736**	**100.0**

Note:

(1) Primarily including costs of sales from provision of educational products and services, rentals, content reviewing services and other technical operation services.

From 2023 to 2024, decrease in cost of sales is due to decreased cost of sales from domestic to-C micro dramas business, which is offset by increase in cost of sales from increased domestic to-C online literature business.

The increase in cost of sales of online literature and related business by RMB120.5 million is due to (i) increased scale of domestic to-C online literature business (mainly through mini programs), (ii) increased business scale of our domestic to-B businesses for both online literature and micro dramas businesses, and partially offset by the impact of deconsolidation of CMS.

The increase in cost of sales for the nine months ended September 30, 2025 is primarily due to the initial investment of our overseas micro drama business, FlareFlow.

Gross Profit and Gross Profit Margin

Gross Profit and Gross Profit Margin by Business Line

The following table sets forth a breakdown of gross profit and gross profit margin by business line for the years/periods indicated:

	For the year ended December 31,				For the nine months ended September 30,			
	2023		2024		2024		2025	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000* (unaudited)	*%*
Online literature and related business	271,814	40.6	167,714	24.4	100,845	20.7	151,331	31.5
Micro dramas and IP derivatives business	277,223	44.6	188,590	47.4	136,399	46.9	163,067	34.4
Others *(Note 1)*	80,529	68.7	25,047	33.4	7,103	23.7	32,905	57.9
Total	**629,566**	**44.7**	**381,351**	**32.9**	**244,347**	**30.2**	**347,303**	**34.4**

Note:

(1) Primarily including gross profit and gross profit margin from provision of educational products and services, rentals, content reviewing services and other technical operation services.

Our overall gross profit and gross profit margin decreased in 2024, primarily due to increased domestic to-C online literature business (online reading through mini programs) that had a relatively lower gross profit margin, due to relatively higher level of distribution costs as a result of intense competition from other domestic platforms backed by internet giants. However, both metrics rebounded in the nine months ended September 30, 2025, with gross profit increasing significantly by 42.1% and the margin expanding from 30.2% to 34.4%. This recovery was driven by improved profitability from our overseas online literature business benefiting from improvement on efficiency of literature creation through AI technology.

Other Net Income/(Loss)

Our other net income/(loss) mainly consists of (i) government grants, (ii) net (losses)/gains on disposal of property and equipment and intangible assets, (iii) value added tax and other tax refund, (iv) interest income, (v) litigation compensation income representing the one-off litigation compensation income from a successful lawsuit in 2023 and (vi) others. The following table sets forth the breakdown of our other net income/(loss) for the years/periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2023		2024		2024		2025	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000* (unaudited)	*%*
Government grants[(Note 1)]	4,455	7.8	4,462	68.7	811	14.7	10,951	(140.3)
Net (losses)/gains on disposal of property and equipment and intangible assets	(147)	(0.3)	(839)	(12.9)	163	2.9	(17,553)	225.0
Value added tax and other tax refund	3,776	6.6	–	–	–	–	–	–
Interest income	5,392	9.4	2,313	35.6	1,854	33.5	1,329	(17.0)
Litigation compensation income	39,048	68.0	–	–	–	–	–	–
Others[(Note 2)]	4,906	8.5	557	8.6	2,702	48.9	(2,530)	32.3
Total	**57,430**	**100.0**	**6,493**	**100.0**	**5,530**	**100.0**	**(7,803)**	**100.0**

Notes:

(1) Government grants received primarily relating to certain subsidies for research and development projects and subsidies for other government-sponsored projects. As of December 31, 2023 and 2024 and September 30, 2025, there were no unfulfilled conditions or contingencies associated with these grants.

(2) Primarily including exchange gains/(losses) and donation expenses.

Selling and Marketing Expenses

Our selling and marketing expenses consist primarily of (i) personnel salary, share-based payments and welfare for sales personnel, (ii) advertising and marketing expense for brand promotion and user base expansion, (iii) outsourcing and other labor cost and (iv) others mainly representing travel expenses, business entertainment expenses, professional service fees, depreciation and amortization expenses, rental and management fees and office expenses.

It increased in the nine months ended September 30, 2025, primarily due to the launch of the FlareFlow business. This investment was directed toward brand promotion and user base expansion, and increased personnel salary, share-based payments and welfare for sales personnel to support the new platform's growth.

The following table sets forth a breakdown of our selling and marketing expenses for the years/periods indicated:

	For the year ended December 31,				For the nine months ended September 30,			
	2023		2024		2024		2025	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000* (unaudited)	*%*
Personnel salary, share-based payments and welfare	81,873	17.0	96,668	20.8	61,588	18.1	85,822	13.0
Advertising and marketing expense	344,593	71.6	297,282	63.9	229,019	67.1	517,216	78.3
Outsourcing and other labor cost	27,123	5.6	40,451	8.7	31,289	9.2	25,743	3.9
Others	27,577	5.8	30,524	6.6	19,065	5.6	31,490	4.8
Total	**481,166**	**100.0**	**464,925**	**100.0**	**340,961**	**100.0**	**660,271**	**100.0**

Administrative Expenses

Our administrative expenses consist primarily of (i) personnel salary, share-based payments and welfare for back office and administrative personnel, (ii) depreciation and amortization charges, (iii) office expenses covering logistics expenses, courier fees, ongoing expenses linked to licenses, certifications and qualifications for operations, (iv) professional service fee, (v) business entertainment expense, (vi) outsourcing and other labor cost, (vii) rental and management fee for rental of office premises, and (viii) others.

Our administrative expenses remain relatively stable between 2023 and 2024 as they are largely fixed by nature but rose in the nine months ended September 30, 2025, attributable to the launch of the FlareFlow business.

The following table sets forth a breakdown of our administrative expenses for the years/periods indicated:

	For the year ended December 31,				For the nine months ended September 30,			
	2023		2024		2024		2025	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000* (unaudited)	*%*
Personnel salary, share-based payments and welfare	63,391	59.2	55,503	50.6	42,634	57.4	48,808	54.5
Depreciation and amortization charges	14,214	13.3	13,933	12.7	13,509	18.2	9,660	10.8
Office expenses	3,138	2,9	3,600	3.3	2,367	3.2	5,701	6.4
Professional service fee	8,339	7.8	13,021	11.9	6,239	8.4	5,344	6.0
Business entertainment expense	5,350	5.0	10,758	9.8	4,885	6.6	4,855	5.4
Outsourcing and other labor cost	1,598	1.5	3,275	3.0	1,691	2.3	3,522	3.9
Rental and management fee	1,439	1.3	1,170	1.1	781	1.1	3,404	3.8
Others*(Note 1)*	9,634	9.0	8,416	7.6	2,134	2.8	8,221	9.2
Total	**107,103**	**100.0**	**109,676**	**100.0**	**74,240**	**100.0**	**89,515**	**100.0**

Note:

(1) Primarily including business travel expenses, tax and surcharges.

Research and Development Expenses

Our research and development expenses consist primarily of (i) personnel salary, share-based payments and welfare for research and development personnel, (ii) outsourcing and other labor costs representing fee for certain small-scale R&D projects provided by outsource technology development vendors, and (iii) others representing depreciation and amortization expenses, and professional services fees.

Our research and development expenses decreased by 28.6% from 2023 to 2024, primarily due to the deconsolidation of Crazy Maple Studio. This trend reversed in the nine months ended September 30, 2025, driven by our strategic investment in AI technology and our FlareFlow platform.

The following table sets forth a breakdown of our research and development expenses for the years/periods indicated:

	For the year ended December 31,				For the nine months ended September 30,			
	2023		2024		2024		2025	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000* (unaudited)	*%*
Personnel salary, share-based payments and welfare	62,127	72.0	37,324	60.6	25,531	67.9	34,793	65.2
Outsourcing and other labor costs	19,994	23.2	21,745	35.3	10,193	27.1	17,204	32.2
Others	4,130	4.8	2,506	4.1	1,898	5.0	1,373	2.6
Total	**86,251**	**100.0**	**61,575**	**100.0**	**37,622**	**100.0**	**53,370**	**100.0**

Finance Costs

Our finance costs mainly represented interest expenses on bank loans and lease liabilities. The following table sets forth a breakdown of our finance costs for the years/periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2023		2024		2024		2025	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000* (unaudited)	*%*
Interest on bank loans	8,972	96.1	11,162	89.9	8,119	89.3	7,383	92.4
Interest on lease liabilities	362	3.9	1,249	10.1	973	10.7	611	7.6
Total	**9,334**	**100.0**	**12,411**	**100.0**	**9,092**	**100.0**	**7,994**	**100.0**

Fair Value Changes of Financial Assets Measured at FVTPL

Our fair value changes of financial assets measured at FVTPL mainly represented fair value changes in investments in certain wealth management products managed by the banks or securities companies. We recorded loss from fair value changes of financial assets measured at FVTPL of RMB11.5 million for the year ended December 31, 2023 and profit from fair value changes of financial assets measured at FVTPL of RMB22.7 million, RMB16.8 million and RMB3.1 million for the year ended December 31, 2024 and nine months ended September 30, 2024 and 2025, respectively.

Reversal of Impairment Loss/ (Impairment Loss) on Trade Receivables, Prepayment and Other Receivables

Our impairment losses recognized on trade receivables, prepayment and other receivables were mainly the loss in the estimated amounts owing from trade receivables, prepayment and other receivables that might be uncollectible. We recorded reversal of impairment losses recognized on trade receivables, prepayment and other receivables of RMB29.2 million, impairment losses recognized on trade receivables, prepayment and other receivables of RMB10.3 million, reversal of impairment losses recognized on trade receivables, prepayment and other receivables of RMB8.7 million and reversal of impairment losses recognized on trade receivables, prepayment and other receivables of RMB1.1 million for the years ended December 31, 2023 and 2024 and nine months ended September 30, 2024 and 2025, respectively.

Gain on Remeasurement of Remaining Equity Interest at Fair Value After Loss of Control

Our gain on remeasurement of remaining equity interest at fair value after loss of control represents the valuation gain from deconsolidation of Crazy Maple Studio. We recorded gain on remeasurement of remaining equity interest at fair value after loss of control of RMB55.1 million, nil, nil and nil for the years ended December 31, 2023 and 2024 and nine months ended September 30, 2024 and 2025, respectively.

Share of Profits Less Loss of Associates

An associate is an entity in which our Group has significant influence, but not control or joint control, over the financial and operating policies. During the Track Record Period, our share of profits less loss of associates primarily represented profits less loss from our investments in ATA Online (Beijing) Education Technology Co., Ltd. (全美在線(北京)教育科技股份有限公司), Beijing Chinese Miracle Culture Technology Co., Ltd (北京中文奇蹟文化科技有限公司), Crazy Maple Studio and Hubei Chinese Online Digital Publishing Co., Ltd. (湖北中文在線數字出版有限公司). For details of our interest in associates, see Note 16 to the Accountants' Report in Appendix I to this document.

We recorded share of profits of associates of RMB12.5 million, RMB9.9 million and RMB1.7 million for the years ended December 31, 2023 and 2024 and nine months ended September 30, 2024, and share of loss of associates of RMB45.0 million for nine months ended September 30, 2025, respectively. The movement of share of profits less loss of associates during the Track Record Period was primarily attributed to the business performance and financial results of ATA Online (Beijing) Education Technology Co., Ltd. (全美在線(北京)教育科技股份有限公司) and Crazy Maple Studio.

Income Tax

(i) Hong Kong Profits Tax

The subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at the rate of 16.5% for taxable income exceeding HK$2 million on any estimated assessable profits arising in Hong Kong, except for four subsidiaries of our Group which are under the two-tiered profits tax rate regime, i.e. the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

(ii) PRC Corporate Income Tax

During the Track Record Period, we were subject to a statutory rate of 25% determined in accordance with the PRC Corporate Income Tax Law except for the preferential tax rates mentioned below.

Under the PRC Corporate Income Tax Laws, an enterprise which qualifies as a High and New Technology Enterprise ("**HNTE**") is entitled to a preferential tax rate of 15% provided that it continues to meet HNTE qualification standards on an annual basis.

(iii) Cayman Islands, the U.S., Singapore Corporate Income Tax

Under the current laws of the Cayman Islands, one subsidiary of the Company incorporated in Cayman Island is not subject to tax on income or capital gain.

Under the United States Internal Revenue Code, the subsidiary of the Group established in the U.S. is subject to a unified Federal CIT rate of 21% and state income and franchise tax of 8.84%.

Under the current Income Tax Act 1947 of Singapore, the subsidiaries of the Group established in Singapore are subject to Singapore income tax at 17% of the chargeable income.

We recorded income tax credit of RMB1.6 million, income tax expense of RMB4.1 million, RMB2.0 million and RMB4.4 million for the years ended December 31, 2023 and 2024 and nine months ended September 30, 2024 and 2025, respectively.

As of the Latest Practicable Date, we did not have any dispute with any tax authority. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any tax investigation, enquiries, penalties or surcharges.

For details, see Note 8 to the Accountants' Report in Appendix I to this document.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Nine Months Ended September 30, 2025 Compared to Nine Months Ended September 30, 2024

Revenue

Our total revenue increased by 25.1% from RMB808.0 million for the nine months ended September 30, 2024 to RMB1,011.0 million for the nine months ended September 30, 2025, mainly due to the following changes:

- Our revenue from online literature and related business decreased by 1.4% from RMB487.1 million for the nine months ended September 30, 2024 to RMB480.1 million for the nine months ended September 30, 2025, primarily attributable to a decrease in revenue generated from domestic to-C business mainly through mini programs by RMB76.3 million, and partially offset by (i) increase in revenue generated from our Rocnovel, our overseas online literature business, by RMB43.6 million, and (ii) an increase in revenue generated from domestic to-B business by RMB34.1 million.

- Our revenue from micro dramas and IP derivatives business increased by 62.9% from RMB291.0 million for the nine months ended September 30, 2024 to RMB474.1 million for the nine months ended September 30, 2025, primarily attributable to (i) an increase in revenue from FlareFlow by RMB214.0 million, (ii) increase in revenue from IP derivatives related to Hei by RMB36.0 million, (iii) increase in revenue from domestic to-B micro dramas by RMB20.0 million, and (iv) increase in revenue from motion comics business by RMB27.4 million, and partially offset by (v) a decrease in revenue from the Sereal platform by RMB76.4 million, and (vi) a decrease in revenue from domestic to-C micro dramas business revenue by RMB53.1 million.

- Our other revenue increased by 89.8% from RMB29.9 million for the nine months ended September 30, 2024 to RMB56.8 million for the nine months ended September 30, 2025, primarily due to increased revenue from non-core IP derivatives store operation.

Cost of Sales

Our cost of sales increased by 17.7% from RMB563.7 million for the nine months ended September 30, 2024 to RMB663.7 million for the nine months ended September 30, 2025, primarily attributable to (i) an increase in content costs including the amortization of intangible assets arising from copyright incurred from launching overseas micro drama business and (ii) an increase in production costs following the increased production of overseas micro drama series.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our overall gross profit increased by 42.2% from RMB244.3 million for the nine months ended September 30, 2024 to RMB347.3 million for the nine months ended September 30, 2025. Our overall gross profit margin increased from 30.2% for the nine months ended September 30, 2024 to 34.4% for the nine months ended September 30, 2025.

- Our gross profit from online literature and related business increased by RMB50.5 million, primarily due to (i) the expansion of overseas to-C online literature business (Rocnovel), and (ii) increased scale of domestic to-B online literature business, and partially negatively impacted by the scaling down of our domestic to-C online literature business. Our gross profit margin from online literature and related business increased from 20.7% to 31.5% primarily attributable to (i) phase out of domestic to-C online literature business through online reading mini programs having lower gross profit margin, and (ii) expansion of overseas to-C online literature business that had relatively higher gross profit margin following that the business has higher ARPU and lower content costs given use of AI technology for content generation.

- Our gross profit from micro dramas and IP derivatives business increased by RMB26.7 million, primarily due to (i) expansion of our FlareFlow business, and (ii) increased business scale of IP derivatives related to our IP of Hei, and partially offset by the downsizing of Sereal's business. Our gross profit margin from micro dramas and IP derivatives business decreased from 46.9% to 34.4% primarily due to lower gross profit margin from FlareFlow business given its relatively high production and content costs at an early stage of business.

- Our gross profit margin from others increased from 23.7% to 57.9% primarily attributable to an increase in gross profit margin generated from non-core IP derivative store operation.

Other Net Incomel(Loss)

We recorded other net income of RMB5.5 million for the nine months ended September 30, 2024 as compared to other net loss of RMB7.8 million for the nine months ended September 30, 2025, primarily due to an increase in net losses on disposal of property and equipment following disposal of our Hangzhou properties in 2025.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 93.6% from RMB341.0 million for the nine months ended September 30, 2024 to RMB660.3 million for the nine months ended September 30, 2025, primarily attributable to an increase in FlareFlow's selling and marketing expenses by RMB375.3 million, specifically reflected in an increase in advertising and marketing expense for brand promotion and user base expansion and an increase in personnel salary, share-based payments and welfare for sales personnel and partially offset by a decrease in selling and marketing expenses from phasing out of Sereal's platform.

Administrative Expenses

Our administrative expenses increased by 20.6% from RMB74.2 million for the nine months ended September 30, 2024 to RMB89.5 million for the nine months ended September 30, 2025, primarily attributable to the launch of our FlareFlow business in 2025, specifically reflected in an increase in personnel salary, share-based payments and welfare for back office and administrative personnel and an increase in rental and management fee for rental of office premises.

Research and Development Expenses

Our research and development expenses increased by 42.0% from RMB37.6 million for the nine months ended September 30, 2024 to RMB53.4 million for the nine months ended September 30, 2025, primarily attributable to increased investment in AI technology and research and development for overseas micro drama business which resulted in increased personnel salary, share-based payments and welfare for research and development personnel.

Finance Costs

Our finance costs decreased by 12.1% from RMB9.1 million for the nine months ended September 30, 2024 to RMB8.0 million for the nine months ended September 30, 2025, primarily due to a decrease in interest on bank loans following a decrease in bank and other borrowings.

Fair Value Changes of Financial Assets Measured at FVTPL

Our fair value gain on financial assets measured at FVTPL decreased by 81.5% from RMB16.8 million for the nine months ended September 30, 2024 to RMB3.1 million for the nine months ended September 30, 2025, primarily due to the redemption of our investment in wealth management products.

Reversal of Impairment Loss/(Impairment Loss) on Trade Receivables, Prepayment and Other Receivables

We recorded reversal of impairment loss on trade receivables, prepayment and other receivables recorded for the nine months ended September 30, 2024 and 2025, primarily due to collection of receivables with impairment loss.

Income Tax

Despite our loss for the periods for the nine months ended September 30, 2024 and 2025, we incurred income tax expenses primarily attributable to the profit of our subsidiary, Hanmu Chunhua.

Loss for the Period

As a result of the foregoing, our loss for the period increased by 176.7% from RMB186.8 million for the nine months ended September 30, 2024 to RMB516.9 million for the nine months ended September 30, 2025. Our net loss margin increased from 23.1% for the nine months ended September 30, 2024 to 51.1% for the nine months ended September 30, 2025.

Year Ended December 31, 2024 Compared to Year Ended December 31, 2023

Revenue

Our total revenue decreased by 17.7% from RMB1,408.9 million in 2023 to RMB1,159.1 million in 2024, mainly due to the following changes:

- Our revenue from online literature and related business increased slightly by 2.4% from RMB669.6 million in 2023 to RMB686.0 million in 2024, primarily attributable to (i) increased revenue from domestic to-B online literature business by RMB46.0 million, and (ii) increased revenue from domestic to-C online literature business mainly through online reading mini programs by RMB72.6 million, offset by the deconsolidation of Crazy Maple Studio in April 2023 following the loss of revenue from its overseas online literature business by RMB119.3 million.

- Our revenue from micro dramas and IP derivatives business decreased by 36.0% from RMB622.0 million in 2023 to RMB398.2 million in 2024, primarily attributable to (i) a decrease in revenue from domestic to-C micro dramas business by RMB494.1 million, and (ii) a decrease in revenue from domestic to-B micro dramas by RMB 15.1 million and (iii) deconsolidation of CMS business by RMB8.2 million, offset by an increase in revenue from Sereal business by RMB272.7 million.

- Our other revenue decreased by 36.1% from RMB117.2 million in 2023 to RMB74.9 million in 2024, primarily attributable to reduced revenue from provision of technical operation service which mainly include mini program operation services to small business customers.

Cost of Sales

Our cost of sales remained stable as RMB779.3 million in 2023 and RMB777.8 million in 2024, respectively. From 2023 to 2024, the slight decrease is due to the significant downsizing of our domestic to-C micro dramas business as we shift to overseas micro dramas market, which is partially offset by an increased business scale of domestic to-C online literature business. The increase in cost of sales of online literature and related business by RMB120.5 million is due to increased scale of domestic to-C online literature business (mainly through mini programs) and to-B online literature business, and partially offset by the impact of deconsolidation of CMS.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our overall gross profit decreased by 39.4% from RMB629.6 million in 2023 to RMB381.4 million in 2024. Our overall gross profit margin decreased from 44.7% in 2023 to 32.9% in 2024.

- Our gross profit from online literature and related business decreased by RMB104.1 million, primarily due to a negative impact from the deconsoliation of CMS, which is partially offset by increased scale of domestic online literature business. Our gross profit margin from online literature and related business decreased from 40.6% to 24.4% primarily attributable to (i) loss of gross profit margin after deconsolidation of Crazy Maple Studio which had overseas online literature business with a higher profit margin, and (ii) increased domestic to-C online literature business (mainly through mini programs) which had relatively lower gross profit margin.

- Our gross profit from micro dramas and IP derivatives business decreased by RMB88.6 million, primarily due to downsized domestic to-C micro dramas business, and partially offset by increased Sereal's business scale. Our gross profit margin from micro dramas and IP derivatives business increased slightly from 44.6% to 47.4% primarily attributable to (i) phasing out of domestic to-C micro dramas business that had relatively lower gross profit margin, and (ii) an increased scale of Sereal business that had a relatively higher gross profit margin.

- Our gross profit margin from others decreased from 68.7% to 33.4% primarily attributable to a decrease in gross profit margin generated from provision of technical operation service.

Other Net Incomel(Loss)

Our other net income decreased by 88.7% from RMB57.4 million in 2023 to RMB6.5 million in 2024, primarily due to the one-off litigation compensation income from a successful lawsuit against the developer and supplier in 2023.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 3.4% from RMB481.2 million in 2023 to RMB464.9 million in 2024, primarily attributable to (i) decreased selling and marketing expenses of domestic businesses which mainly due to a decrease in selling and marketing expenses of domestic to-C micro dramas business, offset by an increase in selling and marketing expenses of domestic to-C online literature, and (ii) an absence of selling and marketing expenses following the deconsolidation of financial results of Crazy Maple Studio by RMB71.6 million, and partially offset by an increase in Sereal's selling and marketing expenses.

Administrative Expenses

Our administrative expenses remain relatively stable at RMB107.1 million in 2023 and RMB109.7 million in 2024 respectively, as they are largely fixed by nature.

Research and Development Expenses

Our research and development expenses decreased by 28.6% from RMB86.3 million in 2023 to RMB61.6 million in 2024, primarily attributable to a reduction in research and development for app, promotion systems and data management systems following the deconsolidation of financial results of Crazy Maple Studio since April 2023.

Finance Costs

Our finance costs increased by 33.0% from RMB9.3 million in 2023 to RMB12.4 million in 2024, primarily due to an increase in interest on bank loans following an increase in bank and other borrowings.

Fair Value Changes of Financial Assets Measured at FVTPL

Our fair value loss on financial assets measured at FVTPL of RMB11.5 million in 2023 as compared to fair value gain on financial assets measured at FVTPL of RMB22.7 million in 2024, primarily due to increased fair value of our investment in wealth management products.

Reversal of Impairment Loss/(Impairment Loss) on Trade Receivables, Prepayment and Other Receivables

Our reversal of impairment loss on trade receivables, prepayment and other receivables decreased by 135.3% from RMB29.2 million in 2023 to impairment loss on trade receivables, prepayment and other receivables of RMB10.3 million in 2024, primarily due to recovery of large amount of bad debts from Shanghai Microphone Culture Media Co., Ltd. (上海麥克風文化傳媒有限公司) in 2023. The impairment was initially recognized because the customer encountered cash flow difficulties and failed to make timely payments.

Income Tax

We recorded income tax expense of RMB4.1 million in 2024, as compared to income tax credit of RMB1.6 million in 2023, primarily attributable to the reversal of a deferred tax asset (DTA).

Profit/(Loss) for the Year

As a result of the foregoing, we recorded profit of RMB90.0 million in 2023 as compared to loss of RMB242.6 million in 2024. We also recorded net profit margin of 6.4% in 2023 as compared to net loss margin of 20.9% in 2024.

DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth the components of our consolidated statements of financial position as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
Non-current assets			
Property and equipment	50,652	44,840	25,589
Investment properties	87,901	85,168	23,368
Intangible assets	337,099	340,152	325,899
Goodwill	116,860	116,638	116,638
Deferred tax assets	4,534	2,975	3,949
Interests in associates	264,751	274,071	229,466
Equity investments designated at fair value through other comprehensive income ("**FVOCI**")	7,034	3,824	4,574
Financial assets measured at FVTPL (non-current portion)	218,446	83,595	84,976
Other non-current assets	25	14,264	23,540
Total non-current assets	**1,087,302**	**965,527**	**837,999**
Current assets			
Inventories	6,245	21,403	66,571
Film rights	30,880	49,821	65,539
Trade and bills receivables	152,730	161,932	207,277
Financial assets measured at FVTPL	–	145,616	–
Prepayments and other receivables	217,987	150,569	160,100
Restricted cash	11,049	48	–
Cash and cash equivalents	329,728	139,477	294,403
Total current assets	**748,619**	**668,866**	**793,890**
Current liabilities			
Trade payables	95,890	120,894	444,070
Other payables	165,898	123,575	123,996
Income tax payable	1,119	1,765	3,190
Contract liabilities	23,375	36,579	57,566
Lease liabilities	8,674	6,393	9,048
Bank and other borrowings	235,000	229,900	321,350
Total current liabilities	**529,956**	**519,106**	**959,220**

	As of December 31,		As of September 30,
	2023	2024	2025
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
Net current assets/(liabilities)	**218,663**	**149,760**	**(165,330)**
Non-current liabilities			
Lease liabilities	22,355	13,188	6,572
Bank and other borrowings (non-current portion)	–	78,050	111,000
Deferred income	11,803	11,432	3,195
Deferred tax liabilities	5,919	6,678	6,199
Total non-current liabilities	**40,077**	**109,348**	**126,966**
Net assets	**1,265,888**	**1,005,939**	**545,703**
Capital and reserves			
Share capital	729,940	729,940	728,500
Reserves	515,134	255,523	(255,734)
Total equity attributable to equity shareholders of the Company	1,245,074	985,463	472,766
Non-controlling interests	**20,814**	**20,476**	**72,937**
TOTAL EQUITY	**1,265,888**	**1,005,939**	**545,703**

Property and Equipment

As of December 31, 2023 and 2024 and September 30, 2025, our property and equipment were RMB50.7 million, RMB44.8 million and RMB25.6 million, respectively, primarily representing (i) houses and buildings, (ii) transportation equipment, (iii) office and other equipment, (iv) right-of-use assets, and (v) lease hold improvement, which were procured to support our daily operation. The decrease in our property and equipment from RMB50.7 million as of December 31, 2023 to RMB44.8 million as of December 31, 2024 was due to normal amortization of right-of-use assets and completion of certain leases, and our property and equipment further decreased to RMB25.6 million as of September 30, 2025 following the disposal of our Hangzhou properties in 2025.

Intangible Assets

Our intangible assets mainly consist of copyright, software, development costs and others. Our intangible assets increased from RMB337.1 million as of December 31, 2023 to RMB340.2 million as of December 31, 2024, primarily due to purchase of copyright for online literature business and purchase of software for business operations. Our intangible assets decreased from RMB340.2 million as of December 31, 2024 to RMB325.9 million as of September 30, 2025, primarily due to amortization of existing intangible assets.

Investment Properties

Our investment properties represented houses and buildings that are held for capital appreciation. Our investment properties decreased from RMB87.9 million as of December 31, 2023 to RMB85.2 million as of December 31, 2024, primarily due to depreciation of the existing investment properties. Our investment properties further decreased to RMB23.4 million as of September 30, 2025, primarily due to the disposal of our Hangzhou properties in 2025.

Goodwill

Our goodwill remained relatively stable through the Track Record Period. Our goodwill primarily arose from acquisition of Hanmu Chunhua. For details of goodwill, see Note 15 to the Accountants' Report in Appendix I to this document.

Financial Assets Measured at FVTPL

Our financial assets measured at FVTPL represented (i) investment in wealth management products, (ii) unlisted equity investment and (iii) investment in films. As of December 31, 2023 and 2024 and September 30, 2025, our financial assets measured at FVTPL were RMB218.4 million, RMB229.2 million and RMB85.0 million, respectively.

For details of financial assets measured at FVTPL, see Note 17 to the Accountants' Report in Appendix I to this document.

We have adopted investment and treasury policies and internal control measures to review and monitor our investment risks. Our investment decisions are made after due and careful consideration of a number of factors, including market and investment conditions, economic developments, investment cost, duration of investment and risks expected to be involved and the expected returns. Our finance department is responsible for proposing, analyzing and evaluating potential short-term and long-term investments. Prior to making any material investments, we shall consult with respective technical, financial and legal advisors and the other designated members of our management. We believe that our relevant internal control and risk management measures are sufficient in terms of comprehensiveness. Practicability and effectiveness.

Our investments in financial assets measured at FVTPL will be subject to the compliance with Chapter 14 of the Listing Rules after the [**REDACTED**].

Interests in Associates

Our interests in associates consists of our investments in ATA Online (Beijing) Education Technology Co., Ltd. (全美在線(北京)教育科技股份有限公司), Beijing Chinese Miracle Culture Technology Co., Ltd (北京中文奇蹟文化科技有限公司), Crazy Maple Studio and Hubei Chinese Online Digital Publishing Co., Ltd. (湖北中文在線數字出版有限公司).

Our interests in associates increased from RMB264.8 million as of December 31, 2023 to RMB274.1 million as of December 31, 2024, primarily due to an increase in the profit of our associated companies. Our interests in associates then decreased to RMB229.5 million as of September 30, 2025, primarily due to the reduced share of loss of Crazy Maple Studio, resulting from its losses recorded due to business expansion.

For details of our interests in these associates, see Note 16 to the Accountants' Report in Appendix I to this document.

Equity Investments Designated at FVOCI

Our equity investments designated at FVOCI consists of shares in unlisted companies and funds in which we do not have significant influence.

As of December 31, 2023 and 2024 and September 30, 2025, our equity investments designated at FVOCI were RMB7.0 million, RMB3.8 million and RMB4.6 million, respectively.

Inventories

Our inventories primarily consist of IP accessories. The following table sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,		**As of September 30,**
	2023	**2024**	**2025**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
IP accessories	7,956	24,079	71,905
Less: write-down of inventories	(1,711)	(2,676)	(5,334)
	6,245	**21,403**	**66,571**

Our inventories increased from RMB6.2 million as of December 31, 2023 to RMB21.4 million as of December 31, 2024, and further increased to RMB66.6 million as of September 30, 2025, primarily due to an increase in IP accessories from non-core IP derivatives.

The following table sets forth an aging analysis of our inventories:

	As of December 31,		As of September 30,
	2023	**2024**	**2025**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
Within 1 year	5,715	19,865	64,040
Over 1 year but within 2 years	44	1,973	4,615
Over 2 years but within 3 years	–	44	1,009
More than 3 years	2,197	2,197	2,241
Write-down of inventories	(1,711)	(2,676)	(5,334)
Total	**6,245**	**21,403**	**66,571**

The following table sets forth the number of our inventory turnover days for the periods indicated:

	For the year ended December 31,		For the nine months ended September 30,
	2023	**2024**	**2025**
Inventory turnover days	2.2 days	6.5 days	18.1 days

Note:

(1) Inventories turnover days for a year/period equals the average of the opening and closing balance of inventories divided by cost of sales for the same year/period and multiplied by the number of days in the relevant year/period.

Our inventory turnover days increased from 2.2 days in 2023 to 6.5 days in 2024 and further to 18.1 days for the nine months ended September 30, 2025, primarily due to an increase in IP accessories from non-core IP derivatives.

As of January 31, 2026, RMB58.9 million, or 81.9% of our inventories as of September 30, 2025, had been used, consumed or sold.

Film Rights

Our film rights include all direct costs associated with the production of films. As of December 31, 2023 and 2024 and September 30, 2025, our film rights were RMB30.9 million, RMB49.8 million and RMB65.5 million, respectively.

Our film rights increased from RMB30.9 million as of December 31, 2023 to RMB49.8 million as of December 31, 2024, and further increased to RMB65.5 million as of 30 September, 2025, primarily due to an increase in films production in progress for the production of the movie 'The Legend of Hei 2' from 2023 to September 2025.

Trade and Bills Receivables

Our trade and bills receivables comprised primarily trade receivables from contracts with customers.

The following table sets forth the breakdown of our trade and bills receivables as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
Gross carrying amount of trade receivables	169,815	181,636	228,996
Less: Loss allowance	(19,480)	(19,704)	(22,109)
Trade receivables, net	**150,335**	**161,932**	**206,887**
Bill receivables	2,395	–	390
Total trade and bills receivables, net of loss allowance	**152,730**	**161,932**	**207,277**

Our trade and bills receivables increased from RMB152.7 million as of December 31, 2023 to RMB161.9 million as of December 31, 2024, and further increased to RMB207.3 million as of September 30, 2025, primarily due to an increase in trade receivables from third-party online payment platform for overseas micro drama business.

The payment terms are stipulated in relevant contracts. Our Group's trading terms with our customers are mainly on credit, with credit periods generally within 30 days. Our Group seeks to maintain strict control over our outstanding receivables. Overdue balances are reviewed regularly by the Directors. Our Group does not hold any collateral or other credit enhancements over our trade and bills receivables balances. Trade and bills receivables are non-interest-bearing.

The following table sets forth the ageing analysis of our trade and bills receivables based on the invoice date as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
Within 1 year	148,796	161,764	209,676
Over 1 year but within 2 years	7,968	3,343	1,824
Over 2 years but within 3 years	2,239	2,323	2,963
More than 3 years	13,207	14,206	14,923
	172,210	181,636	229,386

The following table sets forth a summary of trade and bills receivables turnover days for the periods indicated:

	For the year ended December 31,		For the nine months ended September 30,
	2023	2024	2025
Trade and bills receivables turnover days	23.3	49.5	49.8

Note:

(1) Trade and bills receivables turnover days is calculated as the arithmetic mean of the opening and closing balances of trade and bills receivables (after impairment) by our total revenue in the respective year/period and multiplying by the number of days in the relevant year/period.

Our trade and bills receivables turnover days were 23.3 days, 49.5 days, and 49.8 days for the years ended December 31, 2023 and 2024 and the nine months ended September 30, 2025, respectively. The increase from 2023 to 2024 is primarily due to a strategic shift in our business model from to-C to to-B across our online literature and micro drama businesses, which inherently lengthens the collection cycle as payments from corporate partners involve extended credit terms compared to consumer transactions. Subsequently, the turnover days remained stable between 2024 and the nine months ended September 30, 2025.

As of January 31, 2026, RMB184.1 million or 80.4% of our trade and bills receivables outstanding as of September 30, 2025 were settled.

Prepayments and Other Receivables

The following table sets forth the breakdown of our prepayments and other receivables as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
Amounts due from related parties	465	789	40
Prepayments for content costs	76,198	86,655	69,364
Prepayments for service fees	98,577	43,717	60,423
Prepayments for inventories	609	3,082	12,366
Deposits	7,847	7,396	6,722
Deductible value-added tax	4,383	5,057	5,692
Consideration receivables from disposal of an equity investment	33,478	26,591	14,153
Others	29,198	11,620	10,763
Less: loss allowance	(32,768)	(34,338)	(19,432)
Total prepayments and other receivables, net of loss allowance	**217,987**	**150,569**	**160,100**

Our prepayments and other receivables decreased from RMB218.0 million as of December 31, 2023 to RMB150.6 million as of December 31, 2024. This decline was primarily due to a decrease in prepayments for service fees following the reduced prepayment for advertisement expense related to in-house advertising in 2024. Our prepayments and other receivables then increased to RMB160.1 million as of September 30, 2025, primarily due to (i) an increase in prepayments for service fees following higher production costs for producing premium micro dramas and (ii) an increase in prepayments for inventories following an increase in prepayments for IP derivatives.

Restricted Cash

Our restricted cash decreased from RMB11.0 million as of December 31, 2023 to RMB48.0 thousand as of December 31, 2024 and then decreased to nil as of September 30, 2025. Our restricted cash primarily represents bank deposits pledged as guarantee for bank loans. For details, see Note 21 to the Accountants' Report in Appendix I to this document.

Cash and Cash Equivalents

Our cash and cash equivalents decreased from RMB329.7 million as of December 31, 2023 to RMB139.5 million as of December 31, 2024, primarily due to cash used in operations during the year. Our cash and cash equivalents increased from RMB139.5 million as of December 31, 2024 to RMB294.4 million as of September 30, 2025, primarily due to an increase in bank borrowings.

Trade Payables

During the Track Record Period, our trade payables continuously increased from RMB95.9 million as of December 31, 2023 to RMB120.9 million as of December 31, 2024, and further to RMB444.1 million as of September 30, 2025, mainly attributable to an increase in trade payables following the launch of FlareFlow in 2025.

The following table sets forth our trade payables as of the dates indicated:

	As of December 31,		As of September 30,
	2023	**2024**	**2025**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
Trade payables due to related parties	6,603	1,702	1,954
Trade payables due to third parties	89,287	119,192	442,116
Total	**95,890**	**120,894**	**444,070**

The following table sets forth the ageing analysis of our trade payables based on the invoice date as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
Within 1 year	84,617	114,164	432,759
Over 1 year but within 2 years	8,441	3,532	5,941
Over 2 years but within 3 years	1,189	1,283	2,456
Over 3 years	1,643	1,915	2,914
	95,890	120,894	444,070

The following table sets forth a summary of trade payables turnover days for the periods indicated:

	For the year ended December 31,		For the nine months ended September 30,
	2023	2024	2025
Trade payables turnover days*(Note 1)*	32.8	36.9	65.3

Note:

(1) Trade payables turnover days is calculated as the arithmetic mean of the opening and closing balances of trade payables by our total cost of sales and advertising and marketing expenses in the respective year/period and multiplying by the number of days in the relevant year/period.

Trade payables are non-interest bearing and are normally settled within 60 days to 90 days.

Our trade payables turnover days were 32.8 days, 36.9 days and 65.3 days for the years ended December 31, 2023 and 2024 and nine months ended September 30, 2025, respectively. The payables turnover days for the year ended December 31, 2023 and 2024 were relatively stable. The increase for the nine months ended September 30, 2025 was due to our expanded FlareFlow business resulting in our increasing business need to prolong the credit terms to suppliers.

As of January 31, 2026, RMB379.8 million or 85.5% of our trade payables outstanding as of September 30, 2025 were settled.

Other Payables

Our other payables primarily comprise of (i) other payables due to related party, (ii) payroll and welfare payable, (iii) value added tax and other tax payables, (iv) payables for acquisition of a subsidiary and (v) others. The following table sets forth our other payables as of the dates indicated:

	As of December 31,		**As of September 30,**
	2023	**2024**	**2025**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
Other payables due to related party	3	96	111
Payroll and welfare payable	62,159	70,918	65,211
Value added tax and other tax payables	16,961	18,136	21,486
Payable for acquisition of a subsidiary	63,906	–	–
Others	22,869	34,425	37,188
Total	**165,898**	**123,575**	**123,996**

Our other payables decreased from RMB165.9 million as of December 31, 2023 to RMB123.6 million as of December 31, 2024, primarily due to a decrease in payables for acquisition of a subsidiary following payment for the acquisition of Hanmu Chunhua in 2024. Our other payables then increased to RMB124.0 million as of September 30, 2025, primarily due to an increase in other prepayments relating to prepayments for production of domestic premium micro dramas.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we have funded our operations primarily through capital injection from shareholders and cash generated from financing activities. The following table summarizes for the years/periods indicated, our consolidated statements of cash flows:

	Year ended December 31,		Nine months ended September 30,	
	2023	2024	2024	2025
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000* (unaudited)
Cash generated from/(used in) operations	8,168	(54,081)	(95,431)	(161,354)
Tax paid	(152)	(1,174)	(1,286)	(3,007)
Net cash generated from/(used in) operating activities	8,016	(55,255)	(96,717)	(164,361)
Net cash (used in)/generated from investing activities	(119,771)	(146,846)	(158,269)	147,237
Net cash (used in)/generated from financing activities	(49,833)	23,651	52,107	161,017
Net (decrease)/increase in cash and cash equivalents	(161,588)	(178,450)	(202,879)	143,893
Cash and cash equivalents at the beginning of year/period	492,557	329,728	329,728	139,477
Effect of foreign exchange rate changes	(1,241)	(11,801)	(1,519)	11,033
Cash and cash equivalents at the end of year/period	329,728	139,477	125,330	294,403

Net Cash Generated from/(Used in) Operating Activities

During the Track Record Period, our cash inflow from operating activities was principally from the receipt of revenue from the sales of our products. Our cash outflow used in operating activities was primarily attributable to costs and expenses in relation to business operation.

For the nine months ended September 30, 2025, our Group had net cash used in operating activities of RMB164.4 million. During the period, our operating cash outflows before movements in working capital were RMB367.9 million. Our cash flow was positively affected by working capital adjustments primarily including (i) an increase in trade payables of RMB323.2 million, (ii) an increase of contract liabilities of RMB21.0 million, which was partially offset by (iii) an increase in trade and bills receivables of RMB47.8 million, (iv) an increase in inventories of RMB47.8 million, and (v) a decrease in deferred income of RMB8.2 million.

For the year ended December 31, 2024, our Group had net cash used in operating activities of RMB55.3 million. During the year, our operating cash outflows before movements in working capital were RMB137.1 million. Our cash flow was positively affected by working capital adjustments primarily including (i) an increase in trade payables of RMB25.0 million, and (ii) an increase in contract liabilities of RMB13.2 million, (iii) a decrease in prepayments and other receivables of RMB50.4 million, which was partially offset by (iv) an increase in inventories of RMB16.1 million and (v) an increase in trade and bills receivables of RMB9.4 million.

For the year ended December 31, 2023, our Group had net cash generated from operating activities of RMB8.0 million. During the year, our operating cash inflows before movements in working capital were RMB101.8 million. Our cash flow was negatively affected by working capital adjustments primarily including (i) a decrease in contract liabilities of RMB62.8 million, (ii) an increase in film rights of RMB9.3 million, and (iii) an increase in trade and bills receivables of RMB81.0 million, which was partially offset by (iv) an increase in trade payables of RMB38.6 million and (v) a decrease in restricted cash of RMB6.6 million.

Net Cash Flows (Used in)/Generated from Investing Activities

During the Track Record Period, our cash inflow from investing activities was principally from proceeds from disposal of financial assets measured at fair value through profit or loss and proceeds from disposals of property and equipment, intangible assets and other long-lived assets. Our cash outflow used in investing activities was principally for payments for purchase of financial assets measured at FVTPL and payment for purchases of property and equipment, intangible assets and other long-lived assets.

For the nine months ended September 30, 2025, our Group had net cash generated from investing activities of RMB147.2 million, primarily attributable to (i) proceeds from disposal of financial assets measured at FVTPL of RMB460.0 million and (ii) proceeds from disposals of property and equipment, intangible assets and other long-lived assets of RMB64.7 million, which was partially offset by (iii) payments for purchase of financial assets measured at FVTPL of RMB312.6 million and (iv) payment for the purchase of property and equipment, intangible assets and other long-lived assets of RMB64.1 million.

For the year ended December 31, 2024, our Group had net cash used in investing activities of RMB146.8 million, primarily attributable to (i) payments for purchase of financial assets measured at FVTPL of RMB336.8 million, (ii) payment for purchase of property and equipment, intangible assets and other long-lived assets of RMB113.6 million and (iii) payments for acquisition of a subsidiary of RMB63.9 million, which was partially offset by (iv) proceeds from disposals of financial assets measured at FVTPL of RMB346.2 million and (v) proceeds from disposals of property and equipment, intangible assets and other long-lived assets of RMB1.4 million.

For the year ended December 31, 2023, our Group had net cash used in investing activities of RMB119.8 million, primarily attributable to (i) payments for purchase of financial assets measured at FVTPL of RMB260.2 million, (ii) payment for the purchase of property and equipment, intangible assets and other long-lived assets of RMB139.2 million, (iii) payments for acquisition of a subsidiary of RMB54.9 million, and (iv) proceeds from loss of control of a subsidiary of RMB28.1 million, which was partially offset by (v) proceeds from disposals of financial assets measured at FVTPL of RMB260.7 million, (vi) dividends received from an associate of RMB18.4 million, and (vii) proceeds from disposals of property and equipment, intangible assets and other long-lived assets of RMB3.3 million.

Net Cash (Used in)/Generated from Financing Activities

During the Track Record Period, our cash inflow from financing activities was principally from proceeds from bank and other borrowings and capital injection from non-controlling shareholders of subsidiaries. Our cash outflow used in financing activities was principally for repayment of bank and other borrowings and capital and interest element of lease rentals paid.

For the nine months ended September 30, 2025, our Group had net cash flows generated from financing activities of RMB161.0 million, primarily attributable to (i) proceeds from bank and other borrowings of RMB280.2 million and (ii) capital injection from non-controlling shareholders of subsidiaries of RMB49.0 million, which was partially offset by (iii) repayment of bank other borrowings of RMB155.8 million, (iv) interest paid of RMB7.4 million and (v) capital element of lease rentals paid of RMB4.4 million.

For the year ended December 31, 2024, our Group had net cash flows generated from financing activities of RMB23.7 million, primarily attributable to (i) proceeds from bank and other borrowings of RMB467.9 million and (ii) capital injection from non-controlling shareholders of subsidiaries of RMB0.3 million, which was partially offset by (iii) repayment of bank and other borrowings of RMB395.0 million, (iv) payment for purchase of own shares of RMB27.0 million, and (v) interest paid of RMB11.2 million.

For the year ended December 31, 2023, our Group had net cash flows used in financing activities of RMB49.8 million, primarily attributable to (i) repayment of bank and other borrowings of RMB305.0 million, (ii) interest paid of RMB9.0 million and (iii) capital element of lease rentals paid RMB7.7 million, which was partially offset by (iv) proceeds from bank and other borrowings of RMB272.0 million and (v) capital injection from non-controlling shareholders of subsidiaries of RMB0.2 million.

NET CURRENT ASSETS/(LIABILITIES)

The following table sets forth our current assets and current liabilities as of the dates indicated, respectively:

	As of December 31,		As of September 30,	As of January 31,
	2023	2024	2025	2026
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000* (unaudited)
Current assets				
Inventories	6,245	21,403	66,571	43,467
Film rights	30,880	49,821	65,539	–
Trade and bills receivables	152,730	161,932	207,277	292,045
Financial assets measured at FVTPL	–	145,616	–	–
Prepayments and other receivables	217,987	150,569	160,100	119,322
Restricted cash	11,049	48	–	–
Cash and cash equivalents	329,728	139,477	294,403	238,649
Total current assets	**748,619**	**668,866**	**793,890**	**693,483**
Current liabilities				
Trade payables	95,890	120,894	444,070	419,248
Other payables	165,898	123,575	123,996	119,705
Income tax payable	1,119	1,765	3,190	14,256
Contract liabilities	23,375	36,579	57,566	56,057
Lease liabilities	8,674	6,393	9,048	8,223
Bank and other borrowings	235,000	229,900	321,350	403,381
Total current liabilities	**529,956**	**519,106**	**959,220**	**1,020,870**
Net current assets/ (liabilities)	**218,663**	**149,760**	**(165,330)**	**(327,387)**

We had net current liabilities positions as of September 30, 2025 and January 31, 2026 and net current assets positions as of December 31, 2023 and 2024.

We recorded net current liabilities of RMB165.3 million as of September 30, 2025 as compared to net current liabilities of RMB327.4 million as of January 31, 2026, primarily due to (i) increase in bank and other borrowings (current portion) and (ii) a decrease in cash and cash equivalents following the increase in bank borrowing and use of company's funds for settlement of FlareFlow's selling and marketing expenses incurred in September 2025 which is a relatively large amount of trade payables due to FlareFlow's early business development and expansion.

We recorded net current assets of RMB149.8 million as of December 31, 2024 as compared to net current liabilities of RMB165.3 million as of September 30, 2025, primarily due to (i) a decrease in financial assets measured at FVTPL, (ii) an increase in trade payables and (iii) an increase in bank and other borrowings (current portion), which was partially offset by (iv) an increase in trade and bills receivables and (v) an increase in cash and cash equivalents.

Our net current assets decreased from RMB218.7 million as of December 31, 2023 to RMB149.8 million as of December 31, 2024, primarily due to (i) a decrease in prepayments and other receivables, (ii) a decrease in cash and cash equivalents and (iii) an increase in trade payables, which was partially offset by (iv) a decrease in other payables.

WORKING CAPITAL SUFFICIENCY

Our Directors are of the view that, taking into account of the following financial resources available to us, we have sufficient working capital to cover our costs and operating expenses, including selling and marketing expenses, administrative expenses and research and development expenses, for at least the next 12 months from the date of this document. These financial resources include (i) our future operating cash flows in respective periods; (ii) cash and cash equivalents; and (iii) the estimated [**REDACTED**] from the [**REDACTED**].

As of January 31, 2026, our cash and cash equivalents amounted to RMB238.6 million. We estimate that the [**REDACTED**] from the [**REDACTED**] will be approximately HK$[**REDACTED**], after deducting [**REDACTED**] and other related expenses payable by us in the [**REDACTED**], assuming the [**REDACTED**] are not exercised and assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**], being the mid-point of the indicative [**REDACTED**] in this document.

We expect improvement in our working capital sufficiency by way of (i) improvement of our business efficiency, especially on enhancing management of working capitals to generate positive operating cash flow and (ii) gain of capital through [**REDACTED**] [**REDACTED**], which will further solidify our working capital and cash positions. For details, see "Business — Business Sustainability — Pathway to Achieve Working Capital Sufficiency".

Save as disclosed in this document, our Directors are not aware of any other factors that could materially impact our Group's liquidity. For details regarding the funds required to support our existing operations and future plans, see "Future Plans and Use of [**REDACTED**]".

CAPITAL EXPENDITURES

During the Track Record Period, our Group incurred capital expenditures of RMB139.2 million, RMB113.6 million and RMB64.1 million for the years ended December 31, 2023 and 2024 and nine months ended September 30, 2025, respectively, majority of which are related to the purchase of property and equipment and intangible assets.

CONTRACTUAL AND CAPITAL COMMITMENTS

As of December 31, 2023 and 2024 and September 30, 2025, our Group did not have any significant contractual and capital commitments. During the Track Record Period, there was no material change to our indebtedness and capital commitments.

INDEBTEDNESS

Statement of Indebtedness

Our indebtedness during the Track Record Period consisted primarily of lease liabilities and bank and other borrowings. The following table sets out a breakdown of our indebtedness as of December 31, 2023 and 2024, September 30, 2025 and January 31, 2026, being the most recent practicable date for the purpose of this statement of indebtedness in this document.

	As of December 31,		As of September 30,	As of January 31,
	2023	2024	2025	2026
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000* (unaudited)
Current liabilities				
Lease liabilities	8,674	6,393	9,048	8,223
Bank and other borrowings	235,000	229,900	321,350	403,381
	243,674	236,293	330,398	411,604
Non-current liabilities				
Lease liabilities	22,355	13,188	6,572	6,555
Bank and other borrowings	–	78,050	111,000	110,000
Total	**266,029**	**327,531**	**447,970**	**528,159**

Bank and Other Borrowings

Our bank and other borrowings amounted to RMB235.0 million, RMB308.0 million, RMB432.4 million and RMB513.4 million as of December 31, 2023 and 2024, September 30, 2025 and January 31, 2026, respectively. Our interest-bearing bank and other borrowings represent bank loans secured by assets, guaranteed by equity shareholders and third parties and other borrowings for financing the operation of our Group.

Our Group had unutilized bank facility of RMB272.6 million as of January 31, 2026. Our bank facility agreements contain standard terms, conditions and covenants that are customary for commercial bank facilities.

As of September 30, 2025, our Group had bank and other borrowings amounting to RMB432.4 million, and all of the bank borrowings were guaranteed by Mr. Tong, our executive Director and a member of our Single Largest Group of Shareholders, either individually or together with Dr. Ni. For further details regarding our borrowings, see "Relationship With our Single Largest Group of Shareholders — Financial Independence" and Note 26 to the Accountants' Report in Appendix I to this document. In addition to these guarantees, Mr. Tong has also provided share pledge over certain of his shares in our Company to secure our borrowings. Our Directors confirm that the guarantees and share pledges provided by Mr. Tong, either individually or together with Dr. Ni, are expected to be released and replaced by new independent loans prior to [**REDACTED**].

Our Directors confirm that as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenant during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that our Group did not experience any difficulty in obtaining bank and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Lease Liabilities

Our lease liabilities mainly represent the lease payment obligations during the lease terms in relation to our leased properties that are mainly used as our office premises. We recorded lease liabilities of RMB31.0 million, RMB19.6 million, RMB15.6 million and RMB14.8 million as of December 31, 2023 and 2024, September 30, 2025 and January 31, 2026, respectively.

Our lease liabilities decreased from RMB31.0 million as of December 31, 2023 to RMB19.6 million as of December 31, 2024, primarily due to expiration and termination of certain leases in 2024. Our lease liabilities then decreased to RMB15.6 million as of September 30, 2025, resulting from payment of lease payables in 2025. Our lease liabilities then decreased slightly to RMB14.8 million as of January 31, 2026, resulting from payment of lease payables in 2026.

Contingent Liabilities

As of January 31, 2026, being the most recent practicable date for the purpose of the indebtedness statement, we did not have any material contingent liabilities.

Save as disclosed above, we did not have any bank and other loan, or any loan capital issued and outstanding or agreed to be issued, bank overdraft, borrowing or similar indebtedness, liabilities under acceptance (other than normal trade notes) or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities as of the most recent practicable date for our indebtedness statement.

Our Directors confirm that there has not been any material change in our indebtedness since January 31, 2026 up to the Latest Practicable Date.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the years/periods as of the dates indicated:

	For the year ended/ As of December 31,		For the nine months ended/As of September 30,
	2023	2024	2025
Gross profit margin*(Note 1)*	44.7%	32.9%	34.4%
Current ratio*(Note 2)*	1.41	1.29	0.83
Revenue growth*(Note 3)*	N/A	(17.7)%	25.1%

Notes:

(1) Gross profit margin equals gross profit divided by revenue for the respective year/period.

(2) Current ratio equals total current assets divided by the total current liabilities as of the respective year/period end.

(3) Revenue growth equals the increase in total revenue for the year/period divided by total revenue for the previous year/period and multiplied by 100%

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The risks associated with these financial instruments include credit, liquidity, interest rate and currency risks.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and other receivables. The Group's exposure to credit risk arising from financial assets measured at FVTPL, cash, cash equivalents and restricted cash is limited the counterparties are banks or financial institution with high-credit-quality, for which the Group considers to have low credit risk.

The Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are generally due within 30 days from the date of billing. Normally, the Group does not obtain collateral from customers.

Further quantitative data in respect of our exposure to credit risk arising from trade receivables are disclosed in Note 30 to the Accountants' Report in Appendix I to this document.

Liquidity Risk

The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and cash equivalents and retains adequate financing arrangements with investors to meet its liquidity requirements in the short and longer term.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank loans. The bank loans were all fixed-rate borrowings.

The Group does not account for any fixed-rate financial assets or financial liabilities, at FVTPL. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Foreign Currency Risk

Currency risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The Group manages its currency risk by minimizing non-functional currency transactions, wherever possible.

Management considers that the business is not exposed to significant foreign exchange risk as there are no significant financial assets or liabilities of the Group denominated in currencies other than the respective functional currencies of the Group's subsidiaries and these entities.

[REDACTED] EXPENSES

[**REDACTED**] expenses represent professional service fees, [**REDACTED**] and other fees incurred in connection with the [**REDACTED**]. Assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**], being the mid-point of the indicative [**REDACTED**], the total estimated [**REDACTED**] expenses in connection with the [**REDACTED**] (including [**REDACTED**]) are estimated to be HK$[**REDACTED**] (representing approximately [**REDACTED**]% of the estimated gross [**REDACTED**] from the [**REDACTED**]). The [**REDACTED**] expenses include (i) [**REDACTED**] of approximately HK$[**REDACTED**], and (ii) non-[**REDACTED**] related expenses of approximately HK$[**REDACTED**], which consist of fees and expenses of the legal advisors and reporting accountants of our Company of approximately HK$[**REDACTED**] and other fees and expenses of approximately HK$[**REDACTED**]. We did not incur any [**REDACTED**] expenses during the Track Record Period.

PROPERTY INTEREST AND PROPERTY VALUATION

Masterpiece, an independent property valuer, has valued our selective property interests as of November 30, 2025. Particulars of these property interests are set out in Appendix III to this document.

The table below sets out the reconciliation between the net book value of our selective property as of September 30, 2025 in the Accountants' Report in Appendix I to this document and the market value of our selective property as of November 30, 2025 in the Property Valuation Report in Appendix III to this document.

	(RMB'000)
Net book value of our selective property as of September 30, 2025	**23,368**
Depreciation for the two months ended November 30, 2025	103
Net book value as of November 30, 2025	**23,265**
Valuation surplus as of November 30, 2025	3,505
Valuation as of November 30, 2025 as set out in Appendix III to this document	**26,770**

DIVIDENDS

According to our Articles of Association, when the Company is profitable for the relevant year, has positive accumulated undistributed profits, and met the funding needs for normal production and operation, subject to significant investment or capital expenditure plans and other cash dividend conditions stipulated in our Company's Articles of Association, the Company shall prioritize the distribution of dividends in cash, and the annual cash-distributed profits shall not be less than 20% of the distributable profits realized in the same year. Any proposed distribution of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Board may recommend a distribution of dividends in the future after taking into account our results of operations, financial condition, operating requirements, capital requirements, shareholders' interests and any other conditions that our Board may deem relevant.

No dividend was paid or declared by our Company or other entities comprising our Group during the Track Record Period. Pursuant to the Rules for Share Repurchase by Listed Companies (《上市公司股份回購規則》) and the Shenzhen Stock Exchange's Self-Regulatory Guidelines No. 9 — share repurchase (《深圳證券交易所上市公司自律監管指引第9號—回購股份》), RMB26,998,914.0 share repurchases completed in 2025 are classified as cash dividends, constituting a formal shareholder return mechanism.

According to relevant PRC laws, any future after-tax profits that we make will have to be first applied to make up for our historically accumulated losses, after which we will be obliged to allocate 10% of our after-tax profits to our statutory common reserve fund until such fund has reached more than 50% of our registered capital. After extracting the statutory common reserve fund from the after-tax profits, we may also extract optional accumulation fund from the after-tax profits through a resolution of the shareholders' meeting. We will therefore only be able to declare dividends after (i) all our historically accumulated losses have been made up for; and (ii) we have allocated sufficient after-tax profits to our fund as described above.

DISTRIBUTABLE RESERVES

As of September 30, 2025, our Company did not have any distributable reserves.

OFF-BALANCE SHEET ARRANGEMENT

During the Track Record Period, we did not have any material off-balance sheet arrangements or any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support for us. As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors confirm that the related party transactions set out in Note 31 to the Accountants' Report in Appendix I to this document were conducted in the ordinary course of business on arm's length basis and with reference to the normal commercial terms of each party. Our Directors also consider that our related party transactions during the Track Record Period would not affect our results during such year, and would not make our historical results not reflective of our future performance.

UNAUDITED [REDACTED] ADJUSTED NET TANGIBLE ASSETS

For details, see "Unaudited [**REDACTED**] Financial information" in Appendix II to this document.

NO MATERIAL AND ADVERSE CHANGE

Our Directors have confirmed, after due and careful consideration, that as of the date of this document, there has been no material adverse change in our financial or trading position or prospects of our Group since September 30, 2025, and there is no event since September 30, 2025 that would materially and adversely affect the information shown in the Accountants' Report in Appendix I to this document.

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.