

**OVERVIEW**

We are a leading short video marketing solutions provider and an online content services provider focusing on pan-entertainment in China. According to iResearch, the short video marketing market is an important component and driver of the overall online marketing market, with a market share of 15.9% in terms of revenue in 2019. We contributed to approximately 0.5% of the total revenue of the overall online marketing market in China in 2019. According to iResearch, we were the third largest online marketing solutions provider in China in terms of gross billing generated from short video advertisements in 2019, with a market share of 3.4%. In particular, according to iResearch, in terms of user traffic consumption of the advertisements of e-commerce merchants that sell products or services directly through short video platforms, we were the largest short video marketing solutions provider in the PRC in 2019, with user traffic consumption of more than RMB1.0 billion. We also operate a pan-entertainment-oriented content platform through our *Huabian* website and its mobile terminal, presenting attention catching pan-entertainment articles and photos to internet users. In addition, we produce quality and appealing content for audiences and advertisers, such as short videos, movie and television stars interview programs and entertainment news programs. We act as a middleman connecting advertising customers and media partners. During the Track Record Period, Supplier A was our single largest supplier. We are one of the 100 to 250 online marketing solutions providers that had contractual relationship with Supplier A in 2019. Our gross billing generated through Supplier A's content distribution platforms accounted for approximately 37.7%, 85.2%, 87.1% and 84.8% of our total gross billing in 2017, 2018 and 2019 and the six months ended June 30, 2020. We deliver our online marketing solutions primarily through top online publishers in China, such as Douyin (抖音), Huoshan (抖音火山版), Xigua Video (西瓜视频) and Kuaishou (快手).

We generate revenue primarily from providing (i) online marketing solutions to advertisers and advertising agencies, including user traffic acquisition, ad creatives production, and ad performance optimization; and (ii) advertising spaces on our *Huabian* Platform to ad networks and advertisers. We charge our advertising customers for our online marketing solutions primarily measured by a mix of oCPM (optimized cost per mille), oCPC (optimized cost per click) and CPC, while we acquire user traffic from our media partners to place our advertisements online and pay traffic acquisition costs based primarily on the same mechanism. Media partners may grant to us rebates primarily calculated based on our gross spending. We may also grant rebates to our advertising customers from time to time calculated based on their gross spending to incentivize them to continue to use our solutions. In addition, during the Track Record Period, we charged ad networks primarily based on CPM, and charged advertisers primarily based on CPT or CPA, for the advertising spaces we provided on our *Huabian* Platform. We also began to generate revenue from providing product placement opportunities in our short video KOL programs for advertisers to market their products or services since January 2020.

We have experienced rapid growth since 2017 benefiting from the rise of short videos. During the Track Record Period, our revenue increased significantly from RMB235.4 million in 2017 to RMB2,313.0 million in 2019, representing a CAGR of 213.5%. Our profit for the year increased from RMB33.0 million in 2017 to RMB72.9 million in 2019, representing a CAGR of 48.6%. In particular, our gross billing generated from short video marketing solutions accounted for approximately 14.5%, 73.5%, 87.1% and 89.2% of our total gross billing generated from online marketing solutions business in 2017, 2018, 2019 and the six months ended June 30, 2020, respectively. Given the technological development of network infrastructure and the continually reduced mobile internet traffic costs per GB that collectively led to the speedy growth of short video audience base, we have strategically shifted our focus to online marketing solutions (in particular short video marketing) from which the revenue accounted for approximately 70.4%, 94.5%, 98.7% and 98.9%, respectively, of our total revenue for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020.

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Launched in 2013, our online marketing solutions help our advertising customers acquire high quality traffic from top online publishers, produce appealing and attention catching ad creatives to attract target consumers, and optimize campaign performance leveraging our big data analytics and AI capabilities, to improve the marketing efficiency for our advertisers.

Launched in 2012, our self-operated content platform, *Huabian* Platform, aggregates pan-entertainment articles and photos from professional media, talent agencies and self-media accounts, and presents real-time customized and popular feeds to visitors. We also have another two short video KOL programs, *Idol Answers* and *Hippie Entertainment*, featuring latest television and movie star interviews and entertainment news, to expand our pan-entertainment coverage.

Our content production capability is one of our core competencies that differentiate us from our competitors. Our in-house content production team, consisting primarily of scriptwriters, directors and post-production crew, is able to produce customized, appealing and attention catching ad creatives, with the capacity to produce approximately 4,400 pieces of short videos each month. Leveraging our strong content production capability, we have established a cross-media multi-channel full service content platform, covering content production, exchange and distribution that connects directly the advertisers with internet users, content providers and content distribution channels, to (i) produce original content, particularly short videos, for advertisers; (ii) facilitate content exchange between the advertisers and content providers; and (iii) distribute content to internet users through online publishers.

We have maintained well-established relationships with various top online publishers, including the six largest short video platforms in China, such as Douyin, Kuaishou, Xigua Video, Huoshan and Tencent Weishi (騰訊微視), as well as other leading content distribution platforms, including Xiaohongshu (小紅書) and Qutoutiao (趣頭條). In particular, we have a stable and cooperative partnership with Supplier A's major content distribution platforms, including Douyin, Xigua Video, Huoshan and Toutiao. We are Supplier A's early collaborator and began to acquire user traffic from its content distribution platforms in 2016. We are also one of the early online marketing solutions providers to offer short video marketing solutions through Douyin after it was launched in September 2016.

We serve a fast-growing and diversified advertiser base operating in a wide array of industry verticals, including online gaming, financial services, e-commerce, internet services, advertising and culture & media. As of June 30, 2020, we had accumulated approximately 1,587 advertisers that have contractual relationship with us. Such direct advertisers for both online marketing solutions business and pan-entertainment content services business increased from 558 in 2017 to 669 in 2019, representing a CAGR of 9.5%, while the average spending per direct advertiser increased from RMB0.5 million in 2017 to RMB3.4 million in 2019, representing a CAGR of 160.8%.

As a technology-driven company, we have developed our proprietary DMP to support internal advertising campaign management system as well as content management and distribution system through big data analytics and AI technologies. Our proprietary DMP collects and stores a wide variety of raw data on a real-time basis from online publishers, including ad performance data and behavioral data, to generate accurate user profiling modules and continuously monitor and analyze such data to optimize ad campaign performance to acquire, convert and retain consumers in a more effective and efficient way.

## **OUR COMPETITIVE STRENGTHS**

### **A leading online marketing solutions provider in the short video marketing market in China**

According to iResearch, we were the third largest online marketing solutions provider in China in terms of gross billing generated from short video advertisements<sup>1</sup> in 2019, with a market share of 3.4%. We were also the third largest online marketing solutions provider in China in terms of gross billing generated from performance-based advertisements placed on short video platforms<sup>2</sup> in 2019, with a market share of 5.9%, according to the same source. With the rapid development of the mobile internet era and technological advancement of network infrastructure, short video marketing has become one of the most prevalent forms of advertising. While engaging target consumers with entertaining visuals, short video advertisements are easier to capture the attention of target consumers and are able to deliver bite-sized pieces of information that are more digestible, enabling them to retain more information from the advertisements and enhancing the marketing efficiency for the advertisers. The short video marketing market in China has experienced tremendous growth since September 2016. According to iResearch, revenue generated from short video marketing increased from RMB0.2 billion in 2015 to RMB102.5 billion in 2019, representing a CAGR of 375.8%, and is expected to further grow from RMB172.4 billion in 2020 to RMB582.5 billion in 2024, representing a CAGR of 35.6%. In addition, revenue generated from advertisements placed on short video platforms increased from RMB0.8 billion in 2016 to RMB80.0 billion in 2019, representing a CAGR of 364.2%, and is expected to further grow from RMB133.5 billion in 2020 to RMB395.0 billion in 2024, representing a CAGR of 31.2%.

We have been providing online marketing solutions since 2013, and in particular short video marketing solutions since 2017 immediately after the short video industry took off, providing us with a first-mover advantage in short video marketing. As of June 30, 2020, we had served more than 3,400 advertisers, directly or indirectly, in approximately 170 sub-sectors of industry verticals, and the short videos delivered by us had generated more than 410.0 billion impressions and 60.0 billion video views as of the same date. Our in-house professional marketing specialists also contribute to our market leadership and exceptional track record in providing online marketing solutions. As of the Latest Practicable Date, we had in aggregate approximately 107 certified marketing managers by Supplier A and Kuaishou.

We believe our first-mover advantage, leading market position and extensive experience in short video marketing differentiate us from our competitors and well position us to capture the significant opportunities in this fast-growing industry.

### **One of Supplier A's major partners for short video marketing solutions**

Supplier A is a leading Chinese internet technology platform operating several AI technology-enabled content distribution platforms, with two core platforms, Douyin and Toutiao. According to iResearch, Supplier A was the fourth largest mobile internet company in terms of average DAUs in the PRC in 2019. With its massive user base and high user traffic, Supplier A has been playing a key role in the short video marketing market in China.

We have stable business relationship with, and place our advertisements through, Supplier A's major content distribution platforms. Due to our contribution to its business growth, we were awarded the Rapid Growth Prize (突飛猛進獎) as its fastest growing business partner in 2017. We also won several prizes in the Effect UP Marketing Competition (效果營銷大賽) organized by it in 2018 and 2019.

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1 This ranking is based on the user traffic consumption of short video advertisements across all online publishers and other content distribution channels in China.

2 This ranking is based on the user traffic consumption of performance-based advertisements placed on short video platforms only, excluding other online publishers or other content distribution channels.

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We believe that we are one of Supplier A's major partners for short video marketing solutions with stable and cooperative business relationships. We commenced to acquire user traffic from Supplier A's content distribution platforms in 2016 and were its early collaborator. We also seized the opportunity to benefit from the introduction of its short video platform, through which we were one of the early online marketing solutions providers to offer short video marketing solutions after it was launched in September 2016. Leveraging our leading position in the short video marketing market in China, we believe we will continue to benefit from the huge growth of Supplier A.

### **A cross-media multi-channel full service content platform covering content production, exchange and distribution**

We operate a cross-media multi-channel full service content platform covering content production, exchange and distribution that connects directly the advertisers with internet users, content providers and content distribution channels. Specifically, our full service platform is able to (i) produce original content, particularly short videos, for advertisers; (ii) facilitate content exchange between the advertisers and content providers; and (iii) distribute content to internet users mainly through online publishers.

We primarily deliver short video or text and image creatives in the format of native in-feed advertisements, which are customized and integrated seamlessly in the feeds of an app or website or consistent with the components of the app or web interface, thus rendering more pleasant audience experience. We have a dedicated and experienced in-house content production team with the ability to produce appealing and attention catching ad creatives that are tailored to the specific needs of the advertisers. As of June 30, 2020, our in-house content production team comprised 86 employees, led by one of the only four marketing professionals certified by Supplier A with the highest level in 2019, with more than five years of relevant industry experience. We are able to produce approximately 4,400 pieces of short video ad creatives each month.

We believe our content production capability is one of our core competencies that make us stand out in the industry in which we operate. For example, one piece of our short videos produced for a leading Chinese mobile content aggregator received the Public Service Award (公益服務專項獎) from Top Digital Agency, an innovative publisher in digital economy, in 2019 to award its propaganda of public services. This advertisement was also selected as an outstanding social marketing demonstration case by an institution under the Ministry of Civil Affairs of the PRC. In addition to our original ad creatives produced for advertisers as part of our online marketing solutions, we produce original short video content for internet users to expand our pan-entertainment coverage. For example, we have built up our own KOL brand by producing a short video program series featuring interviews with movie and television stars, *Idol Answers*, and releasing the videos on approximately 40 online publishers, such as iQIYI. The *Idol Answers* has invited and interviewed more than 200 popular celebrities in various fields including movies, talk shows and music, such as Li Yifeng (李易峰), Guo Degang (郭德綱) and Deng Ziqi (鄧紫棋). As of the Latest Practicable Date, *Idol Answers* had accumulated more than 1 million followers on its Weibo (微博) public account. As part of our pan-entertainment coverage, we also have another short video KOL brand, *Hippie Entertainment*, featuring the latest and breaking celebrity entertainment news, which is distributed across approximately 27 online publishers, such as Tencent Video (騰訊視頻) and Mango TV (芒果TV). According to CAASDATA (卡思數據), a leading PRC video data collection and analysis platform, both of *Idol Answers* and *Hippie Entertainment* ranked top 50 among all PGCs in the PRC. These two KOL programs had accumulated impressions of more than 600 million as of the Latest Practicable Date. We produce short video KOL programs in order to (i) upgrade our pan entertainment business by expanding our content coverage from text and image content only to include short video content, leveraging our short video production capability; and (ii) incubate our own KOL brands and intend to monetize the traffic generated from these KOL programs in the future. As of the Latest Practicable Date, we had produced more than 50,000 short videos, including short video ad creatives and other short video content, which were delivered through more than 40 content distribution platforms.

Furthermore, to capture advertisers' rapidly growing demand for short videos, we launched a free-for-now content exchange platform in the fourth quarter of 2019 that connects directly the advertisers with qualified content providers, such as PUGC, KOL and MCN, to facilitate content exchange transactions. This platform allows, on one hand, the advertisers to propose their specific content requirements and marketing goals, and on the other hand, the content providers to address the advertisers' particular needs with their expertise. As of June 30, 2020, approximately 188 content providers, 3,425 advertisers and 1,186 participants had engaged in our exchange platform and approximately 9,835 short videos had been delivered through this platform.

We also operate a content distribution platform through our *Huabian* Platform. *Huabian* aggregates pan-entertainment articles and photos from professional media, talent agencies and self-media accounts, and distribute such content through more than 30 content distribution partners, such as Weibo, Toutiao and Qutoutiao. According to iResearch, we were China's largest pan entertainment-oriented information website in terms of average DAUs in 2019. For the six months ended June 30, 2020, our average daily pieces of content uploaded was approximately 2,200 and our average daily pieces of content passed screening and presented to visitors was approximately 500. In addition, our *Huabian* Platform has been recognized by leading entertainment portals, such as Sina (新浪) and Sohu (搜狐), as their recommended emerging pan entertainment-oriented content provider. Due to our market leadership, we were frequently invited by film premieres and famous entertainment events as official media reporters, such as Shanghai International Film Festival, Weibo Fan Carnival (微博嘉年華) and Weibo Movie Night (微博電影之夜).

We believe our content production and distribution capabilities not only have enabled us to cooperate with top online publishers that provide high volume traffic of public media channel and serve advertisers with tailor-made solutions and execute effective marketing campaigns, but also contribute to our large visitor base which in turn brings us massive traffic of private media channel, allowing us to enhance our brand to attract more advertisers and capture valuable monetization opportunities. We also believe that our unique content exchange platform differentiates us from our competitors and allows us to capture new trend in the online marketing market.

### **Robust big data analytics and AI capabilities**

As a technology-driven company, we have made substantial investments in building our information technology infrastructure and a dedicated and experienced research and development team. We have developed our proprietary DMP to support our internal advertising campaign management system as well as content management and distribution system through big data analytics and AI technologies. In particular, our proprietary DMP collects and stores a wide variety of raw data on a real-time basis from online publishers, including ad performance data and behavioral data, and continuously monitor and analyze such data to optimize campaign performance.

For the six months ended June 30, 2020, our proprietary DMP collected and analyzed data from approximately 92 million unique internet devices per day. Our AI algorithms apply tags to each device to which we have access and can currently apply over 153,000 tags across approximately 961 categories. These tags allow us to generate a fairly accurate profile of the user of such device, including basic demographics such as age and gender, geographic location as well as personal interest and preference.

We believe our massive data assets enable us to achieve accurate audience profiling and help advertisers precisely target and reach the types of audiences best suited in the advertising campaigns, improving the marketing efficiency for our advertisers. For example, in August 2019, we provided short video marketing solutions to an online education app, which realized cost per new app download of approximately RMB2.5, while this advertiser's budget of cost per new app download was RMB8.0. Due to the outstanding performance of our advertising campaigns, many of our advertisers increased their marketing budgets allocated to us, resulting in a strong flywheel effect. As advertisers more effectively

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acquire consumers through our solutions, they increase their marketing spending on us, enabling us to deliver advertisements to more internet devices through a larger base of publishers. This will contribute more traffic and data to us to train our AI algorithms, which in turn further enhances the effectiveness and efficiency of our solutions and supports the sustainability of our growth.

### **Diversified online publisher base and fast-growing advertiser base**

We offer our advertising customers high-quality and high-traffic online publishers where they can be most likely exposed to target audiences and achieve their marketing goals more efficiently. We maintain a diversified online publisher base across a wide range of industries such as entertainment, social networking, e-commerce, online media and mobile tools. As of the Latest Practicable Date, we had cooperation with all of the six largest short video platforms in terms of average DAUs in China in 2019, according to iResearch, and a number of other leading content distribution platforms.

We serve a fast-growing and diversified advertiser base operating in a wide array of industry verticals, including online gaming, financial services, e-commerce, internet services, advertising and culture & media. A majority of the advertisers we serve are our direct customers, which further enhances our ability to maintain close relationships with these advertisers. Such direct advertisers increased from 558 in 2017 to 669 in 2019, representing a CAGR of 9.5%; while our average revenue per direct advertiser increased from RMB0.4 million in 2017 to RMB3.3 million in 2019, representing a CAGR of 187.2%. As of the Latest Practicable Date, we had served approximately 1,700 accumulated key account advertisers, including Mogu (蘑菇街), GOME (国美), Cardniu (卡牛) and Yidui (伊對), most of which are well-known and leading companies in their respective industry. Due to our extensive coverage in various industry verticals, we also accumulated in-depth understanding and knowledge of and achieved outstanding track record in certain industry verticals. In particular, according to iResearch, in terms of user traffic consumption of the advertisements of e-commerce merchants that sell products or services directly through short video platforms, we were the largest short video marketing solutions provider in the PRC in 2019, with user traffic consumption of more than RMB1.0 billion. We have maintained longstanding and stable business relationship with these advertisers as our direct customers.

We believe our diversified online publisher base and fast-growing advertiser base have enabled us to accumulate extensive experience in a wide range of industry verticals, better understand and anticipate market trends, customize our solutions and foster closer customer relationships. We expect our publisher and advertiser base to continue to support and provide visibility on our continuous growth.

### **Visionary and experienced senior management team**

Our visionary and experienced senior management team has been essential in driving the growth of our business. In particular, we are led by our chief executive officer, Mr. Wang, together with our co-founder and chairman of the Board, Mr. Xu, who have an average of approximately ten years of experience in the online marketing industry. In particular, Mr. Wang was certified as a PMP (Project Management Professional) by Project Management Institution in the United States, a Microsoft Certified Database Administrator and a Microsoft Certified Systems Engineer by Microsoft Incorporation. He also obtained Google Analytics Individual Qualification accredited by Google Testing Center. Mr. Wang is currently enrolled in EMBA degree at Tsinghua University. Other members of our senior management team and key employees have prior experience at leading internet and technology companies, such as Microsoft, Toutiao, Baidu and Alibaba. Our co-founders and some members of our senior management team have served us since our inception.

We believe that our senior management team has extensive industry expertise, innovative vision and strong execution capabilities, and is capable of building on our competitive strengths and successfully implementing our strategies and future plans. We believe that our senior management team will continue to lead our business and drive our future growth.

## **OUR STRATEGIES**

To further solidify our leading market position, we plan to implement the following strategies:

### **Strengthen and deepen our collaboration with top online publishers and diversify our media partner base**

To further grow our business and reinforce our leading market position, we intend to further strengthen and deepen our collaboration with top online publishers. In particular, we plan to explore new forms of cooperation with top online publishers, such as short video-empowered online sales through these publishers. We will also continue to devote substantial resources to top online publishers and plan to expand our dedicated teams to serve and coordinate with them to ensure smooth and efficient operations.

In addition, we will seek to diversify our media partner base and establish business relationships with other industry leading content distribution platforms which we believe will add value to our advertising customers. We are also exploring opportunities to cooperate with emerging industry players in the online marketing industry to broaden audience reach for advertisers. For example, in January 2020, we entered into an annual cooperation agreement with Tencent Weishi (騰訊微視), one of the five largest online publishers in 2019, to place advertisements for our advertisers.

### **Expand our advertising customer base and explore opportunities in specific industry verticals**

We seek to continue to expand our advertising customer base to further scale and grow our business. We plan to continue to deepen our penetration in our existing major industry verticals through developing and offering more tailored solutions with industry-specific features. Meanwhile, we will continue to keep a close eye on the opportunities arising from changes in market trends, such as the approaching 5G commercialization, and strive to diversify our customer base and expand into new industry verticals to capture these growth opportunities. In particular, we plan to explore other industry verticals that are experiencing expeditious growth, such as online education.

We also plan to continue to seize the opportunities brought by the Belt and Road Initiative to expand our overseas presence. In particular, during the Track Record Period, we placed advertisements overseas through a global leading social media platform and a global leading search engine. We aim to deepen our cooperation with such online publishers with strong global network to expand our overseas customer base. We also plan to cooperate with a leading international short video platform to place advertisements overseas and expand our global footprints, leveraging our extensive industry experiences and knowledge.

In addition to expanding our customer base, we also seek to continue to nurture our existing customers and enhance customer stickiness through proactively exploring their evolving needs, which we believe will enable us to facilitate effective cross-selling and drive repeat business. For example, one of our advertisers which was mainly engaged in travel agency services has recently stepped into the financial industry. Leveraging our stable business relationship with such advertiser, we have successfully secured orders for our online marketing solutions from such advertiser for its new industry vertical.

Given our well-established relationship with advertisers from various industries and our extensive knowledge of and expertise in certain industry verticals, we also seek to collaborate with our advertisers to explore more monetization opportunities. For example, we are in the process of entering into a game license and distribution agreement with an Independent Third Party game developer to engage in the distribution of online games, pursuant to which this game developer has authorized us to promote and distribute its online games through qualified online publisher, while we are entitled to a portion of the distribution revenue and bear the costs incurred for the distribution and promotion of such online games. As of the Latest Practicable Date, the first online game developed under this arrangement was going

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through in-game beta testing. This online game is expected to be distributed and put into official operation during the Spring Festival in 2021. In addition, we have also invested in an associate with a listed gaming company in the PRC to provide KOL incubation and third party operation services for online gaming companies and charge them operational service fees. This KOL incubator has been in official operation and generated small amounts of revenue since October 2020.

### **Continue to unleash the monetization potential of our content production, exchange and distribution platform that offers full cycle services**

Leveraging our content production capability, we intend to explore monetization opportunities by offering full cycle services that center around the evolving demand of advertisers to add value to our ecosystem and facilitate the massive production of short videos. Building upon our large advertiser and online publisher base, we plan to offer cloud-based solutions through our content production, exchange and distribution platform to facilitate content transactions, from which we plan to charge annual membership service fees for providing content exchange transaction services to advertisers and content providers. As of the Latest Practicable Date, we were in the process of developing revenue-generating functions and products to empower the production, exchange and distribution platform. We expect to charge the advertisers and content providers for these advanced functions and generate revenue from this platform in the first quarter of 2021.

In addition, as we continue to broaden our content portfolio through producing original short videos, we plan to offer product placement opportunities to advertisers to promote their brands or products in such videos.

### **Enhance our big data analytics and AI capabilities**

We place a high value on our data assets and intend to continue devoting substantial resources to that end. We plan to increase the dimensions and varieties of the data we collect and analyze by (i) collaborating with online publishers and our content distribution partners through further integration of their platforms with our proprietary DMP; and (ii) further growing the visitor base of our content through introducing content provider incentive system to attract quality content providers and continuing to enhance the breadth and diversity of our content. We also plan to develop strategic relationships with a variety of content distribution platforms to exploit new data sources.

We will continue to invest in our big data analytics and AI capabilities. For example, we are in the process of upgrading our internal content management and distribution system to enable automatic content curation and recommendation. Please see “— Research and Development” for more details. In addition, we plan to continue to enhance our AI algorithms to further improve the quality and frequency of model training and the precision of profile tags. We believe the continually evolving AI technologies will improve short video production capabilities, enabling us to realize massive production of short videos, which in turn scales our business and increases our revenue. As of the Latest Practicable Date, we had cooperated with a leading AI SaaS company to train AI tools to create self-generated short videos from text and image through machine learning.

We also plan to continue to recruit additional research and development personnel. Please see “Future Plans and Use of Proceeds” for details.

### **Selectively pursue strategic collaboration, investment and acquisition opportunities**

We intend to pursue investment opportunities or acquire businesses that complement or enhance our existing businesses and are strategically beneficial to our long-term goals. We aim to target companies that have competitive strengths in big data analytics and AI capabilities, content development and production as well as customer and other strategic resources.



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In addition, we plan to pursue business collaborations to further diversify our revenue streams. For example, we have entered into a co-production agreement with a leading media group listed in the PRC to produce a web film to expand our pan-entertainment coverage. The media group is responsible for obtaining the relevant governmental approvals, selection of directors and actors, and film production; while we and this media group jointly take charge of the distribution and promotion of such web film. In addition, we are entitled to part of the copyright of and the income derived from such web film, including licensing revenue and advertising and IP derivatives revenue. We have commenced film shooting in April 2020 and expect to complete the shooting in the second half of 2020. The total investment of this web film is estimated to be RMB12 million, and we have contributed our portion of the investment of RMB5 million. The investment in this web film is an one-off investment, as one of our measures to implement our strategy of upgrading our pan-entertainment content services. We will evaluate our investment in this web film to see if it adds value and synergies to our service offerings, operations and brand buildings to decide whether to make future investments in movies.

In selecting strategic partners or investment or acquisition targets, we generally consider the following factors: potential business growth, track record, industry reputation, advanced technologies, volume of user traffic, content production capability of the target companies as well as the expected synergies to be achieved by us. Specifically, we plan to invest in or acquire (i) upstream industry participants that can improve and diversify our ad creative inventory, such as MCN, KOL or event marketing companies; and; (ii) downstream industry participants that can improve our quality and operational efficiency which in turn can strengthen our relationships with advertisers and online publishers, such as media platforms with high volume traffic and big data companies with advanced AI capabilities. As of the Latest Practicable Date, we had not engaged in any negotiation or entered into any letter of intent or agreement for potential acquisitions, nor identified any definite acquisition target. Please see “Future Plans and Use of Proceeds” for more details.

### OUR BUSINESS MODEL

We operate under two principal business segments, namely (i) our online marketing solutions business and (ii) our pan-entertainment content services business.

Empowered by our proprietary DMP, we provide one-stop online marketing solutions, in particular short video marketing solutions, to advertisers directly or through advertising agencies by planning, launching and managing advertising campaigns to help advertisers acquire, convert and retain consumers and achieve their marketing goals in an effective and efficient way. We primarily deliver short video or text and image creatives in the format of native in-feed advertisements through top online publishers and we have an in-house content production team with the ability to produce customized, appealing and attention catching ad creatives. With the increasing prevalence of short video marketing, we believe our content production capability is one of our core competencies that make us stand out in the industry in which we operate. We charge our advertising customers for our online marketing solutions primarily measured by a mix of oCPM, oCPC and CPC, while we acquire user traffic from our media partners to place our advertisements online and pay traffic acquisition costs based primarily on the same mechanism.

Under our pan-entertainment content services business, we operate a pan entertainment-oriented content platform through our *Huabian* website ([www.huabian.com](http://www.huabian.com)) and its mobile terminal. *Huabian* Platform aggregates pan-entertainment articles and photos from professional media, talent agencies and self-media accounts, and presents real-time customized feeds to visitors. We generate revenue primarily from providing advertising spaces on our *Huabian* Platform to third-party ad networks, such as Sogou, and advertisers. We also collaborate with our content distribution partners to market our content and generate traffic to our *Huabian* Platform, and pay them traffic acquisition costs primarily based on CPC. In addition, we have another two short video KOL programs, *Idol Answers* and *Hippie Entertainment*, featuring latest television and movie star interviews and entertainment news, to expand our pan-entertainment coverage.

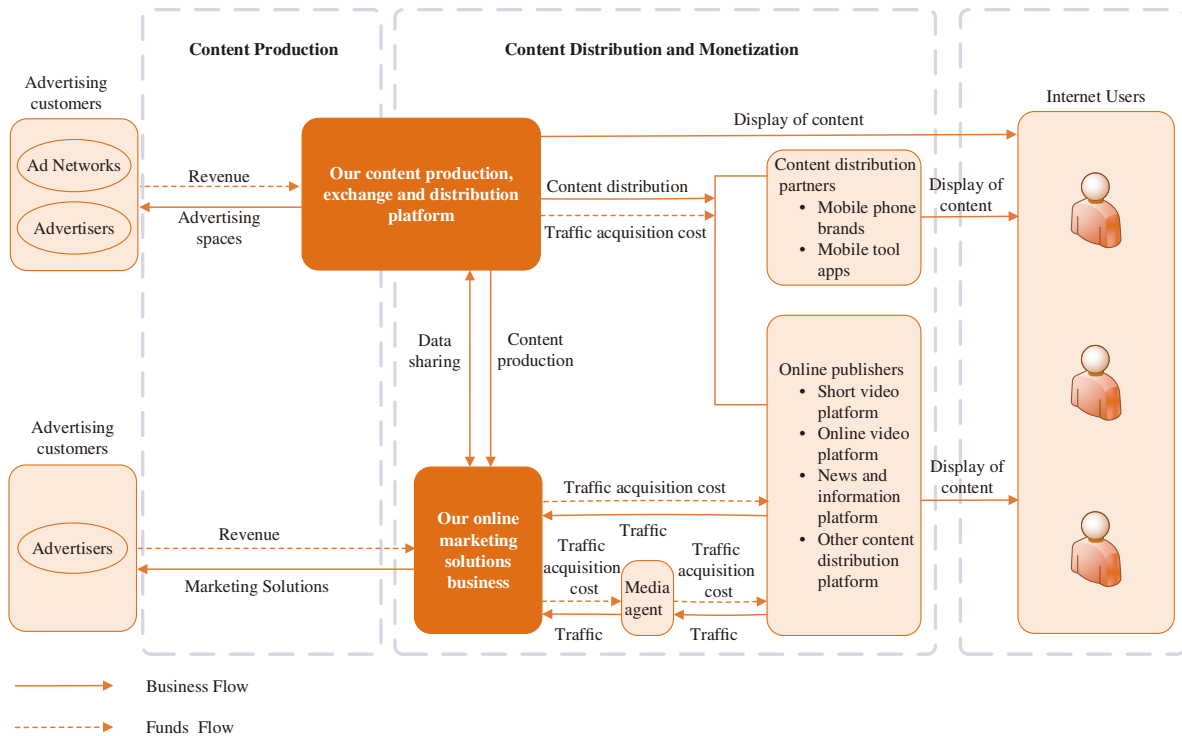
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The following table sets forth our revenue by business segments for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total
Online marketing solutions business . . .	165,839	70.4	1,121,427	94.5	2,282,304	98.7	1,267,309	98.5	788,329	98.9
Pan-entertainment content services business . . . . .	69,586	29.6	64,745	5.5	30,732	1.3	19,213	1.5	8,636	1.1
<b>Total . . . . .</b>	<b>235,425</b>	<b>100.0</b>	<b>1,186,172</b>	<b>100.0</b>	<b>2,313,036</b>	<b>100.0</b>	<b>1,286,522</b>	<b>100.0</b>	<b>796,965</b>	<b>100.0</b>

### OUR ECOSYSTEM AND ITS PARTICIPANTS

We have effectively established an ecosystem centered on our online marketing solutions and content production and distribution capabilities, connecting participants in each key stage of the industry value chain, including advertising customers, content providers, content distribution channels/online publishers, and internet users, illustrated in the following diagram:



The followings are key participants benefiting from our ecosystem:

#### Advertisers

Advertisers are those who need to acquire consumers through advertising. The advertisers we serve operate in a wide array of industry verticals, which primarily include online gaming, financial services, e-commerce, internet services, advertising and culture & media. Our one-stop solutions help advertisers

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acquire, convert and retain consumers through effective and cost-efficient advertising campaigns, while we charge them online marketing solutions service fees. We also provide advertising spaces on our *Huabian* Platform to advertisers primarily in exchange for a CPT- or CPA-based service fee.

### Online publishers

Online publishers are those who need to monetize their user traffic through offering internet ad inventories on their platforms, primarily including short video platforms, online video platforms as well as news and information platforms. One characteristic of the online marketing industry is that ad inventories are produced each access by an internet user, and such ad inventories need to be offered to advertisers instantaneously in order to present advertisements to users, or otherwise they will be forfeited. Unlike online publishers, we do not hold any unused ad inventories as an online marketing solutions provider. The diversity of advertisers we have served deepens our understanding of, and enables us to address, their evolving needs. As such, we believe that our services are crucial to helping online publishers achieve effective and efficient monetization results.

### Content distribution partners

We distribute quality and attractive content through online publishers and other content distribution partners, including leading mobile phone brands and mobile tool apps. We believe our quality content helps them attract users and enhance user engagement, which in turn, generate additional monetization opportunities.

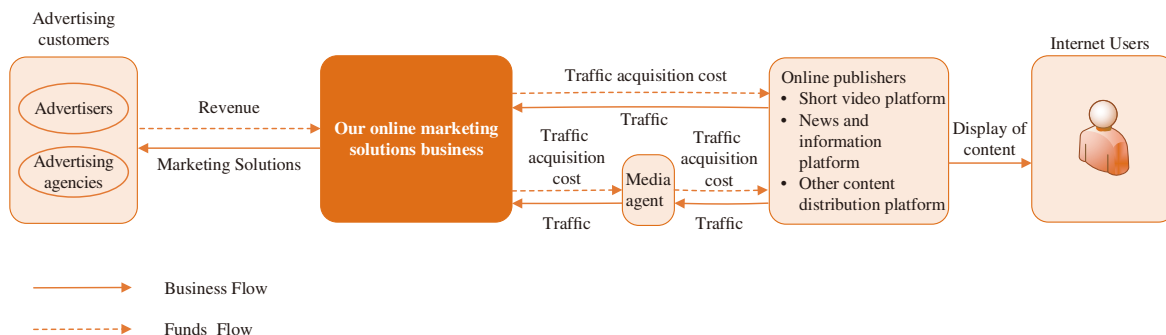
### Internet users

We provide internet users with quality and attractive content through our *Huabian* Platform and our content distribution partners. Leveraging our big data analytics and AI technologies, we have the capacity to analyze the most viewed content, so that we can continue to create and produce the content that is most likely to be attractive to internet users and generate the most value.

## OUR ONLINE MARKETING SOLUTIONS BUSINESS

We provide one-stop online marketing solutions that connect our advertising customers with our media partners. Empowered by our proprietary DMP, we provide online marketing solutions to advertisers directly or through advertising agencies by planning, launching and managing advertising campaigns to help advertisers acquire, convert and retain consumers and achieve their marketing goals in an effective and efficient way. On the other hand, our online marketing solutions enable our media partners to achieve effective and efficient monetization of their user traffic. We charge our advertising customers for our online marketing solutions primarily measured by a mix of oCPM, oCPC and CPC, while paying our media partners based primarily on the same mechanism for traffic acquisition costs.

The following chart sets forth the business and revenue model of our online marketing solutions business:



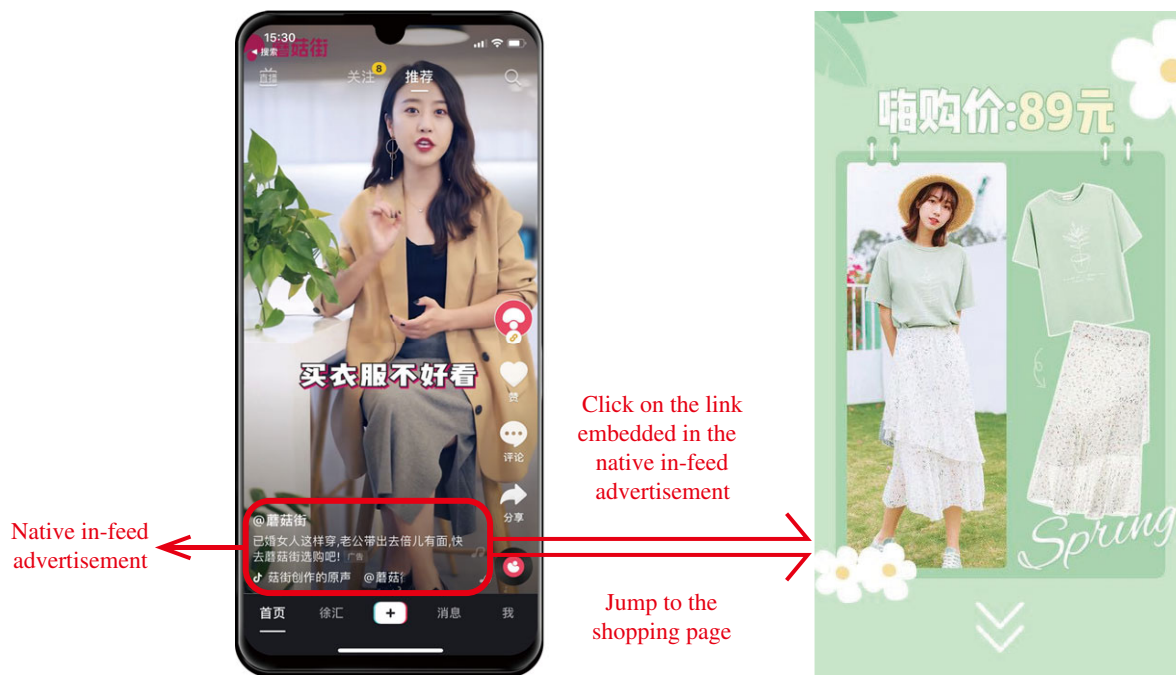
For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, revenue generated from our online marketing solutions business was RMB165.8 million, RMB1,121.4 million, RMB2,282.3 million and RMB788.3 million, respectively, accounting for 70.4%, 94.5%, 98.7% and 98.9% of our total revenue, respectively, for the same periods.

### Key Features of Our Online Marketing Solutions

#### Ad Format and Ad Creatives

Ad formats are the presentation frameworks of the advertisements, while ad creatives are the specific renderings of advertisement content. We primarily deliver original short video or text and image creatives in the format of native in-feed advertisements. Native in-feed advertisements are customized and integrated seamlessly in the feeds of an app or website, or consistent with the components of the app or web interface, rather than as independent components of the app or web interface. In short, native in-feed advertisements do not appear as advertisements and are non-disruptive, thus rendering more pleasant audience experience.

The following screenshots illustrate the native in-feed advertisements produced and placed by us:

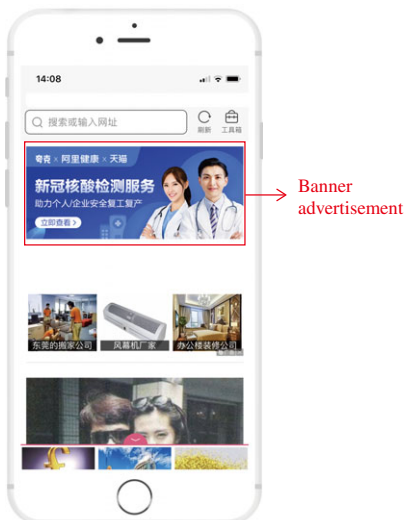




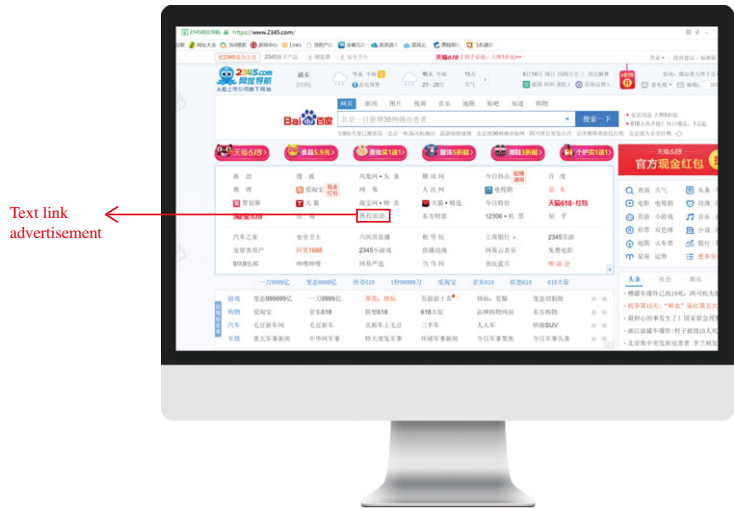
In addition to native in-feed advertisements, we also deliver text and image creatives in other formats, such as banners and text links. Banner advertisements are in the form of a rectangular image that stretches across the top, bottom or sides of the screen. Text link advertisements turn individual words or phrases in the text into links and when audiences click on the linked words or phrases, they are redirected to another web page designated by the advertisers.

The following screenshots illustrate the non-native advertisements produced and placed by us:

**Banner advertisement**



**Text link advertisement**



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We have an in-house content production team enabling us to produce customized, appealing and attention catching video, text and photo content, which improves the marketing efficiency for our advertisers. We believe our content production capability is one of our core competencies that make us stand out in the industry in which we operate. For details, see “— Our Content Production Capability.”

### *Our Proprietary DMP*

We have developed a smart and one-stop DMP integrated with data analytics and AI capabilities, which enables us to identify target audiences and continuously optimize campaign performance to acquire, convert and retain consumers. Please see “— Our Technology — Our Big Data Analytics and AI Capabilities” for more details.

### *Programmatic/Non-programmatic Advertising*

When we acquire user traffic from certain online publishers directly, we open accounts for advertisers on the online publishers’ platforms and operate such accounts on behalf of advertisers. Our internal advertising campaign management system connects with the advertising platforms of online publishers to purchase ad inventories programmatically through API. Through API connection, our internal system transmits ad creatives and campaign parameters to online publishers, which then deliver advertisements to target audiences based on such campaign parameters. Our internal advertising campaign management system also collects a wide variety of raw data of the text and image or short video advertisements for our proprietary DMP from online publishers through API connection programmatically.

When we acquire user traffic from media agents, we manually operate the advertisers’ accounts on the online publishers’ advertising platforms, including setting campaign parameters, placing the orders to purchase ad inventories, delivering ad creatives and reviewing ad performance data, rather than automatically and programmatically purchase ad inventories through our internal advertising campaign management system.

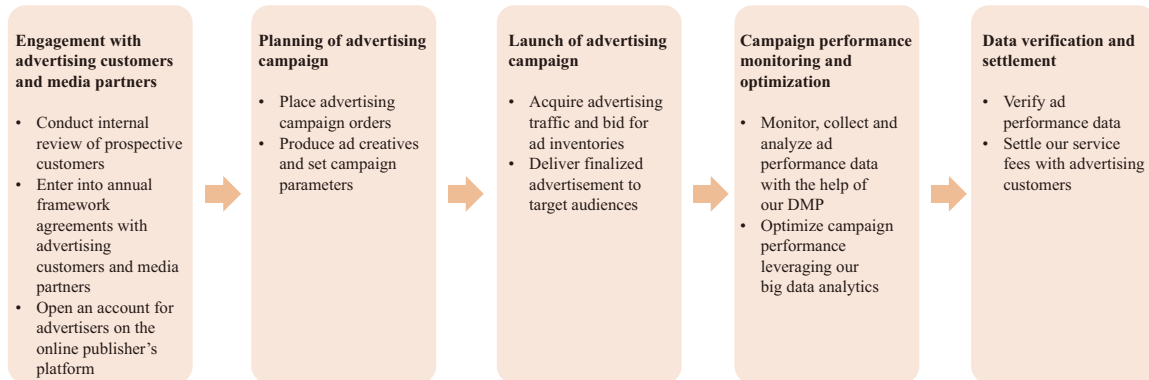
We continuously monitor and analyze ad performance data and optimize campaign performance based on our extensive campaign management expertise and with the help of our proprietary DMP. According to iResearch, all of the top five market players in the online marketing market own comprehensive and effective proprietary DMPs that can be connected to online publishers through API and collect data in the format of text and image or short video from multiple sources. The functions and effectiveness of the top five market players’ DMPs and ours are in general similar. During the Track Record Period and up to the Latest Practicable Date, we had not ceased any publication of advertisements requested by our advertising customers due to inaccurate or unsatisfactory effective results.

### *Premium Media Sources*

We offer our advertising customers high-quality and high-traffic media channels where they can be most likely exposed to target audiences and achieve their marketing goals more efficiently. Our media partners include China’s most popular content distribution platforms, such as Douyin, Toutiao and Kuaishou. See “— Top Customers and Suppliers — Top Suppliers — Supplier Concentration on Supplier A.”

## Business Process of Our Online Marketing Solutions

The following diagram illustrates the general flow of our online marketing solutions:



- ***Engagement with advertising customers and media partners:*** We generally enter into annual framework agreements with our advertising customers and media partners and sign an advertising campaign order with them under the annual framework agreements for each campaign. Our legal and compliance department conducts internal review of our prospective customers on their business qualifications, industry reputation, credit records and financial position to avoid our operational risks. We will only enter into an agreement with a prospective customer who can pass our review. In the meantime, we assist such customer with the submission of documentation to the targeted online publisher for its approval to open an account on its advertising platform. In the case where we need to acquire traffic indirectly through a media agent, we liaise with the relevant agent for the account registration.
- ***Planning of advertising campaign:*** After signing an advertising campaign order with the advertising customer, we identify the target audiences and time and duration of the campaign and produce ad creatives based on the customer's specific requirements, advertising budget and requested KPIs.
- ***Launch of advertising campaign:*** We proceed with traffic acquisition and bid for ad inventories through API connection with, or manually on, the targeted online publisher's platform. Upon successful bidding, the finalized advertisement will be delivered to the target audiences based on campaign parameters specified by us.
- ***Campaign performance monitoring and optimization:*** Once the advertisement is displayed online, we receive a wide variety of raw data on a real-time basis from the online publisher through API connection or review ad performance data by operating the advertiser's account on the online publisher's platform. We continuously monitor and analyze ad performance data and optimize campaign performance based on our extensive campaign management expertise and with the help of our proprietary DMP. Please see “— Our Technology — Our Big Data Analytics and AI Capabilities” for more details about our proprietary DMP.
- ***Settlement:*** Our media partners typically issue invoice of traffic acquisition costs to us on a monthly basis based on ad performance data. Payment of invoice is generally required to be made in one month. We subsequently issue invoice to our advertising customers on a monthly basis. Payment of invoice is generally required to be made in two months.

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To a lesser extent, we provide intermediary services to certain advertising agencies where we act as an agent, instead of a principal, and purchase ad inventories on their behalf through their respective advertisers' accounts on the online publishers' advertising platforms. Under such circumstance, we do not provide other value-added services such as production of ad creatives and management of campaign performance. Please see “— Pricing Models.”

### **Pricing Models**

We charge advertisers or advertising agencies who represent their respective advertisers for our online marketing solutions primarily based on a mix of oCPM, oCPC and CPC. The oCPM mechanism charges our advertisers for impressions while helps the advertisements reach the target audiences as many as possible within their budgets. The oCPM mechanism automatically and in a real-time adjusts the ad performance parameters, such as advertising placement, frequency, and reach that best serves our advertiser's marketing goals, to achieve the desired advertising campaign outcomes, including app installs, link clicks and purchases per landing page. Under CPC mechanism, our customers are charged when and if an audience clicks the advertisement we placed. The oCPC mechanism charges our advertisers for click-throughs while helps them maximize the conversion rates of their advertisements, by identifying and presenting the advertisements to the target audiences that are most likely to take our desired action. Specifically, if the oCPC mechanism predicts that a particular ad inventory will likely generate more users who will further interact with the advertisers' designated pages after clicking on our advertisements, this mechanism would make upward adjustments to the bidding price, and vice versa, to improve the conversion rate and marketing efficiency for our advertisers. In essence, the major difference between oCPM/oCPC and CPM/CPC lies in whether the pricing models are optimized to achieve better campaign performance and marketing effectiveness within a particular budget pre-determined by advertising customers. The oCPM/oCPC pricing models help advertising customers to achieve best reach results and acquire as many as possible target consumers that are most likely to do the action that advertising customers desire, while CPM/CPC pricing models just display advertising customers' advertisements without desired results. We also charge our advertising customers based on various other pricing models, including (i) CPT, namely, Cost-Per-Time, under which we charge our customers for placing an advertisement for a specific period of time contractually agreed by our customers and us, usually one month; and (ii) CPM, namely, Cost-Per-Mille, under which our customers are charged based on one thousand impressions of the advertisement. Most of our advertising customers set KPI metrics such as cost per new account registration/activation for an online gaming company and cost per order for an e-commerce company, which do not affect their payment to us and are used by us to assess and optimize campaign performance.

We recognize revenue from our online marketing solutions business on a gross or net basis based on our role under each particular contract with customers. For contracts where we act as a principal, we recognize revenue on a gross basis, while for contracts where we act as an agent, we recognize revenue on a net basis. If we are the primary obligor in a transaction, or has control in determining prices or selecting online publishers, we are deemed as a principal and record revenue on a gross basis. Otherwise, we are deemed as an agent and record the net amount earned as commissions from the service we provide. Specifically, for our all-in-one service, including traffic acquisition from online publishers, content production, raw data analysis and advertising campaign optimization, we recognize revenue on a gross basis; while for our advertisement distribution service, we provide traffic acquisition service only and recognize revenue on a net basis. See “Financial Information — Critical Accounting Policies and Estimates — Revenue Recognition” for details.

From time to time, we grant rebates to certain major advertising customers in the form of traffic volume to incentivize and encourage them to use our solutions. Such rebates are generally calculated based on their gross spending of our solutions and are recorded as deduction of revenue. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the aggregate amount



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of rebates we granted to our advertising customers was RMB12.7 million, RMB90.9 million, RMB186.0 million and RMB71.2 million, respectively. Please see “Financial Information — Description of Key Statements of Profit or Loss Items — Revenue — Revenue from Our Online Marketing Solutions Business” for more details.

Generally, we charge advertising customers based on the same pricing model as media partners charge us. We pay our media partners for traffic acquisition primarily based on a mix of oCPM, oCPC and CPC. Media partners may grant to us rebates (i) in the form of prepayments for future traffic acquisition; (ii) to net off the trade payables we owed to them; or (iii) in cash, mainly calculated based on our gross spending of traffic acquisition costs. We record such rebates as reduction of cost of sales under gross basis, or revenue under net basis. As advised by our PRC Legal Advisors, such rebates offered by our media partners are legal and do not violate any applicable PRC laws and regulations in all material aspects. According to iResearch, rebates granted by online publishers are in line with the industry practice.

For further details on our revenue recognition policy and the rebates that we grant to advertising customers and online publishers grant to us, see “Financial Information — Critical Accounting Policies and Estimates — Revenue Recognition.”

### Key Operating Data

The following table sets forth selected performance indicators of our short video marketing solutions for the periods indicated below:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
Impressions (millions) <sup>(1)(3)</sup> . . . . .	7,522.9	79,880.2	179,743.3	73,624.4	80,750.1
Click-throughs (millions) <sup>(2)(3)</sup> . . . . .	145.1	1,312.6	4,493.6	1,627.1	1,643.0
Click-through Rate (%) <sup>(4)</sup> . . . . .	1.9	1.6	2.5	2.2	2.0
Likes (short videos) (thousands) <sup>(5)</sup> . . .	5,964.6	70,720.6	362,362.5	119,050.7	235,305.8

*Notes:*

- (1) Impressions are the total number of page views of our short video advertisements for the periods indicated. CPM and oCPM are pricing models on the basis of each one thousand impressions of the advertisement.
- (2) Click-throughs are the total number of clicks on the short video advertisements placed by us for the periods indicated. CPC and oCPC are pricing models on the basis of each click-through of the advertisement.
- (3) We charge advertising customers for our online marketing solutions primarily based on oCPM, oCPC or CPC. Our revenue derived from online marketing solutions business is positively correlated to the total number of impressions and click-throughs.
- (4) Click-through rate is calculated as the total number of click-throughs divided by the total number of impressions.
- (5) Likes are given by video viewers when they enjoy our short video creatives. Likes indicate the popularity of our short video creatives, including short video advertisements.

Our impressions and click-throughs increased significantly during the Track Record Period, reflecting the rapid growth of our short video marketing solutions business. Our click-through rate in 2018 decreased a bit primarily as the increase of our impressions outpaced that of our click-throughs, which in turn was caused by the significant volume of traffic we acquired in 2018 to expand our online marketing solution business. Our click-through rate increased by 56.3% from 1.6% in 2018 to 2.5% in 2019, reflecting our efforts and success in expanding our online marketing solutions business. Our click-through rate remained relatively stable at 2.2% in the six months ended June 30, 2019 as compared to 2.0% in the six months ended June 30, 2020.

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### Our Advertising Customers

Our direct advertising customers include both advertisers and advertising agencies. The table below sets forth the number of customers of our online marketing solutions business by type for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
Advertisers . . . . .	457	433	644	327	395
Advertising agencies . . . . .	43	56	51	35	45
<b>Total</b> . . . . .	<b><u>500</u></b>	<b><u>489</u></b>	<b><u>695</u></b>	<b><u>362</u></b>	<b><u>440</u></b>

The table below sets forth a breakdown of our gross billing from our online marketing solutions business by type of advertising customers for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total
Advertisers . . . . .	213,904	67.0	1,204,781	74.8	2,260,781	67.3	1,278,376	76.6	728,972	46.4
Advertising agencies . . . . .	105,189	33.0	405,792	25.2	1,097,433	32.7	391,447	23.4	840,434	53.6
<b>Total</b> . . . . .	<b><u>319,093</u></b>	<b><u>100.0</u></b>	<b><u>1,610,573</u></b>	<b><u>100.0</u></b>	<b><u>3,358,214</u></b>	<b><u>100.0</u></b>	<b><u>1,669,823</u></b>	<b><u>100.0</u></b>	<b><u>1,569,406</u></b>	<b><u>100.0</u></b>

The table below sets forth a breakdown of revenue generated from our online marketing solutions business by type of advertising customers for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total
Advertisers . . . . .	162,798	98.2	1,095,473	97.7	2,212,764	97.0	1,244,427	98.2	728,551	92.4
Advertising agencies . . . . .	3,041	1.8	25,954	2.3	69,540	3.0	22,882	1.8	59,778	7.6
<b>Total</b> . . . . .	<b><u>165,839</u></b>	<b><u>100.0</u></b>	<b><u>1,121,427</u></b>	<b><u>100.0</u></b>	<b><u>2,282,304</u></b>	<b><u>100.0</u></b>	<b><u>1,267,309</u></b>	<b><u>100.0</u></b>	<b><u>788,329</u></b>	<b><u>100.0</u></b>

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For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our online marketing solutions served 457, 433, 644 and 395 advertisers, respectively. The advertisers we serve operate in a wide array of industry verticals, which primarily include online gaming, financial services, e-commerce, internet services, advertising and culture & media. The table below sets forth a breakdown of revenue generated from our online marketing solutions business by industry verticals for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total
Online gaming . . . . .	64,854	39.1	811,195	72.3	1,368,410	60.0	918,486	72.5	287,830	36.5
Financial services <sup>(1)</sup> . . . . .	41,263	24.9	67,155	6.0	273,791	12.0	87,242	6.9	143,755	18.2
E-commerce . . . . .	4,581	2.8	38,082	3.4	215,467	9.4	62,065	4.9	146,336	18.6
Internet services . . . . .	6,405	3.9	119,911	10.7	171,640	7.5	87,721	6.9	60,303	7.6
Advertising . . . . .	20,660	12.5	45,204	4.0	72,547	3.2	22,987	1.8	95,557	12.1
Culture & media . . . . .	16,566	10.0	21,024	1.9	59,323	2.6	50,310	4.0	11,313	1.4
Others <sup>(2)</sup> . . . . .	11,510	6.8	18,856	1.7	121,126	5.3	38,498	3.0	43,235	5.6
<b>Total . . . . .</b>	<b>165,839</b>	<b>100.0</b>	<b>1,121,427</b>	<b>100.0</b>	<b>2,282,304</b>	<b>100.0</b>	<b>1,267,309</b>	<b>100.0</b>	<b>788,329</b>	<b>100.0</b>

*Notes:*

- (1) Financial services primarily include online insurance, consumer financing and retail banking.
- (2) Others primarily include business services and healthcare.

During the Track Record Period, online gaming developers and/or distributors were our largest group of advertising customers. Our revenue generated from online gaming customers accounted for approximately 39.1%, 72.3%, 60.0% and 36.5% of our total revenue derived from online marketing solutions business for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. The decrease from 2018 to 2019 and from the six months ended June 30, 2019 to the six months ended June 30, 2020 reflected our strategy and efforts to further explore other industry verticals, such as e-commerce. Our revenue generated from financial services companies accounted for 24.9%, 6.0%, 12.0% and 18.2% of our total revenue derived from online marketing solutions business for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. The decrease from 2017 to 2018 was primarily due to the stricter regulations governing online financial companies implemented by the PRC government in 2018, which had an adverse impact on the online financial service industry in China, while the increase from 2018 to 2019 and from the six months ended June 30, 2019 to the six months ended June 30, 2020 was primarily due to our strategy to seek to serve low risk and reputational financial services companies, such as GOME Credit Card, which were less affected by the stricter regulations. During the Track Record Period, our revenue generated from e-commerce companies, as a percentage of our total revenue generated from online marketing solutions business, increased from 2.8% in 2017 to 3.4% in 2018 and further to 9.4% in 2019, and from 4.9% in the six months ended June 30, 2019 to 18.6% in the six months ended June 30, 2020, reflecting our strategy and efforts to benefit from the rapid growth of e-commerce industry.

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### *Key Terms of Agreements with Our Advertising Customers*

We generally enter into annual framework agreements with our advertising customers and sign an advertising campaign order with them for each advertising campaign, which specifies the online publisher, advertising space, pricing model and payment and settlement terms for the campaign. The key terms and conditions of the annual framework agreements with our advertising customers are generally as follows:

- **Duration.** One year, automatically renewable for consecutive one-year periods thereafter unless either party gives written notice to the other party at least one month prior to the end of the then-current term.
- **Allocation of liability for advertising content.** Generally, our advertising customers are liable for any penalties imposed by government authorities or the relevant online publishers and any third-party claims in connection with illegal or inappropriate advertising content and shall indemnify us against any claims and losses which may arise from illegal or inappropriate advertising content, unless (i) we are at fault, (ii) in case of advertising content produced entirely on our own without any specifications provided by our advertising customers, or (iii) in case of advertising content produced by us in accordance with specifications provided by our advertising customers, which could reasonably be expected to result in violation of applicable laws and regulations or infringement of third-party rights.
- **Ownership of intellectual property rights.** Ownership of intellectual property rights of the advertising content produced by us shall belong to us, while our advertising customers are only entitled to use such content for the purpose of advertising campaigns launched or managed by us.
- **Data verification.** We are not contractually required to verify the ad performance data reported by our media partners. Our advertising customers may engage Independent Third Party data tracking platforms to verify the ad performance data, the cost of which shall be borne by themselves, and any discrepancy discovered pursuant to any such data verification shall be settled between our advertising customers and our media partners directly.
- **Termination.** The annual framework agreements may be terminated (i) during the term upon mutual consent of both parties; (ii) in the event of winding up, liquidation, bankruptcy and insolvency of either party; (iii) in the event of a *force majeure*; and (iv) by the non-defaulting party in the event of a material breach that is not remedied within a prescribed time-period.

During the Track Record Period, our gross billing attributable to the advertising content produced in-house by us accounted for approximately 49.7%, 73.2%, 82.3% and 78.0% of our total gross billing for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively; while our gross billing attributable to the advertising content produced by advertising customers accounted for approximately 50.3%, 26.8%, 17.7% and 22.0% of our total gross billing for the same periods, respectively. Generally, when we produce advertising content for advertising customers, we grant fewer rebates, as a percentage of their gross spending, to such advertising customers. Therefore, our provision of advertising content, as part of our one-stop solutions, generally has a positive impact on our profitability.

We are subject to, and our online marketing solutions are governed by, the “Advertising Law of the PRC” (《中華人民共和國廣告法》) for providing “advertisement design, production and agency services” to advertisers. As advised by our PRC Legal Advisors, pursuant to the “Advertising Law of the PRC”, we will only be held liable for any inappropriate, illegal or offensive advertising content produced in-house or produced by our advertising customers but placed by us under the following circumstances: (i) if we have the knowledge or should have had the knowledge that the advertising content is false, fraudulent or

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misleading; (ii) in terms of false, fraudulent or misleading advertising content that we have no knowledge of, if we fail to provide valid name, address and contact information of the advertiser; (iii) in terms of false, fraudulent or misleading advertising content which has caused damages to a consumer's life and health; and (iv) when the advertising content has infringed the legitimate civil rights and interests of others.

We conduct basic background check of our advertising customers prior to engagement with them and examine the advertising content produced in-house or by our advertising customers through both algorithm-based screening and manual review in accordance with the “Advertising Law of the PRC”, the “Interim Measures on Internet Advertisement” (《互聯網廣告管理暫行辦法》) and other applicable PRC laws and regulations. Our PRC Legal Advisors are of the view that our online advertising business activities are in compliance with the applicable PRC laws and regulations in all material aspects. During the Track Record Period and up to the Latest Practicable Date, we had not been imposed any administrative fines or penalties, or involved in any dispute or proceedings arising from or in connection with any inappropriate, illegal or offensive advertising content placed by us.

Currently, as an online marketing solutions provider, we do not implement any anti-click fraud mechanism but relied on the credibility of our media partners in ensuring the accuracy of the ad performance data provided by them, given that substantially all of our user traffic was acquired from leading online publishers with market leadership and excellent track record. According to iResearch, it is an industry norm that online marketing solutions providers generally do not adopt anti-click fraud mechanism but are entitled to engage Independent Third Party data tracking platforms to independently verify ad performance data when online marketing solutions providers notice any unusual traffic. During the Track Record Period and up to the Latest Practicable Date, there were no material disputes regarding data verification among our advertising customers, media partners and us, and therefore we did not engage any Independent Third Party data tracking platforms to verify the ad performance data reported by media partners.

### Our Media Partners

We acquire user traffic from our media partners to place our advertisements online. Our media partners include both online publishers and media agents which engage with us on behalf of online publishers. The table below sets forth the number of media partners for our online marketing solutions business by type for the periods indicated:

	Year ended December 31,			Six months ended
	2017	2018	2019	June 30, 2020
Online publishers. . . . .	6	6	6	5
Media agents . . . . .	122	93	55	31
<b>Total . . . . .</b>	<b>128</b>	<b>99</b>	<b>61</b>	<b>36</b>

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The following table sets forth the breakdown of our traffic acquisition costs for our online marketing solutions business by type of media partners for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total
Online publishers . . . . .	60,189	39.8	909,655	87.7	1,965,127	93.0	1,125,120	94.1	661,717	95.1
Media agents . . . . .	91,011	60.2	127,684	12.3	148,970	7.0	71,116	5.9	34,054	4.9
<b>Total . . . . .</b>	<b>151,200</b>	<b>100.0</b>	<b>1,037,339</b>	<b>100.0</b>	<b>2,114,097</b>	<b>100.0</b>	<b>1,196,236</b>	<b>100.0</b>	<b>695,771</b>	<b>100.0</b>

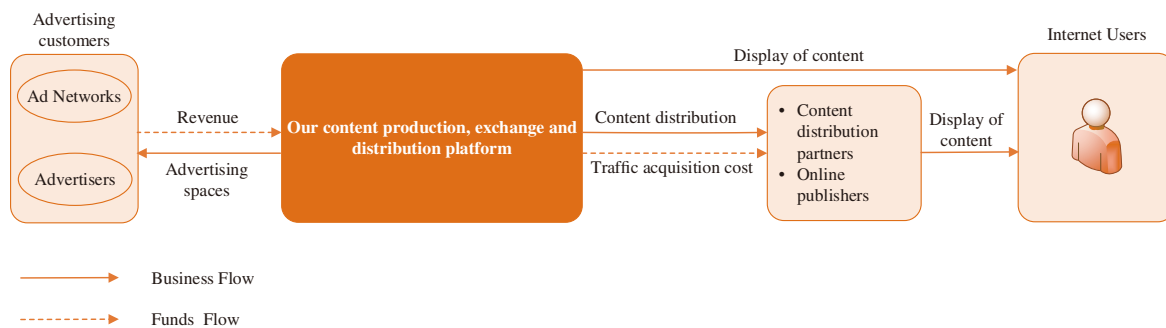
During the Track Record Period, the number of our media agents decreased significantly and our traffic acquisition costs paid to online publishers accounted for an increasing portion of our total traffic acquisition costs, primarily as we managed to deepen our direct cooperation with online publishers and had more transactions with these online publishers directly.

Supplier A was our largest media partner in 2017, 2018 and 2019 and the six months ended June 30, 2020, with purchases from Supplier A accounting for approximately 40.5%, 86.4%, 88.3% and 87.1%, respectively, of our total purchases of user traffic for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. Please see “— Top Customers and Suppliers — Top Suppliers — Supplier Concentration on Supplier A — Key terms of agreements with Supplier A.”

### OUR PAN-ENTERTAINMENT CONTENT SERVICES BUSINESS

We operate a pan entertainment-oriented content platform through our *Huabian* website ([www.huabian.com](http://www.huabian.com)) and its mobile terminal. According to iResearch, we were the largest pan entertainment-oriented information website in terms of average DAUs in the PRC in 2019. *Huabian* aggregates pan-entertainment articles and photos from professional media, talent agencies and self-media accounts. During the Track Record Period, we generated revenue primarily from providing advertising spaces on our *Huabian* Platform to third-party ad networks, such as Sogou, and advertisers to help advertisers market their products or services. We charged ad networks primarily based on CPM, and charged advertisers primarily based on CPT or CPA, for the advertising spaces we provided on our *Huabian* Platform, while we paid traffic acquisition costs to our content distribution partners for marketing our content and redirecting traffic to our *Huabian* Platform, during the Track Record Period.

The following chart sets forth the business and revenue model of our pan-entertainment content services business:



We also have another two short video KOL programs, *Idol Answers* and *Hippie Entertainment*, featuring television and movie star interviews and entertainment news as part of our pan-entertainment coverage. One of the two short video KOL programs, *Idol Answers*, began to generate revenue from providing product placement opportunities for advertisers to market their product and services since January 2020. *Idol Answers* markets advertisers’ products or services during the interviews with the entertainment celebrities in the programs and presents the relevant information, such as brand name,

product descriptions and functions, of such products or services as a banner, and charges advertisers for a pre-determined fixed amount of service fee. The following picture illustrates the product placement opportunities that *Idol Answers* provides:

The advertisement for advertiser's product



We expect that *Hippie Entertainment* to monetize its traffic in the same manner as *Idol Answers* by providing product placement opportunities to advertisers.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, revenue generated from our pan-entertainment content services business was RMB69.6 million, RMB64.7 million, RMB30.7 million and RMB8.6 million, respectively, accounting for 29.6%, 5.5%, 1.3% and 1.1% of our total revenue, respectively, for the same periods.

### Our Content Platform

The following screenshots illustrate our *Huabian* Platform:

*Huabian website*



*Huabian mobile terminal*



## BUSINESS

### **Key Features of Our Content Platform**

The success of our pan-entertainment content services business attributes to the following key features of our *Huabian* Platform:

- **Diversified content.** We provide visitors with easy access to our diversified pan entertainment-oriented content through the main page and topic pages including, among others, celebrities, movies and TV series, fashion, pets and automobiles. For the six months ended June 30, 2020, the average daily pieces of content uploaded was approximately 2,200 and the average daily pieces of content passed screening and presented to visitors was approximately 500. In addition, our content platform features original and exclusive content which we believe enables us to attract new visitors and retain existing visitors. Visitors can share content through emails and popular social media and messaging platforms such as *Weibo*, *Weixin* (微信) and *QQ*.
- **High traffic.** According to iResearch, we were China’s largest pan entertainment-oriented information website in terms of average DAUs in the PRC in 2019. During the Track Record Period, the number of PVs of our *Huabian* Platform reached approximately 6.3 billion, while our average DAUs and average MAUs reached more than 3.0 million and more than 91.9 million, respectively. In particular, for the six months ended June 30, 2020, the number of PVs of our *Huabian* Platform was approximately 171.0 million, while our average DAUs and average MAUs reached approximately 0.7 million and 20.5 million, respectively. Please see “— Key Operating Data” below for more details about PVs, average DAUs and average MAUs of our content platform. We believe our large visitor base has enabled and will continue to enable us to capture valuable monetization opportunities.
- **Cross-media multi-channel distribution.** We collaborate with various third-party distribution channels, primarily leading mobile phone brands and mobile tool apps, to market our content. Please see “— Content Distribution” below for more details. We believe our cross-media multi-channel distribution strategy enables us to enhance the exposure of our content with minimal traffic acquisition costs.

### **Key Operating Data**

The following table sets out selected indicators of our *Huabian* Platform as of the dates and for the periods indicated below:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
<b>Pan-entertainment content services business</b>					
PVs (millions) <sup>(1)(4)</sup> . . . . .	2,624.3	2,341.3	1,182.1	690.9	171.0
Average DPVs (thousands) <sup>(1)(4)</sup> . . . . .	7,190.0	6,414.6	3,238.7	3,816.9	939.7
Average DAUs (thousands) <sup>(2)(4)</sup> . . . . .	3,807.6	4,672.3	1,755.1	1,912.5	675.3
Average MAUs (thousands) <sup>(3)(4)</sup> . . . . .	115,815.3	142,117.1	53,385.3	57,694.9	20,484.9
Reposts (thousands) <sup>(5)</sup> . . . . .	571.0	478.2	206.6	134.4	27.8

*Notes:*

- (1) PVs, or page views, refer to the total number of visits to our *Huabian* website or its mobile terminal during a given period. Average DPVs for a particular year/period is the average of DPVs on each day during that year/period.
- (2) DAUs, or daily active users, refer to the number of unique devices that accessed our *Huabian* Platform on a given day. Multiple accesses from the same device are only counted as one DAU. Average DAUs for a particular year/period is the average of DAUs on each day during that year/period.
- (3) MAUs, or monthly active users, refer to the number of unique devices that accessed our *Huabian* Platform in a given month. Multiple accesses from the same device are only counted as one MAU. Average MAUs for a particular year/period is the average of MAUs on each month during that year/period.



- (4) We charge advertising customers for our pan-entertainment content services primarily based on CPM, CPT and CPA. While the number of PVs or DAUs/MAUs does not directly translate into revenue to be collected under the CPM, CPA and CPT pricing models, they are commonly-used metrics that illustrate the degree of exposure of advertisements. Generally speaking, the more exposure (i.e. the number of PVs or DAUs/MAUs) the advertisements obtain, the more impressions, downloads, installations or other agreed upon actions the advertisements are likely to achieve. Similarly, when the number of PVs or DAUs/MAUs increases, the unit price of advertising spaces on our *Huabian* Platform in a given duration is likely to increase accordingly.
- (5) Reposts refer to the sharing of the content on our *Huabian* Platform by internet users.

During the Track Record Period, the key operating data of our *Huabian* Platform decreased gradually, primarily as internet users became keen to watch short videos as opposed to browsing the websites to read text and image, in line with the market trends, and therefore we strategically shifted our focus to online marketing solutions.

See “— Our Content Production Capability” for operating data regarding *Idol Answers* and *Hippie Entertainment*.

### Content Sourcing and Management

Our content providers primarily include professional media, talent agencies and self-media accounts registered on our *Huabian* Platform. The professional media, talent agencies and self-media need to register on our *Huabian* Platform and submit content through our internal content management and distribution system. Each registered professional media, talent agency or self-media account is required to sign an agreement electronically in the registration process, which provides, among others, that (i) we are authorized to deliver content it submitted free of charge; (ii) the content provider acknowledges that it will not deliver illegal or inappropriate content through our *Huabian* Platform; and (iii) we have the right to screen, sort and monitor content, and we may remove any illegal or inappropriate content without notifying the content provider. We have the right to freeze an account for any violations of laws and regulations and our internal policies, such as plagiarism or submission of inappropriate content. As of the Latest Practicable Date, there were approximately 892 registered self-media accounts on our *Huabian* Platform.

We undertake an efficient and thorough screening process that involves both algorithm-based screening and manual review in order to ensure the quality and appropriateness of content presented to visitors of our *Huabian* Platform. In particular,

- **Algorithm-based Screening.** We apply algorithms to screen texts and images. Our internal content management and distribution system screens texts based on pre-set keywords, and we utilize AI to identify illegal or inappropriate images through deep learning. The screening system automatically declines content that did not meet our standards and flags suspicious content for manual review by our content management team.
- **Manual Review.** Our content management team, consisting of seven employees as of June 30, 2020, is responsible for monitoring all information before delivery through our *Huabian* Platform. The content management team reviews suspicious content identified in the algorithm-based screening process and makes the final decision as to whether to decline such content.

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During the Track Record Period, content produced in-house by us accounted for approximately 100.0%, 18.3%, nil and nil of the total content on our *Huabian* Platform for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively; while content provided by professional media, talent agencies and self-media accounted for nil, approximately 81.7%, 100.0% and 100.0% of the total content on our *Huabian* Platform for the same periods, respectively. The decreasing proportion of content produced in-house by us reflected our strategy to focus on short video marketing solutions business.

### Content Monetization and Our Advertising Customers

During the Track Record Period, we generated revenue primarily from providing advertising spaces on our *Huabian* Platform to third-party ad networks, such as Sogou, and charged them based on CPM for such advertising spaces. We have entered into a membership registration agreement with each of these ad networks, pursuant to which we are required to comply with relevant laws and regulations as well as the ad network's guidelines for its platform participants, including data privacy protection and prohibitions on fraudulent clicks. The ad network has the right to terminate the agreement anytime upon written notice.

In addition, we provide advertising spaces on our *Huabian* Platform to advertisers primarily in exchange for a CPT- or CPA-based service fee.

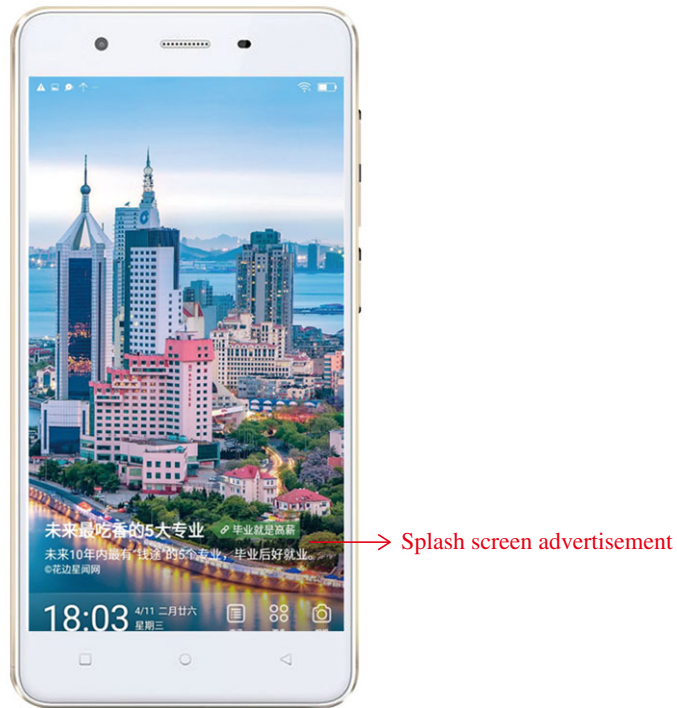
The table below sets forth a breakdown of revenue generated from our pan-entertainment content services business by type of our advertising customers for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total
Ad networks . . . . .	14,186	20.4	24,387	37.7	21,078	68.6	13,317	69.3	1,436	16.6
Advertisers . . . . .	55,400	79.6	40,358	62.3	9,654	31.4	5,896	30.7	7,200	83.4
<b>Total . . . . .</b>	<b>69,586</b>	<b>100.0</b>	<b>64,745</b>	<b>100.0</b>	<b>30,732</b>	<b>100.0</b>	<b>19,213</b>	<b>100.0</b>	<b>8,636</b>	<b>100.0</b>

See "Financial Information — Description of Key Statements of Profit or Loss Items — Revenue — Revenue from Our Pan-entertainment Content Services Business."

### **Content Distribution**

We collaborate with various third-party distribution channels, including leading mobile phone brands and mobile tool apps, and other business partners such as iQIYI, to market our content and generate traffic to our *Huabian* Platform. For example, we meticulously select content based on the tastes and preferences of the users of such mobile phone brands, which present selected content on their splash screens, and mobile phone users who are interested in our content will be redirected to our *Huabian* mobile terminal by clicking the links on the splash screens. We pay our content distribution partners traffic acquisition costs primarily based on CPC.



For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our traffic acquisition costs paid to our content distribution partners were RMB33.1 million, RMB35.1 million, RMB20.4 million and RMB4.8 million, respectively, accounting for approximately 18.0%, 3.3%, 1.0% and 1.6% of our total traffic acquisition costs, respectively, for the same periods.

### **OUR CONTENT PRODUCTION CAPABILITY**

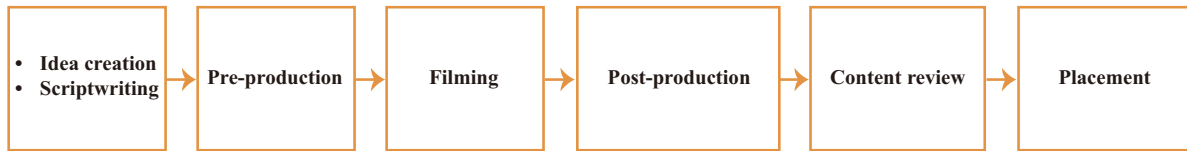
Our content production capability is one of our core competencies that make us stand out in the industry in which we operate. We have an in-house content production team enabling us to produce customized, appealing and attention catching ad creatives, improving the marketing efficiency for our advertisers. Our content production team consisted of 86 full-time employees as of June 30, 2020, including scriptwriters, directors, editors and post-production crew, with the capacity to produce 4,400 pieces of short videos each month.

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## BUSINESS

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The following chart illustrates the workflow of our short video ad creative production, the whole process of which generally takes one week:



- **Idea creation and scriptwriting.** Pursuant to the advertiser’s specific requirement, we develop creative ideas for the advertising campaign which are then translated to the script by an in-house scriptwriter.
- **Pre-production and Filming.** We engage actors and/or actresses or sometimes invite our gifted employees to appear in the shooting of our videos. Pre-production preparation involves make-ups, costumes, props and sets. Our in-house director coordinates with other production crew, such as filming and lighting, to deliver alternative shots and scenarios to be selected for inclusion in the final video.
- **Post-production.** After completion of filming, the director works with our in-house editors and post-production crew to select the scenes to assemble to the final video, including video and sound editing, creating and recording music, adding special effects and color grading.
- **Content review and placement.** Our legal and compliance department reviews the content to ensure that we comply with applicable laws and regulations, ethical standards as well as the relevant online publisher’s internal policies. The placement of an advertisement is also subject to the review and approval by both the advertiser and the online publisher.

In addition to our original ad creatives for our online marketing solutions business, our in-house content production team produces other original short video content. For example, we have produced a short video KOL programs featuring interviews with movie and television stars, *Idol Answers*, and released the videos on approximately 40 online publishers, including iQIYI. As of the Latest Practicable Date, *Idol Answers* had accumulated more than 1 million followers on its *Weibo* public account. As part of our pan-entertainment coverage, we also have another short video KOL brand, *Hippie Entertainment*, featuring the latest and breaking celebrity entertainment news, which is distributed across approximately 27 top online publishers, such as Tencent Video (騰訊視頻) and Mango TV (芒果TV). According to CAASDATA, both *Idol Answers* and *Hippie Entertainment* ranked top 50 among all PGCs in the PRC. These two KOL programs had accumulated video views of more than 600 million as of the Latest Practicable Date.

### TOP CUSTOMERS AND SUPPLIERS

#### Top Customers

During the Track Record Period, our customers primarily include (i) advertisers and advertising agencies for our online marketing solutions; and (ii) third-party ad networks and advertisers for advertising spaces on our *Huabian* Platform. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the number of our repeat customers was 192, 308, 374 and 244, respectively, and the retention rate of our advertising customers was approximately 31.7%, 57.9%, 51.4% and 53.4% for the same periods, respectively. Revenue generated from these repeat customers was approximately RMB177.1 million, RMB1,108.5 million, RMB1,996.0 million and RMB637.5 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, accounting for approximately 75.2%, 93.5%, 86.3% and 80.0% of our total revenue for the same periods, respectively. We have maintained business relationships with our five largest customers during the Track

## BUSINESS

Record Period of one to six and a half years as of the Latest Practicable Date. We generally grant to our customers credit terms of 30 to 90 days and settle with them by wire transfer. Sometimes we also require certain advertising customers to prepay for our online marketing solutions. Please see “— Our Online Marketing Solutions Business — Our Advertising Customers” and “— Our Pan-entertainment Content Services Business — Content Monetization and Our Advertising Customers” for more details.

### *Year Ended December 31, 2017*

Customer	Nature of revenue	Revenue (RMB'000)	As a percentage of our total revenue (%)	Years of business relationship with us	Background
Customer A . .	Online marketing solutions	37,159	15.8	3	A private mobile game developer and operator controlled by an individual with a registered capital of RMB10.5 million, founded in 2013
Customer B . .	Online marketing solutions/pan-entertainment content services	27,357	11.6	4	A private financial services company controlled by individuals with a registered capital of RMB7.9 million, founded in 2015
Customer C . .	Pan-entertainment content services	9,681	4.1	6.5	A leading China's search engine with total assets of RMB299.0 billion as of March 31, 2020, listed on Nasdaq in the U.S., founded in 2000
Customer D . .	Online marketing solutions	8,485	3.6	5	A private live streaming platform operator controlled by an entity with a registered capital of US\$116.2 million, founded in 2012
Shanghai Buwei . . . .	Online marketing solutions/pan-entertainment content services	5,025	2.1	4	A private social interactive communication service provider controlled by an individual with a registered capital of RMB1.3 million, founded in 2017
<b>Total . . . . .</b>		<b><u>87,707</u></b>	<b><u>37.2</u></b>		

## BUSINESS

*Year Ended December 31, 2018*

Customer	Nature of revenue	Revenue (RMB'000)	As a percentage of our total revenue (%)	Years of business relationship with us	Background
Customer E . .	Online marketing solutions	220,181	18.6	2.5	A domestic web game developer with a registered capital of RMB10.0 million, founded in 2015. It is a wholly-owned subsidiary of a public company listed on the Shenzhen Stock Exchange in China
Customer F . .	Online marketing solutions	85,232	7.2	3	A mobile game developer and operator with a registered capital of RMB1.0 million, founded in 2015. It is a wholly-owned subsidiary of a public company listed on the NEEQ in China
Customer G . .	Online marketing solutions	59,285	5.0	3	A private mobile game developer and operator controlled by individuals with a registered capital of RMB10.0 million, founded in 2015
Customer A . .	Online marketing solutions	56,923	4.8	3	A private mobile game developer and operator controlled by an individual with a registered capital of RMB10.5 million, founded in 2013
Customer H . .	Online marketing solutions	53,042	4.5	2.5	A private mobile game developer and operator controlled by an individual with a registered capital of RMB2.7 million, founded in 2017
<b>Total . . . . .</b>		<b>474,663</b>	<b>40.1</b>		

## BUSINESS

*Year Ended December 31, 2019*

Customer	Nature of revenue	Revenue (RMB'000)	As a percentage of our total revenue (%)	Years of business relationship with us	Background
Customer E . . .	Online marketing solutions	657,125	28.4	2.5	A domestic web game developer with a registered capital of RMB10.0 million, founded in 2015. It is a wholly-owned subsidiary of a public company listed on the Shenzhen Stock Exchange in China
Customer I . . .	Online marketing solutions	123,123	5.3	1	A private mobile game developer and distributor focusing on overseas market controlled by an individual with a registered capital of RMB45.0 million, founded in 2015
Customer J . . .	Online marketing solutions	96,669	4.2	2	An online fashion shopping platform operator with total assets of RMB2,441 million as of March 31, 2020, founded in 2011. It is a wholly-owned subsidiary of a public company listed on the the New York Stock Exchange in the U.S.
Customer K . . .	Online marketing solutions	63,592	2.8	3.5	A private online financial services provider controlled by an individual with a registered capital of RMB500.0 million, founded in 2015
Chengdu DKM Network Technology Co., Ltd. (成都哆可梦網絡科技有限公司) .	Online marketing solutions	60,882	2.6	3	A mobile game developer and operator with a registered capital of RMB20.0 million, founded in 2009. It is a subsidiary of a public company listed on the Shenzhen Stock Exchange in China
<b>Total . . . . .</b>		<b><u>1,001,391</u></b>	<b><u>43.3</u></b>		

## BUSINESS

*Six months ended June 30, 2020*

Customer	Nature of revenue	Revenue (RMB'000)	As a percentage of our total revenue (%)	Years of business relationship with us	Background
Customer L . .	Online marketing solutions	73,159	9.2	1	A private Wechat mini programs developer focusing on financial industry controlled by individuals with a registered capital of RMB10.0 million, founded in 2017
Customer M . .	Online marketing solutions	55,320	6.9	3	A private mobile game developer and distributor controlled by individuals with a registered capital of RMB10.0 million, founded in 2014
Customer N . .	Online marketing solutions	46,168	5.8	1	A private cosmetics e-commerce company managing several imported skin care brands. It is controlled by an individual and several entities and has a registered capital of RMB30.8 million, founded in 2011.
Shanghai Fanshu Network Technology Co., Ltd. (上海繁樹 網絡科技 有限公司) . .	Online marketing solutions	44,880	5.6	1	A private online advertising solutions provider primarily serving online gaming companies controlled by an individual with a registered capital of RMB5.0million, founded in 2019
Shanghai Jieshang Network Technology Co., Ltd. (上海界商 網絡科技 有限公司) . .	Online marketing solutions	44,369	5.6	3	A private online advertising solutions provider primarily serving cash-on-delivery e-commerce merchants, controlled by individuals with a registered capital of RMB10.0 million, founded in 2018
<b>Total . . . . .</b>		<b>263,896</b>	<b>33.1</b>		



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## BUSINESS

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Customer E ceased to transact with us since November 2019, as it sought to place advertisements directly through Supplier A's short video platforms. We maintained a good business relationship with customer E and did not have any material disagreements or disputes with it during the Track Record Period. As of the Latest Practicable Date, we did not have any outstanding trade receivables due from customer E. During the Track Record Period, the gross profit margins generated from customer E was 4.3% and 3.0% in 2018 and 2019, respectively, which were lower than those of our overall online marketing solutions business in the same years. The gross profit margin generated from our advertising customers (other than customer E) was 8.4% and 10.2% in 2018 and 2019, respectively. This was primarily because we granted relatively high rebates to customer E after taking into consideration the significant amount of its purchases from us. According to iResearch, it is uncommon and not economically efficient for leading short video platforms to transact with advertisers directly, as (i) compared to acquisition of traffic from leading online publishers, advertisers are in greater need of value-added services provided by online marketing solutions providers, such as creative planning of advertising campaign, production of ad creatives and management of campaign performance, to achieve better marketing effectiveness; while online publishers generally do not offer such value-added services as they have to invest time and efforts to learn about advertisers' diverse and evolving marketing needs and closely monitor campaign performance to achieve desired results; (ii) to monetize user traffic is more economically efficient than to provide value-added services and is currently the primary monetization method for online publishers. Online publishers do not have motivations to deal with hundreds of thousands of advertisers directly because they have to expand their sales and marketing teams to directly serve advertisers, which will divert online publishers from their core business. To some extent, online publishers need online marketing solutions providers to handle a massive population of advertisers so that they can concentrate on the development of their core business. During the Track Record Period and up to the Latest Practicable Date, except for customer E, we did not lose any advertising customers due to their direct cooperation with online publishers. Despite that the loss of customer E had an adverse impact on the scale of our business, our profitability was not adversely affected as a result of the lower gross profit margin generated from customer E but was improved as a result of the allocation of financial resources to more profitable advertising customers. See "Summary — Summary of Historical Financial Information — Summary of Consolidated Statements of Profit or Loss — Revenue."

Our Directors believe, and the Sole Sponsor concurs, that our loss of customer E was incidental and the risk of disintermediation on our business sustainability is remote, because (i) as advised by iResearch, it is uncommon and not economically efficient for leading short video platforms to transact directly with advertisers. Supplier A's direct transaction with customer E was mainly related to Supplier A's acquisition of a subsidiary of customer E in 2019; and (ii) given that certain major customers, such as customer E, usually had stronger bargaining power, required longer credit period and contributed lower gross profit margin, we prefer to cease our cooperation with such customers and allocate our financial resources to more profitable advertising customers. After termination of cooperation with customer E, we allocated our additional available resources to approximately 158 new customers, and generated revenue of RMB84.2 million, gross profit of RMB7.4 million and gross profit margin of 8.8% from these new customers for the six months ended June 30, 2020. In spite of the low risk of disintermediation, we have been adopting the following measures to mitigate such risks: (i) conducting regular communications with our top customers to learn about their evolving needs, and improve our services and diversify our service offerings based on their constructive feedback, such as the launch of our content exchange platform; and (ii) continually ramping up our big data analytics capability to more precisely identify target consumers and reinforce our ability to optimize campaign performance so as to improve the marketing effectiveness for our advertising customers.

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Except Shanghai Buwei, all of our five largest customers during the Track Record Period are Independent Third Parties. To the best of the knowledge of our Directors, none of our Directors, their respective associates or any Shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest customers during the Track Record Period. In addition, to the best of the knowledge of our Directors, except Shanghai Buwei, none of us, our Controlling Shareholders, directors and senior management of the Company and its subsidiaries, and any of their respective associates has any other past or present relationships, such as business, employment, family or financing, with our five largest customers (save for being our customers) during the Track Record Period.

### Top Suppliers

During the Track Record Period, our suppliers primarily include (i) media partners, consisting of online publishers (namely, owners of content distribution platforms) and media agents which engage with us on behalf of online publishers, for traffic acquisition; and (ii) third-party content distribution partners which generate and redirect traffic to our *Huabian* Platform. We have maintained business relationships with our five largest suppliers during the Track Record Period of one to five years as of the Latest Practicable Date. Our suppliers generally settle with us by wire transfer and grant to us credit terms within 90 days. Certain suppliers also require for prepayment for acquiring their traffic. Please see “— Our Online Marketing Solutions Business — Our Media Partners” and “— Our Pan-entertainment Content Services Business — Content Distribution” for more details.

### *Year Ended December 31, 2017*

Supplier	Nature of cost	Cost of sales (RMB'000)	As a percentage of our total cost of sales (%)	Years of business relationship with us	Background
Supplier A . . .	traffic acquisition cost for online marketing solutions	59,252	31.9	3.5	A private technology company operating a range of leading content distribution platforms controlled by an entity with a registered capital of US\$300.0 million, founded in 2012
Supplier B . . .	traffic acquisition cost for online marketing solutions	27,959	15.1	3.5	A private advertising services provider controlled by an individual with a registered capital of RMB30.4 million, founded in 2012
Supplier C . . .	traffic acquisition cost for online marketing solutions	11,222	6.0	3	A private advertising services provider controlled by an individual with a registered capital of RMB1.0 million, founded in 2015

## BUSINESS

Supplier	Nature of cost	Cost of sales (RMB'000)	As a percentage of our total cost of sales (%)	Years of business relationship with us	Background
Supplier D . . .	traffic acquisition cost for online marketing solutions/pan-entertainment content services	10,183	5.5	5	A private technical and advertising services provider controlled by an individual with a registered capital of RMB10.0 million, founded in 2015
Supplier E . . .	traffic acquisition cost for online marketing solutions	9,298	5.0	4	A leading targeted marketing services provider with total assets of RMB3.3 billion as of December 31, 2019, listed on the Hong Kong Stock Exchange, founded in 2014
<b>Total . . . . .</b>		<b>117,914</b>	<b>63.5</b>		

### *Year Ended December 31, 2018*

Supplier	Nature of cost	Cost of sales (RMB'000)	As a percentage of our total cost of sales (%)	Years of business relationship with us	Background
Supplier A . . .	traffic acquisition cost for online marketing solutions	908,899	84.3	3.5	A private technology company operating a range of leading content distribution platforms controlled by an entity with a registered capital of US\$300.0 million, founded in 2012
Supplier F . . .	traffic acquisition cost for online marketing solutions	55,967	5.2	2.5	A private technical and advertising services provider controlled by an individual with a registered capital of RMB3.9 million, founded in 2017
Supplier C . . .	traffic acquisition cost for online marketing solutions	11,982	1.1	3	A private advertising services provider controlled by an individual with a registered capital of RMB1.0 million, founded in 2015

## BUSINESS

Supplier	Nature of cost	Cost of sales  (RMB'000)	As a percentage of our total cost of sales  (%)	Years of business relationship with us	Background
Supplier G . . .	traffic acquisition cost for pan-entertainment content services	10,999	1.0	4.5	A private advertising services provider controlled by an individual with a registered capital of RMB10.0 million, founded in 2014
Supplier H . . .	traffic acquisition cost for online marketing solutions	10,488	1.0	3	A private technical and advertising services provider controlled by an entity with a registered capital of RMB30.0 million, founded in 2015
<b>Total . . . . .</b>		<b>998,335</b>	<b>92.6</b>		

### *Year Ended December 31, 2019*

Supplier	Nature of cost	Cost of sales  (RMB'000)	As a percentage of our total cost of sales  (%)	Years of business relationship with us	Background
Supplier A . . .	traffic acquisition cost for online marketing solutions	1,846,571	85.7	3.5	A private technology company operating a range of leading content distribution platforms controlled by an entity with a registered capital of US\$300.0 million, founded in 2012
Supplier I . . . .	traffic acquisition cost for online marketing solutions	102,686	4.8	1.5	A private company operating a leading video sharing app controlled by an entity with a registered capital of RMB10.0 million, founded in 2016
Supplier J . . .	traffic acquisition cost for online marketing solutions	84,331	3.9	2	A private technical and advertising services provider controlled by an individual with a registered capital of RMB1.0 million, founded in 2017

## BUSINESS

Supplier	Nature of cost	Cost of sales	As a percentage of our total cost of sales	Years of business relationship with us	Background
		(RMB'000)	(%)		
Supplier K . . .	traffic acquisition cost for online marketing solutions	21,940	1.0	4	An integrated media advertising company with a registered capital of RMB50.0 million, founded in 2011. It is a wholly-owned subsidiary of a public company listed on the Shenzhen Stock Exchange in China
Supplier L . . .	traffic acquisition cost for online marketing solutions	15,007	0.7	1.5	A private advertising services provider controlled by an individual with a registered capital of RMB1.0 million, founded in 2013
<b>Total . . . . .</b>		<b><u>2,070,535</u></b>	<b><u>96.1</u></b>		

### *Six months ended June 30, 2020*

Supplier	Nature of cost	Cost of sales	As a percentage of our total cost of sales	Years of business relationship with us	Background
		(RMB'000)	(%)		
Supplier A . . .	traffic acquisition cost for online marketing solutions	544,022	76.3	3.5	A private technology company operating a range of leading content distribution platforms controlled by an entity with a registered capital of US\$300.0 million, founded in 2012
Supplier I . . . .	traffic acquisition cost for online marketing solutions	109,505	15.4	1.5	A private company operating a leading video sharing app controlled by an entity with a registered capital of RMB10.0 million, founded in 2016
Supplier M . . .	traffic acquisition cost for online marketing solutions	19,479	2.7	2	A private advertising services provider controlled by an individual with a registered capital of RMB1.0 million, founded in 2017

## BUSINESS

Supplier	Nature of cost	Cost of sales  (RMB'000)	As a percentage of our total cost of sales  (%)	Years of business relationship with us	Background
Supplier L . . .	traffic acquisition cost for online marketing solutions	6,979	1.0	1.5	A private advertising services provider controlled by an individual with a registered capital of RMB1.0 million, founded in 2013
Supplier N . . .	traffic acquisition cost for online marketing solutions	4,667	0.7	1	A private mobile digital marketing solutions provider controlled by an individual and certain entities with a registered capital of RMB10.0 million, founded in 2017. It was the fourth largest marketing solutions provider in terms of user traffic consumption of short video advertisements in 2019 in the PRC
<b>Total . . . . .</b>		<b><u>684,652</u></b>	<b><u>96.1</u></b>		

All of our five largest suppliers during the Track Record Period are Independent Third Parties. To the best of the knowledge of our Directors, none of our Directors, their respective associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period. In addition, to the best of the knowledge of our Directors, none of us, our Controlling Shareholders, directors and senior management of the Company and its subsidiaries, and any of their respective associates has any other past or present relationships, such as business, employment, family or financing, with our five largest suppliers (save for being our suppliers) during the Track Record Period.

### ***Supplier Concentration on Supplier A***

#### *Background Information of Supplier A*

Supplier A, founded in 2012, is a leading Chinese internet technology company and considered as one of the most valuable unicorns in the world. Supplier A operates several most popular AI technology-enabled content distribution platforms, including Toutiao, Douyin, Xigua Video, Huoshan, Dongchedi and Chuanshanjia. According to iResearch, Supplier A was the largest short video platform operator in terms of revenue generated from short video advertisements in the PRC in 2019, with a market share of approximately 70.0%.

Douyin is a creative musical and short video platform, which pioneers in the short video marketing market. According to iResearch, Douyin was the largest short video platform in terms of average DAUs in the PRC in 2019. Douyin was launched in September 2016, opening up a new era for video sharing and short video marketing recommendation. In addition, according to iResearch, Xigua Video and Huoshan were the third and fourth largest short video platforms in terms of average DAUs in the PRC in 2019, respectively.

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Toutiao is a personalized news and information recommendation platform, which gradually evolved into a platform delivering content in a variety of formats, such as texts, images, question-and-answer posts, microblogs, and videos. Toutiao offers its users customized information feeds that are powered by AI technology.

According to iResearch, it is quite common for short video marketing solutions providers to rely on Supplier A's short video platforms to acquire user traffic and place short video advertisements, due to its dominant market leadership and largest market share.

### *Key Terms of Agreements with Supplier A*

We have entered into annual framework agreements with Supplier A, which are subject to annual renewal, and sign an advertising campaign order with it for each advertising campaign, which specifies the specific content distribution platform, advertiser, advertising space, pricing model and payment and settlement terms for the campaign. The key terms and conditions of the annual framework agreements with Supplier A are generally as follows:

- **Duration.** One year.
- **Advertising content.** We undertake to ensure the advertising content we place on Supplier A's content distribution platforms is not false, fraudulent or misleading, does not violate any applicable laws, regulations and Supplier A's internal policies, and does not infringe any third party's rights. Supplier A is entitled to terminate the agreements with us if we fail to remedy any illegal or inappropriate advertising content after being notified by Supplier A and we shall indemnify Supplier A against any claims and losses which may arise from any such illegal or inappropriate advertising content.
- **Data verification.** We are entitled to engage Independent Third-Party data tracking platforms to verify the ad performance data provided by Supplier A and settle any discrepancy with it in accordance with the terms of the agreements.
- **Confidentiality.** Each party shall keep confidential of the information acquired in the performance of the relevant agreement and the contract terms thereof, unless otherwise required by laws and regulations or with the prior written consent of the other party.
- **Termination.** The annual framework agreements may be terminated (i) upon mutual consent of both parties; (ii) in the event of a *force majeure*; and (iii) by the non-defaulting party in the event of a material breach.

According to iResearch, due to Supplier A's dominant market position, it adopts a universal standard annual framework agreement with all online marketing solutions providers, the key terms and conditions of which, including the annual renewal mechanism, are applicable to all online marketing solutions providers. Our agreements with Supplier A are in general similar to those with other major online publishers, such as Kuaishou and Xiaohongshu, both in respect of scope and substance. All of our agreements with online publishers are negotiated on an arm's length basis, and none of these agreements includes any non-competition clause that prevents the placement of the same advertising content provided by us on other online publishers. Our annual framework agreement with Supplier A generally starts from January 1 and expires on December 31 of each year. We generally approach Supplier A one month prior to the expiry of the annual framework agreement for the renewal of our cooperation with Supplier A in the next year. We have successfully renewed our annual framework agreements with Supplier A on similar key terms and conditions since the establishment of our cooperation in 2017. Since our cooperation with Supplier A in 2017 and up to the Latest Practicable Date, there had been no material service interruptions or disputes between Supplier A and us.

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### *Quantitative Information in Relation to Purchases from Supplier A*

During the Track Record Period, we generated a significant amount of revenue from our advertising customers by planning, launching and managing advertising campaigns through Supplier A's content distribution platforms. We charge our advertising customers primarily measured by a mix of oCPM and CPC. We acquire user traffic from Supplier A and pay traffic acquisition costs to it based primarily on a mix of oCPM and CPC. The table below illustrates our gross billing and total purchases of traffic acquisition in connection with Supplier A for the periods indicated:

	Year ended December 31,			Six months ended
	2017	2018	2019	June 30, 2020
	% of our gross billing or total purchases of traffic acquisition (as applicable)			
Gross billing . . . . .	37.7	85.2	87.1	84.8
Total purchases of traffic acquisition . . . . .	40.5	86.4	88.3	87.1

### *Stable and Cooperative Relationships with Supplier A*

We are Supplier A's early collaborator and began to acquire user traffic from its content distribution platforms in 2016. We rely on Supplier A's content distribution platforms to collect ad performance data to analyze and develop our own data graphs to better optimize our campaign performance. We were also one of the early online marketing solutions providers to offer short video marketing solutions through Douyin after it was launched in September 2016. We believe we are a valuable business partner of Supplier A in the sense that:

- ***We are a leading market player in the PRC with rapid growth.*** According to iResearch, we were the third largest online marketing solutions provider in terms of gross billing generated from short video advertisements in 2019. We were also the third largest online marketing solutions provider (out of 100 to 250 online marketing solutions providers that have contractual relationships with Supplier A) in terms of user traffic consumption of advertisements placed on Supplier A's all content distribution platforms in 2019, according to the same source. During the Track Record Period, we experienced rapid growth in terms of our business with Supplier A. Our gross billing generated through Supplier A's content distribution platforms increased at a CAGR of 348.5% from 2017 to 2019. We were awarded Rapid Growth Prize (突飛猛進獎) by Supplier A as its fastest growing business partner in 2017. We also won several prizes in Effect-Up Marketing Competition organized by Supplier A in 2018 and 2019.
- ***We provide value-added services to advertisers which content distribution platforms generally do not offer.*** We provide one-stop solutions to advertisers to help them acquire, convert and retain consumers through effective and cost-efficient advertising campaign. Our value-added services include production of ad creatives and management of campaign performance, which are generally not available if the advertisers transact directly with leading online publishers. We believe that it is not economically efficient for leading online publishers to invest time and efforts to learn about advertisers' diverse and evolving needs and closely monitor campaign performance to achieve effectiveness, as they are more inclined to monetize their massive traffic. For instance, Supplier A confirmed during interviews with us that it (i) generally does not offer such value-added services directly to advertisers, except for a limited number of conglomerates; and (ii) did not and will not proactively approach advertisers who are existing customers of advertising agencies, as serving advertisers directly requires massive labor and therefore is burdensome to Supplier A.



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- ***We serve a sizable, diversified and fast-growing advertiser base.*** We serve a fast-growing and diversified advertiser base operating in a wide array of industry verticals, including online gaming, financial services, e-commerce, internet services, advertising and culture & media. Advertisers who had direct contractual relationships with us increased from 558 in 2017 to 669 in 2019, representing a CAGR of 9.5%; while the average revenue per direct advertiser increased from RMB0.4 million in 2017 to RMB3.3 million in 2019, representing a CAGR of 187.2%.

Supplier A believes we, as online marketing solutions provider, are key and valuable business partner because we can provide tremendous ad creatives to diversify the content published on their platforms to appeal visitors and potential consumers.

### *Diversification of media partner base and revenue stream*

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our revenue generated through Supplier A's content distribution platforms amounted to RMB69.8 million, RMB986.4 million, RMB1,962.8 million and RMB589.3 million, accounting for approximately 29.7%, 83.2%, 84.9% and 73.9% of our total revenue for the same periods, respectively. We have made efforts to reduce our supplier concentration on Supplier A by diversifying our media partner base and seeking opportunities to cooperate with other industry leading content distribution platforms. For example, we commenced our business relationship with Kuaishou and Xiaohongshu in February 2019. According to iResearch, Kuaishou was the second largest short video platform in terms of revenue generated from short video advertisements in the PRC in 2019 with a market share of approximately 20.0%. Kuaishou has been growing rapidly and exploring to monetize its traffic. Due to the leading market position of and our solid cooperation with Kuaishou, it was among our five largest suppliers in 2019 and the six months ended June 30, 2020. Our revenue generated through Kuaishou was RMB116.0 million and RMB122.3 million for the year ended December 31, 2019 and the six months ended June 30, 2020, respectively, accounting for approximately 5.0% and 15.3%, respectively, of our total revenue for the same periods. In addition, according to iResearch, Xiaohongshu was the third largest social network platform in China in terms of average DAUs in 2019. Our revenue generated through Xiaohongshu was RMB16.9 million and RMB8.1 million for the year ended December 31, 2019 and the six months ended June 30, 2020, respectively, accounting for approximately 0.7% and 1.0%, respectively, of our total revenue for the same periods. In addition to expanding the breadth and depth of cooperation with leading content distribution platforms, we plan to explore business opportunities with emerging industry players in the online marketing industry. For example, we began to acquire user traffic from Tencent Weishi to place advertisements for our advertising customers in January 2020. For more details, see “— Our Strategies — Strengthen and deepen our collaboration with top online publishers and diversify our media partner base.” As of the Latest Practicable Date, we had maintained well-established business relationships with the six largest short video platforms in China, including Douyin, Kuaishou, Xigua Video, Huoshan and Tencent Weishi (騰訊微視), as well as other leading content distribution platforms, including Xiaohongshu (小紅書) and Qutoutiao (趣頭條). As a result of our efforts to reduce supplier concentration on Supplier A, our gross billing generated through Supplier A's content distribution platforms, as a percentage of our total gross billing, decreased from 87.1% in 2019 to 84.8% in the six months ended June 30, 2020, and our revenue generated through Supplier A's content distribution platforms, as a percentage of our total revenue, decreased from 84.9% in 2019 to 73.9% in the six months ended June 30, 2020.

In addition, we plan to actively explore opportunities to further diversify our revenue stream and monetize content production capability. For example, we have entered into an investment agreement with a leading media group listed in the PRC to produce a web film. For more details, see “— Our Strategies — Continue to unleash the monetization potential of our content production, exchange and distribution platform that offers full cycle services.”

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*We are capable of maintaining our revenue in the future in light of the supplier concentration*

According to iResearch, the size of the short video marketing market in China, which is our main business focus, was approximately RMB102.5 billion in 2019. Due to (i) the increased popularity of short video among audiences and advertisers; (ii) the prevalence of internet devices and upgraded information technology infrastructure, such as 5G; (iii) the availability of quality content; and (iv) the improved audience experience empowered by technological innovation and progress, such as AI and AR, this market is expected to further grow at a CAGR of 35.6% from RMB172.4 billion in 2020 to RMB582.5 billion in 2024. As a leading player in this market, we believe that we will continue to be well positioned and benefit from the significant market growth potential.

Our Directors believe that it is inevitable for short video marketing solutions providers, including us, to rely on Supplier A's leading short video platforms to acquire user traffic and place short video advertisements, due to Supplier A's dominant market position and largest market share. In spite of reliance on Supplier A, given our market leadership, value-added services provided to advertisers, sizable and increasing advertiser base, well-established business relationship with other leading short video platforms, as well as the rapidly growing short video marketing market, we are capable of maintaining our operations and growth in the future.

Please see "Risk Factors — Risks Relating to Our Business and Industry — We acted as a middleman between advertising customers and Supplier A and relied on Supplier A to acquire user traffic for our advertisers during the Track Record Period. If we fail to maintain our business relationship with Supplier A or if Supplier A loses its leading market position or popularity, our business, financial condition and results of operations could be materially and adversely affected."

### **Overlapping of Customers and Suppliers**

During the Track Record Period, some of our advertising customers were also online publishers for our online marketing solutions. According to iResearch, it is common in the online marketing industry that online publishers may become advertisers when they have advertising needs to market their products or services on other content distribution platforms. The number of overlapping customers and suppliers was 19, 16, five and one for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. Negotiations of the terms of our sales to and purchases from these overlapping customers and suppliers were conducted on an individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. Our Directors confirmed that all of our sales to and purchases from these overlapping customers and suppliers were conducted in the ordinary course of business under normal commercial terms and on arm's length basis. The revenue from these overlapping customers and suppliers for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 was RMB8.9 million, RMB7.3 million, RMB3.1 million and RMB0.9 million, respectively, accounting for approximately 3.8%, 0.6%, 0.1% and 0.1% of our total revenue for the same periods. The cost of sales attributable to these overlapping customers and suppliers for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 was RMB20.6 million, RMB23.3 million, RMB6.1 million and RMB4.3 million, respectively, accounting for approximately 11.1%, 2.2%, 0.3% and 0.6% of our total cost of sales, respectively, for the same periods. The gross profit generated from these overlapping customers and suppliers for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 was RMB5.4 million, RMB3.7 million, RMB1.1 million and RMB0.9 million, respectively, accounting for approximately 10.9%, 3.4%, 0.7% and 1.1% of our total gross profit, respectively, for the same periods.

### **SALES AND MARKETING**

As of June 30, 2020, we had a sales and marketing team comprising 57 full-time employees. Our marketing efforts are focused on deepening our relationships with existing customers, developing relationships with new and potential customers and exploring untapped business opportunities.

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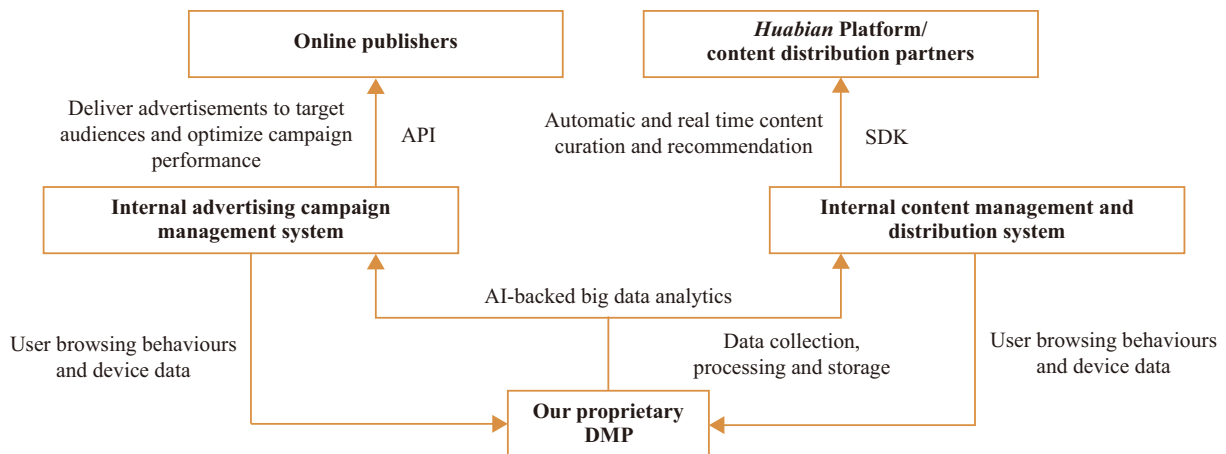
For our online marketing solutions business, we endeavor to increase our brand exposure and acquire new customers and suppliers through attending industry exhibitions and public relations conferences. For our pan-entertainment content services business, we collaborate with our content distribution partners to market our content and generate traffic to our *Huabian* Platform. Please see “— Our Pan-entertainment Content Services Business — Content Distribution” for more details.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our selling and distribution expenses amounted to RMB1.3 million, RMB5.9 million, RMB7.8 million and RMB2.3 million, respectively, accounting for approximately 0.6%, 0.5%, 0.3% and 0.3% of our total revenue, respectively, for the same periods.

### OUR INFORMATION TECHNOLOGY INFRASTRUCTURE

Our platform is built on a highly scalable and reliable cloud-based technology architecture through cooperation with a leading cloud computing service provider. This allows us to process large amounts of data on a real-time basis and ensures high speed and stable performance on a large scale to accommodate more customers and suppliers and support the increased complexity and diversity of our business operations. Our information technology infrastructure primarily comprises (i) our internal advertising campaign management system which connects with the advertising platforms of online publishers programmatically through API; (ii) our internal content management and distribution system which enables algorithm-based screening and management of our content and delivers such content which passes our manual review to visitors of our *Huabian* Platform; and (iii) our proprietary DMP which collects and stores raw data and supports our advertising campaign management system and content management and distribution system through big data analytics and AI technologies. Please see “— Our Technology” for more details.

The following diagram illustrates our information technology infrastructure:



Key features of our information technology infrastructure are set out below:

- **Reliability and stability.** We have multiple layers of redundancy to ensure the reliability of our information technology infrastructure. Our internal network is configured with multiple layers of security to isolate our database from unauthorized access and we use sophisticated security protocols for internal and external communication and transmission of encrypted data. We also utilize firewalls to prevent unauthorized access to our systems. In addition, we maintain an automatic monitoring system which is able to monitor key indicators in our business operations and information technology infrastructure and triggers an alert when any indicator exceeds its safe threshold, allowing us to quickly respond to unexpected incidents.

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- **Data security.** We adopt several methods for data backup, including MySQL and incremental backup, and local backup and cloud backup, to ensure the security of our data and avoid data loss.
- **Scalability.** We use microservice technology to build the cloud-based architecture of our platform, which enables us to operate each part of our business by independent, auto-scaling and standardized service modules and react quickly to new business needs by adding new service modules. We can also fine-tune each service module and integrate common functions into separate modules to keep our architecture concise, which enhances the efficiency and flexibility of our systems and reduces our maintenance costs.
- **High performance.** To accommodate our advertising customers, media partners and visitors to our *Huabian* Platform with ultra-fast user experience, we utilize advanced technologies, such as Client-cache, cloud computing and virtualization, to optimize the response time of our systems, and combine BGP network and CDN to achieve high speed. Our information technology infrastructure is able to handle at least 1,400 requests per second with an average response time of approximately 50 milliseconds. In addition, our *Huabian* Platform supports 13,750 visitors at one time and our content is loaded and displayed within one second.

## OUR TECHNOLOGY

### Data Sources

The data we collect is device-specific and we distinguish internet devices by device IDs. We generally do not collect or store personal data that can identify a real person, such as legal name, phone number and personal ID. The specific types of data that we collect primarily include the following:

- **Our online marketing solutions.** We receive a wide variety of raw data on a real-time basis from the online publishers through API connection, which include (i) device ID and its IP; (ii) ad performance data, such as impressions, video views, click-throughs, conversion rates and cost per conversion; (iii) specific information about the device such as network status, network operator, operating system and device model; and (iv) the device's browsing behaviors on the respective online publishers' platform. We also collect additional data that are voluntarily provided by advertisers, including post-ad interaction events such as account registration/activation and placement of order, which are not readily available through analysis of raw data provided by online publishers.
- **Our pan-entertainment content services.** Through our *Huabian* Platform, we have accumulated a vast library of data assets that include behavioral data and specific device data of the visitors.

To a much lesser extent, we collect and store limited personal data, such as email address and mobile phone number, from self-media accounts registered on our *Huabian* Platform. Registered self-media accounts must acknowledge our terms of service and data privacy policy, under which they consent to our collection, storage and use of their personal data in compliance with applicable laws and regulations in the PRC. Our PRC Legal Advisors are of the opinion that we are in compliance with all applicable PRC laws and regulations in all material aspects relating to cyber and data security, including major data security and protection requirements in the *Consultation Draft of the New Measures for Data Security Management* (《數據安全管理辦法(徵求意見稿)》) published by the Cyberspace Administration of China. See “Regulatory Environment — Regulations related to Information Security and Confidentiality of User Information.”

### **Our Big Data Analytics and AI Capabilities**

Our massive data assets are the backbone of our business. Our proprietary DMP collected and analyzed data from approximately 92 million unique internet devices per day for the six months ended June 30, 2020. We are in an advanced stage in processing the data we collect to activate our machine learning algorithms to cleanse raw data into more valid, meaningful and structured data. The primary applications of our big data analytics and AI capabilities are as follows:

- ***Profiling analysis and precise audience targeting.*** Through analysis of our data assets, our AI algorithms apply tags to each internet device to which we have access, and can currently apply over 153,000 tags across approximately 961 categories. These tags allow us to generate a fairly accurate profile of the user of such device, including basic demographics such as age and gender, geographic location as well as personal interest and preference. Our system continuously updates and refines user profiles on a real time basis. We help advertisers precisely target and reach the types of audiences best suited in the advertising campaigns through our wide range of profile tags.
- ***Real-time monitoring and optimization of campaign performance.*** Through AI algorithms and machine learning applications, we are able to monitor and analyze ad performance data, such as impressions and click-throughs, on a real-time basis, based on which we continuously optimize campaign performance by adjusting budget allocation on target audience groups or adjusting the scope of target audience groups.
- ***Content screening.*** We apply algorithms to screen texts and images. Our internal content management and distribution system screens texts based on pre-set keywords, and utilize AI to identify illegal or inappropriate images through deep learning. The screening system automatically declines content that did not meet our standards and flags suspicious content for subsequent manual review.

### **RESEARCH AND DEVELOPMENT**

As of June 30, 2020, we had a research and development team consisting of 27 full-time employees with an average of approximately six years of industry related experience, most of whom have prior experience at leading internet and technology companies. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our total research and development expenses amounted RMB5.5 million, RMB6.9 million, RMB9.9 million and RMB4.4 million, respectively, accounting for approximately 2.3%, 0.6%, 0.4% and 0.5% of our total revenue, respectively, for the same periods.

We are committed to continually enhancing and innovating our information technology infrastructure and technologies in accordance with our annual development plan and based on our assessment of market demand. Our current research and development initiatives include the upgrading of our internal advertising campaign management system and internal content management and distribution system. In particular:

- The upgraded advertising campaign management system is expected to be able to initiate cross-media advertising campaigns for advertisers by programmatically connecting with multiple online publishers' advertising platforms through API simultaneously. In addition, the upgraded system is expected to be able to automatically generate customized ad performance data packages, allowing us and our advertising customers to monitor campaign performance more effectively and efficiently; and
- The upgraded content management and distribution system is designed to enable automatic content curation and recommendation for internet users. In particular, the upgraded system is expected to automatically curate and recommend content that is most likely of interest to each

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visitor of our *Huabian* Platform based on our profiling analysis. In addition, the upgraded system will programmatically connect with our content distribution partners' platforms through API or SDK, enabling us to collect behavioral and specific device data from their visitors based on which our system will automatically presents real-time customized content to such visitors. As new content is constantly uploaded to our *Huabian* Platform, our content recommendation algorithms are capable of aggregating and recommending new content in real time.

Our development process is continually driven by the evolving market, demands from our advertising customers and media partners, and innovation from our research and development team. We encourage our employees to maintain close communications with our customers to understand their needs, and provide our development teams with autonomy and freedom to explore new concepts in development. After completing the project initiation and development stage, we conduct internal tests to resolve any major technological issues and bugs that may exist in the test version. After launch, we continually monitor and analyze system performance and continue to optimize system functions and performance.

### SEASONALITY

Our business is subject to seasonal fluctuations. The second half, especially the fourth quarter, of each calendar year generally contributes the largest proportion of our revenue as advertisers tend to allocate a significant portion of their online marketing budgets to the fourth quarter, which coincides with Chinese consumers' increased purchases around holidays and shopping events and increased new games launched by game developers in the fourth quarter. The first quarter of each calendar year generally contributes a smaller portion of our revenue, primarily due to a lower level of allocation of online marketing budgets at the beginning of the calendar year in which the Chinese New Year fall. We expect our revenue to continue to fluctuate based on the seasonal factor that affects the online marketing industry as a whole. Please see "Risk Factors — Risks Relating to Our Business and Industry — Our business is subject to seasonal fluctuations which could have a material impact on our revenue, cash flow and operating results."

### COMPETITION

The industry we operate in is fragmented and highly competitive and rapidly changing due to the constantly evolving market and technological developments. Our ability to compete successfully depends on many factors, including the quality of our content, the robustness of our infrastructure and technologies, the ability to acquire and retain advertising customers and media partners, and industry reputation.

We compete with other online marketing solutions providers for short video marketing solutions business. Our primary competitors include DSPs, PGC and MCN providers, 4A advertising companies, and advertising agencies. We were China's third largest online marketing solutions provider in terms of gross billing generated from both short video advertisements and performance-based advertisements placed on short video platforms in 2019 with a market share of 3.4% and 5.9%, respectively, according to iResearch. We believe we have differentiated ourselves from competitors primarily attributable to our content production capability, big data analytics and AI capabilities.

Please see "Industry Overview" for a more detailed discussion regarding the markets in which we operate.

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### AWARDS AND RECOGNITIONS

The following table sets forth the recent major awards and achievements won by us:

Year	Award/Recognition	Award Issuing Authority	Entity Receiving Award
2017 . . . .	Business Partners Award (合作夥伴獎)	Sogou	Netjoy Network
2017 . . . .	Rapid Growth Prize (突飛猛進獎)	Toutiao	Letui Culture
2018 . . . .	Effect UP Marketing Competition (效果營銷大賽)	Toutiao	Letui Culture
2018 . . . .	Zhurong Value-added Operation Award (祝融增值運營獎)	Supplier A	Letui Culture
2018 . . . .	Annual Author with Attitude (年度態度風雲作者)	Netease	Netjoy Network
2019 . . . .	Creative Short Video Award for Internet-e-commerce (電商行業創意短視頻獎)	Supplier A	Letui Culture
2019 . . . .	Best Application Platform (最佳平台應用獎)	Supplier A	Letui Culture
2019 . . . .	Effect UP Marketing Competition - Internet-e-commerce (電商行業智慧應用獎)	Supplier A	Letui Culture
2019 . . . .	Annual Excellent Ruban Spirit Award (年度優秀魯班精神獎)	Supplier A	Letui Culture
2019 . . . .	Runner up and Third Place for Commercial Short Video Marketing Competition (商業化短視頻行銷案例大賽銀獎、銅獎)	Kuaishou	Letui Culture
2019 . . . .	Best Business Partner (最佳合作夥伴)	UC Browser	Letui Culture
2019 . . . .	Outstanding Contribution Award for Performance-based Advertising (效果廣告突出貢獻獎)	Xiaohongshu	Letui Culture
2019 . . . .	Best Annual Self-media for Short Video (年度最佳短視頻自媒體)	Netease	Netjoy Network

### INTELLECTUAL PROPERTY

Intellectual property is important to our success and competitiveness. We rely on a combination of trademarks, domain names as well as employee and third-party confidentiality agreements to protect our intellectual property. As of the Latest Practicable Date, we had (i) 36 trademarks registered in the PRC and two trademarks registered in Hong Kong; (ii) six pending trademark applications in the PRC; (iii) 54 registered software copyrights; and (iv) 25 registered domain names, which were material to our

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## BUSINESS

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business. Details of our material intellectual property rights are set forth under the section headed “Appendix IV — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights of Our Group.”

During the Track Record Period and up to the Latest Practicable Date, we were not engaged in or threatened with any claim for any material infringement of any intellectual property rights, whether as a claimant or as a defendant.

### EMPLOYEES

As of June 30, 2020, we had 290 full-time employees, including 199 in Shanghai, 51 in Beijing, seven in Guangzhou, 28 in Xi’an, and five in Xinjiang. The following table shows a breakdown of our employees by function as of that date:

Functions	Number of Employees				% of Total Employees as of June 30, 2020
	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
Management . . . . .	5	5	6	7	2.4
Operations . . . . .	22	40	73	81	27.9
Content production . . . . .	12	23	71	86	29.7
Sales and marketing . . . . .	10	32	57	57	19.7
Research and development . . . . .	25	26	27	27	9.3
Finance and administrative . . . . .	9	19	31	32	11.0
<b>Total . . . . .</b>	<b>83</b>	<b>145</b>	<b>265</b>	<b>290</b>	<b>100.0</b>

We believe we have maintained good relationships with our employees. Our employees are not represented by a labor union. As of the Latest Practicable Date, we did not experience any strikes or any labor disputes with our employees which have had or are likely to have a material effect on our business.

Our employees typically enter into standard employment contracts with us. We place high value on recruiting, training and retaining our employees. We maintain high recruitment standards and provide competitive compensation packages. Remuneration packages for our employees mainly comprise base salary and bonus. We also provide both in-house and external trainings for our employees to improve their skills and knowledge.

We contribute to social security insurance and housing provident funds for our employees in accordance with applicable PRC laws, rules and regulations in all material aspects.

### INSURANCE

We do not, and are not required by PRC laws to, maintain any business interruption insurance, key man life insurance, any insurance for our information technology infrastructure and systems or any insurance for our leased properties. We also do not maintain insurance against risks relating to the Contractual Arrangements. Please see “Risk Factors — Risks Relating to Our Business and Industry — Our limited insurance coverage could expose us to significant costs and business disruption.”

Our Directors believe that our insurance coverage is sufficient and adequate and in line with the industry norm. We periodically review and will make necessary and appropriate adjustments to our insurance coverage.



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## BUSINESS

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### PROPERTIES

As of the Latest Practicable Date, we did not own any property. As of the Latest Practicable Date, we leased and occupied 17 properties in Shanghai, Guangzhou, Xi'an, Horgos, and Beijing with an aggregate gross floor area of approximately 5,543 sq.m. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are used as office premises.

Our leased properties are leased from Independent Third Parties, with lease expiry dates ranging from January 29, 2021 to June 30, 2034. Title certificates of 15 leased buildings have been duly obtained by the landlords. With respect to the remaining two leased properties in Horgos and Xi'an with a gross floor area of approximately 564 sq.m., or 10.2% of our total leased properties, as of the Latest Practicable Date, the landlords failed to provide the relevant building ownership certificates or construction project planning permit, as a result of which, there may be risks that these two leases may be held invalid, and therefore we may not be able to continue to occupy and use such properties. Our Directors believe that our use of these two properties will not individually or collectively have a material adverse effect on our business, financial condition or results of operations. Even if we are required to vacate from these properties, we believe we will be able to readily find comparable properties to relocate and the costs and expenses we may incur for relocation will be immaterial. As of the Latest Practicable Date, we were not aware of any ownership controversy or dispute or third party claims, nor had we been imposed any administrative penalties.

In addition, all the lease agreements of these 17 leased properties have not been registered with the relevant competent authorities. As advised by our PRC Legal Advisors, apart from the two leased properties without building ownership certificates or the construction project planning permits, the 15 leases remain valid and legally binding and enforceable under the applicable PRC laws and regulations, despite such leases not having been registered with the relevant competent authorities, according to the Interpretation of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Cases about Disputes over Lease Contracts on Urban Buildings (最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋). A maximum penalty of RMB10,000 may be imposed for non-registration of each lease, and the estimated total maximum penalty would be RMB170,000, as advised by our PRC Legal Advisors.

According to Chapter 5 of the Listing Rules and Section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our interests in land or buildings, because as of June 30, 2020, we had no single property interest with a carrying amount of 15% or more of our total assets.

### HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

Due to the nature of our business, we do not generate any hazards or pollutants during the course of our operations. During the Track Record Period, we did not incur any expenses in relation to the compliance with the applicable environmental laws and regulations.

We are committed to providing a safe and healthy working environment for our employees. During the Track Record Period, we did not experience any material accidents in the course of our operations, nor were we subject to any material claims for personal or property damages or for health or safety related compensation.

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## BUSINESS

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### LICENSES AND PERMITS

As advised by our PRC Legal Advisors, we had obtained all material licenses, permits and approvals required for our operations and such licenses, permits and approvals were valid and remained in effect as of the Latest Practicable Date. The following table sets forth the major licenses and permits relating to our business and operations as of the Latest Practicable Date (apart from those pertaining to general business requirements):

<u>License/Permit/Certificate</u>	<u>Holder</u>	<u>Issuing Authority</u>	<u>Expiration Date</u>
Radio and Television Programs Production and Operation Permit (廣播電視節目製作經營許可證) ...	Netjoy Network	Shanghai Municipal Administration of Radio and Television	03/31/2021
Value-added Telecommunications Business Operations License (增值電信業務經營許可證) .....	Netjoy Network	Shanghai Communications Administration	01/03/2021

We monitor the validity status of our licenses and permits, and make timely applications for the renewal of relevant licenses and permits prior to the expiration date. We had not experienced any material difficulty in obtaining or renewing the required licenses and permits for our business operations during the Track Record Period and up to the Latest Practicable Date. Our PRC Legal Advisors are of the view that, there is no material legal impediment in renewing these licenses and permits as they expire in future as long as we are in compliance with applicable laws, regulations and rules and submit all the necessary application documents to the relevant regulatory authorities. However, we cannot assure you that we will be able to obtain or renew such licenses or permits in the future. See “Risk Factors — Risks Relating to Our Business and Industry — Our business is subject to complex and evolving laws and regulations. Many of these laws and regulations are relatively new and subject to changes and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.”

### LEGAL PROCEEDINGS AND COMPLIANCE

We may be involved in legal or other disputes in the ordinary course of our business. During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending litigation, arbitration or administrative proceedings (including any bankruptcy or receivership proceedings) that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation. Our Directors are not involved in any actual or threatened material claims or litigation.

We are subject to a wide range of PRC laws and regulations in the ordinary course of business. Please see “Regulatory Environment.” As advised by our PRC Legal Advisors, we complied with the laws and regulations of the PRC applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date.

### RISK MANAGEMENT AND INTERNAL CONTROL

We have established risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations. In particular, we have adopted and implemented risk management policies in various aspects of our business operations such as financial reporting, information system, regulatory compliance and human resources.

### **Financial Reporting Risk Management**

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial report management policies, budget management policies, financial statements preparation policies and finance department and staff management policies. We have various procedures in place to implement these accounting policies, and our finance department reviews our management accounts based on such procedures. We also provide regular trainings to our finance department staff to ensure that they understand our accounting policies.

As of June 30, 2020, our finance department consisted of nine employees. It is headed by our financial director, who has more than 10 years of experience in financial reporting.

### **Information System Risk Management**

We have implemented various measures to ensure our compliance with the relevant laws and regulations on data privacy and security in the PRC. We have designated personnel responsible for data protection and monitoring the operation of our information technology infrastructure, who has over 20 years of experience in information technology industry.

Our data assets are encrypted and stored on our firewall-protected cloud-based servers in Shanghai and Zhejiang Province and we back-up our data assets on a daily basis. We conduct data restore tests to examine the status of the backup system on a regular basis. We strictly restrict the range of data each employee is authorized to access based on his/her seniority and function. We keep detailed records of access log, which are subject to our regular auditing. We provide trainings on data protection to our employees from time to time and have entered into confidential agreements with our employees to prevent improper use or disclosure of data.

In addition to data security, we have several information system risk management measures in place to ensure the reliability and security of our information system. Firstly, we require our employees to update their power-on password every two months which shall contain at least a total of eight numbers, characters and special symbols to prevent code breaking. We also require responsible employees to encrypt confidential data and documents during their respective daily operations, and heads of each department are responsible for managing the passwords of such encrypted data and documents. We designate specific employees to examine and update such passwords every quarter. Secondly, we conduct regular health check of our software to protect them from computer viruses. We utilize anti-virus software built-in our operating system that delivers comprehensive, ongoing and real-time protection, to protect our information system from software threats, such as computer viruses, malware and spyware. Lastly, for details regarding our data protection and measures to safeguard against system hacking, please see “— Our Information Technology Infrastructure.”

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of data, nor did we experience any material infringement and/or unauthorized use of our copyrighted software intellectual properties.

### **Regulatory Compliance Risk Management**

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. Our legal and compliance department performs the basic function of reviewing and updating the form of contracts we enter into with our suppliers and customers. Our legal and compliance department also works with our external legal counsel to ensure that we have obtained and maintained all the necessary permits and licenses required for our operations. We continually improve our internal policies according to changes in laws, regulations and industry standards to ensure ongoing compliance.

### **Human Resources Risk Management**

We provide regular and specialized training tailored to the needs of our employees in different departments. We have in place an employee handbook approved by our management and distributed to all our employees, which contains internal rules and guidelines regarding best commercial practice, work ethics, negligence and corruption. We provide employees with regular trainings and resources to explain the guidelines contained in the employee handbook.

### **Credit Risk Management**

Our credit risk is primarily attributable to trade receivables, financial assets included in prepayments, other receivables and other assets, and cash deposits at banks. We manage credit risks primarily through the following measures:

- we have established risk management committee, consisting of chief executive officer, financial controller, vice president at sales and marketing department, and risk management director, primarily responsible for designing risk management structure and strategies, reviewing and monitoring the implementation of risk management policies, identifying risks, approving trading limit and credit limit, and updating our risk management policies in response to changes;
- we have implemented “know-your-customer” procedures and credit check to ascertain the background of our potential customers;
- we perform credit assessment on potential customers, and require them to prepay for our services before reaching certain threshold to minimize our credit risk exposure;
- we closely monitor the level of our trade receivables and other financial assets and take appropriate action to recover or minimize our loss where we foresee that our customer may default in its obligation;
- we have credit policy with respect to the transaction limit and credit period granted to our customers, which are subject to our on-going review and revision; and
- we use a provision matrix to calculate the expected credit losses in respect of our trade receivables and other financial assets to assess our exposure to credit risks.

### **Audit Committee Experience and Qualification and Board Oversight**

We have established an audit committee to monitor the implementation of our risk management policies on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of three Directors, namely Mr. Chen Changhua, Dr. Ru Liyun and Mr. Dai. Mr. Chen Changhua and Dr. Ru Liyun are independent non-executive Directors and Mr. Dai is a non-executive Director. Mr. Chen Changhua is the chairman of the audit committee. For the professional qualifications and experiences of the members of our audit committee, please see “Directors and Senior Management — Board of Directors.”

Our finance department is responsible for reviewing the effectiveness of internal controls and reporting to the audit committee on any issues identified. Members of finance department hold regular meetings to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The finance department reports to the audit committee to ensure that any major issues identified thus are channeled to the committee on a timely basis. The audit committee then discusses the issues and reports to the Board if necessary.

### **Ongoing Measures to Monitor the Implementation of Risk Management Policies**

Our audit committee, finance department and senior management together monitor the implementation of our risk management policies on an ongoing basis to ensure our policies and implementation are effective and sufficient.