

## SUMMARY

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

## OVERVIEW

We are an established mobile game developer and publisher in China, offering mobile games that are designed to provide captivating content as well as distinctive and engaging gameplay experiences to players in mainland China and overseas. Our games are particularly popular among the young generation that is aged 30 or below. As a leader in casual games, especially idle games, and rogue-like RPGs in China, we have developed, published and operated a number of popular games. Our growth during the Track Record Period was primarily driven by the launch of new games. As of the Latest Practicable Date, we operated six mobile games and we had a pipeline of 10 mobile games.

### Our Existing Games

Our landmark mobile games, such as *The Marvelous Snail* (最強蝸牛), have recorded significant gross billings and achieved high rankings on the game lists widely recognized in our industry. For example, *The Marvelous Snail* recorded gross billings exceeding RMB400 million in the first month following its launch in June 2020 and had an average MAU of 4.4 million from June to December 2020. *The Marvelous Snail* also obtained the ranking of No. 2 on the iOS Bestseller Games List in China in 2020. This game generated revenues of RMB1,170.0 million and RMB516.5 million in 2020 and the six months ended June 30, 2021, respectively, accounting for 95.3% and 67.7% of our total revenues in these respective periods, and therefore it was the main driver for our net profit growth in these periods. See “Risk Factors—Risks Related to Our Business and Industry—A small number of games have generated a substantial majority of our revenues and the growth of our revenue in 2020 and the first six months of 2021 compared with prior periods relied heavily on one of these games. Failure to maintain the success and extend the lifecycle of these games and competition from other games of the same genre with similar content may materially and adversely affect our business and results of operations” and “Risk Factors—Risks Related to Our Business and Industry—We may not be successful in developing new games, and if we are unable to effectively control our research and development costs, our results of operations may be materially and adversely affected.” The gross billings of *Lantern and Dungeon* (提燈與地下城) exceeded RMB185 million in the first month following its launch in March 2021. It also topped the iOS Top 10 Free Games Chart in China for six consecutive days after its launch and obtained the ranking of No. 4 on the iOS Bestseller Games List in China. Our outstanding game publishing and operation capabilities enable us to reach a broad, active player base. In the six months ended June 30, 2021, the average MAU for all of our games amounted to 3.1 million. Competition in China’s mobile game market is intense, with a few major market players dominating the market and tens of thousands of mobile game companies competing with each other. In China’s mobile game market, the top five market players collectively held a market share of 72.5% and the top two market players held an aggregate market share of 60.4% in terms of revenue in 2020, according to Frost & Sullivan. In 2020, we held a market share of 0.4%, as measured by revenue, ranking 20th among all market players in China, according to the same source.

According to Frost & Sullivan, we have achieved the following remarkable results:

- We ranked third and second among all mobile game companies in China in 2020 in terms of gross billings from casual games and idle games, respectively, holding a market share of 4.4% and 16.7%, respectively.
- We ranked second among all mobile game companies in China in 2020 in terms of gross billings from self-developed rogue-like RPGs, holding a market share of 8.6%.

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- We ranked fourth, in terms of average gross billings per self-developed game in 2020, among all mobile game companies in China that had aggregate gross billings from self-developed games of over RMB1.0 billion.
- The lifecycles of our games in operation as of the Latest Practicable Date generally ranged from 60 to 96 months, significantly longer than the industry average for idle games (10 months) and for rogue-like RPGs (12 months).

Consistent with industry practice, we normally conduct significant marketing and promotion activities for a game before and around the time we officially launch this game and when we release new versions with substantial updates of this game. Accordingly, the gross billings, revenue contribution and key operating metrics such as average MAUs and average MPUs for a game could be relatively high in the first month after its launch or the release of a new version with substantial updates. That is, key operating metrics of our games could fluctuate around the time of a new game’s launch and the release of new versions of the game supported by our corresponding marketing and promotion activities. For example, while *The Marvelous Snail* and *Lantern and Dungeon* have recorded the highest gross billings in the first month after their respective launch dates, *Gumballs & Dungeons* (only considering gross billings generated from our publishing of this game) and *Eternal Adventure* have recorded the highest monthly gross billings in the sixth and 51st month after their respective launch dates, which resulted from releases of their new versions with substantial updates. In addition, *The Marvelous Snail* experienced a slowdown in revenue growth in the first six months of 2021 compared to the year of 2020, as it moved to the maturity stage. Likewise, this game experienced declines of its average MAUs and average MPUs from 4,417 thousand and 701 thousand, respectively, in 2020 to 1,481 thousand and 257 thousand, respectively, in the six months ended June 30, 2021. These changes represented a natural development along a new game’s lifecycle. During the Track Record Period, our revenue and profit were materially affected by the fluctuations in performance of a limited number of landmark games. As we launch more games in future, we expect that we will rely less on a single landmark game, which would be able to reduce the fluctuations of our revenue and profit.

### Our Core Capabilities and Resources

The diagram below illustrates the relationship between our core capabilities and core resources. Together, these elements drive the rapid growth of our business.



### Systematic Development

Our mobile games are generally designed to have captivating content, distinctive game punchlines, striking designs and graphics, and often humorous twists based on feedback from some of our game players, with each

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game incorporating features of multiple game genres. All of these features make our games particularly popular among the young generation, which has been the key driving force and trend-setter of the game industry. Young players generally have strong desire for premium content, personal expression, and distinctive experiences. We offer engaging and intriguing mobile games that fulfill young players’ evolving demands, thus enabling our games to continuously attract young players. According to the survey of players conducted by Frost & Sullivan in April 2021 (the “Frost & Sullivan Survey”), approximately 76% of our players were aged 30 or below, significantly higher than the industry average of 65%. With creativity inspiring the whole process, we take a systematic approach to design, develop and refine our games to achieve commercial success speedily and cost-effectively. The core components of our systematic game development approach include: (i) “goal decomposition”: after our game designers generate new and captivating ideas and content, we form detailed action plans for each step during our game development process; (ii) “effective verification”: before a game is launched, we conduct multiple rounds of game testing by players, particularly our QingCi Enthusiasts, to verify the attractiveness of the ideas for the game and the effectiveness of the team’s action plan; and (iii) “frequent optimization”: based on the player feedback collected, we rapidly and frequently optimize the game with updated versions to meet player demands ahead of the game launch. For instance, for *The Marvelous Snail*, we produced the game demo and conducted the first player testing within only one month after the project’s commencement, and we released a new game version approximately every 20 days before the game’s official launch. The carefully crafted surprises and humorous twists throughout the game resonate well with our players.

### ***Large, Loyal and Active Player Community***

We continuously pursue our goal of improving player engagement. Supported by the strong willingness of game players, especially the young generation, to share game experiences with others, our “QingCi” brand has attracted a large, loyal and active player base that forms our player community, which we call “QingCi community.” As of October 31, 2021, we had 10.4 million QingCi Enthusiasts who were connected with us on our official accounts and groups on social media platforms. This number of QingCi Enthusiasts may involve duplicated players (see definition of this term in “Glossary”), as we do not have the real-name information of the players on social media platforms. We have a dedicated operation team that manages our player community accounts and actively interacts with the community participants. From the launch of the game to October 31, 2021, our articles on the official WeChat account of *The Marvelous Snail* obtained over 60 million views in aggregate, with approximately 124 thousand views per article on average. Our frequent and close interactions with our QingCi Enthusiasts create a virtuous circle, as the feedback from the player community helps us to develop and improve our games, which in turn attract more active players. In addition, these interactions further enhance our player stickiness and monetization, and increase the recognition of our “QingCi” brand. Due in part to these efforts, the average weekly player retention rate of *The Marvelous Snail*, from its launch in June 2020 to June 30, 2021, reached 28%, which is significantly higher than the industry average of approximately 12% for idle games, according to Frost & Sullivan. Supported by our strong brand recognition and effective community connections, in the first month after its launch, approximately 1.7 million of the 3.8 million registered players of *Lantern and Dungeon* were converted from our other games, despite their different genres and characteristics.

### ***Strong Publishing and Operation***

Our strong capabilities in applying customized approaches to game publishing and operation, coupled with our ability to capture evolving market trends for game publishing and distribution, have become a key success factor for us. We have quickly adopted new channels in game publishing and established close partnerships with popular vertical distribution channels such as TapTap and Bilibili, which helps us reach our target audience, particularly young players, more effectively. In addition, we tailor our publishing approach for each of our games based on its characteristics, players’ interest and distribution channels’ features. We identify the game’s target audience and then customize our marketing campaigns so that our game can “break the circle” to reach a large audience. For instance, we accurately identified potential core players for *Lantern and Dungeon* and engaged comprehensive and frequent marketing campaigns suited for its gameplay and characteristics before its official launch. As a result, this game gained great popularity upon launch and swiftly broke through to a vast number of players. Moreover, our strong operation capabilities enable us to accurately capture players’ interest and achieve high player lifetime value while maintaining relatively low player acquisition costs. In 2020 and the six months

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ended June 30, 2021, our overall ARPPU was RMB206 and RMB221, respectively, which were higher than the industry average, according to Frost & Sullivan.

### Our Pipeline Games

Building upon our successful track record and our systematic approach in game development and operation, we have continued to develop and license in high-quality mobile games, including games of new genres and types, such as parkour, SLG (including tower defense and others), ACT, STG and ACT RPG. As of the Latest Practicable Date, we had a pipeline of 10 games, including four self-developed games, that we plan to launch in 2022 and 2023. In addition, we plan to launch local versions for *Lantern and Dungeon* in Hong Kong, Macau and Taiwan and *The Marvelous Snail* in Japan in the second quarter of 2022.

### OUR BUSINESS MODEL

We publish and operate our in-house developed mobile games as well as certain games licensed in from third-party developers. Our mobile games are currently offered primarily on a free-to-play basis. We generate game operating revenues primarily from the sales of in-game virtual items. For our self-published in-house developed games, we are entitled to all the gross billings after deduction of fees charged by payment service providers and distribution channel fees. For our in-licensed games, we generally pay the third-party game developers fees amounting to a prescribed percentage of the gross billings (which are net of commissions to distribution and payment channels, marketing and promotion expenses and other expenses, as the case may be). To a lesser extent, we engage third parties to publish certain of our games, leveraging their established distribution network relationships and game marketing and promotion capabilities. We recognize license fees from third-party publishers as our game licensing revenue. In addition, we generate information service revenue by providing performance-based in-game marketing and promotion services to advertisers or their agents who promote their customers’ products and services in our games to players beginning from 2018. The following table sets forth a breakdown of our revenue by source in absolute amounts and as percentages of our total revenues for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)									
	(Unaudited)									
Game operating revenues										
Self-developed	35,481	36.1	43,318	48.8	1,082,298	88.2	62,085	70.1	496,391	65.0
Licensed	15,110	15.3	10,054	11.3	11,150	0.9	4,052	4.6	233,242	30.6
<i>Subtotal</i>	50,591	51.4	53,372	60.1	1,093,448	89.1	66,137	74.7	729,633	95.6
Game licensing revenue	47,822	48.6	33,582	37.9	58,576	4.8	14,198	16.0	18,930	2.5
Information service revenue	8	0.0	1,750	2.0	74,896	6.1	8,215	9.3	14,387	1.9
<b>Total revenues</b>	<b>98,421</b>	<b>100.0</b>	<b>88,704</b>	<b>100.0</b>	<b>1,226,920</b>	<b>100.0</b>	<b>88,550</b>	<b>100.0</b>	<b>762,950</b>	<b>100.0</b>

We experienced an increase in revenue contribution from games published by ourselves during the Track Record Period. Our increased game operating revenues from self-developed games in 2020 and the first six months of 2021 were primarily attributable to *The Marvelous Snail*. Our increased game operating revenues from in-licensed games in the first six months of 2021 was primarily attributable to *Lantern and Dungeon*. For games published by us, we typically concentrate our spending on marketing and promotion expenses around the launch of new games and when releasing new versions of the games, and the amount of these expenses required varies greatly depending on the characteristics of each game and its target players. For example, marketing and promotion expenses as a percentage of our total revenues were relatively high in 2020 and the first six months of 2021, primarily attributable to marketing activities to prepare for the launch of *The Marvelous Snail* in June 2020 and *Lantern and Dungeon* in March 2021.

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### OUR EXISTING GAME PORTFOLIO

As of the Latest Practicable Date, we had six existing mobile games, including five idle games or rogue-like RPGs and one other RPG:

- *The Marvelous Snail* (最強蝸牛) is our self-developed idle game launched in June 2020. This game generated gross billings exceeding RMB400 million in the first month following its launch and had an average MAU of 4.4 million from June to December 2020. It also obtained the ranking of No. 2 on the iOS Bestseller Games List in China in 2020. For the six months ended June 30, 2021, it had an average MAU of 1.5 million.
- *Gumballs & Dungeons* (不思議迷宮) is our self-developed rogue-like RPG launched in August 2016. This game topped the iOS Paid Games List in China for over 70 days in 2017 and had over 23.3 million cumulative registered players as of June 30, 2021—making it a benchmark game in China’s rogue-like RPG category. For the six months ended June 30, 2021, it had an average MAU of 240 thousand.
- *Lantern and Dungeon* (提燈與地下城) is our in-licensed new rogue-like RPG launched in March 2021. The game generated gross billings of over RMB185 million in the first month following its launch. It also topped the iOS Top 10 Free Games Chart in China for six consecutive days after its launch and obtained the ranking of No. 4 on the iOS Bestseller Games List in China. For the six months ended June 30, 2021, it had an average MAU of 1.4 million.
- *Ares Virus* (阿瑞斯病毒) is our in-licensed zombie survival RPG launched in August 2018. The game topped the iOS Paid Games List in China overnight after its official launch, and it had remained as one of the top 10 iOS Paid Adventure Games for over 30 days. For the six months ended June 30, 2021, it had an average MAU of 380 thousand.
- *Eternal Adventure* (無盡大冒險), launched in June 2015, is our self-developed idle game that combines the features of idle gameplay experience and Diablo-like adventure. The game had received over 150 times of “Editor’s Choice” recommendation and obtained the highest score of 4.7 out of 5.0 on the iOS App Store in China as of the Latest Practicable Date. For the six months ended June 30, 2021, it had an average MAU of 24 thousand.
- *Yu Gong 3* (愚公移山3—智叟的反擊) is our self-developed idle game launched in January 2017. For the six months ended June 30, 2021, it had an average MAU of 4 thousand.

The following table sets forth certain details of our existing games as of the Latest Practicable Date, and their corresponding revenue contributions during the Track Record Period.

Logo and Title	Mobile Game Genre	Languages	Publishing Model(s) as of the Latest Practicable Date	Official Launch Date <sup>(1)</sup>	Major Market(s) <sup>(2)</sup>	Source	Lifecycle Stage as of the Latest Practicable Date <sup>(3)</sup>	Expected Lifecycle <sup>(3)(4)</sup>	Practicable as of the Latest Date	Aggregate
										Remaining Duration of Lifecycle
<i>The Marvelous Snail</i> (最強蝸牛)	Idle	Chinese (Simplified/Traditional)	Self-publishing	June 2020	Mainland China	Developed in-house	Maturity (aged 17 months)	96 months	79 months	1,688,101
			Third-party publishing	July 2020	Hong Kong, Macau and Taiwan	Developed in-house	Maturity (aged 16 months)	96 months	80 months	

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Logo and Title	Mobile Game Genre	Languages	Publishing Model(s) as of the Latest Practicable Date	Official Launch Date <sup>(1)</sup>	Major Market(s) <sup>(2)</sup>	Source	Lifecycle Stage as of the Latest Practicable Date <sup>(3)</sup>	Expected Lifecycle <sup>(3)(4)</sup>	Practicable Latest Date	Aggregate Remaining Revenues Duration Generated of Lifecycle as of the Latest Date	the Track Record Period (RMB in thousands)
<i>Gumballs &amp; Dungeons</i> (不思議迷宮)	Rogue-like RPG	Chinese (Simplified/Traditional), English, Japanese and Korean	Self-publishing	August 2016	Southeast Asia, Europe (regions other than French-, German-and Russian-speaking regions) and the U.S.	Developed in-house	Maturity (aged 63 months)	96 months	33 months	172,976	
			Third-party publishing	December 2016	Mainland China, Hong Kong, Macau, Taiwan, South Korea, the Middle East, Europe (French-, German-and Russian-speaking regions)	Developed in-house	Maturity (aged 59 months)	96 months	37 months		
<i>Lantern and Dungeon</i> (提燈與地下城)	Rogue-like RPG	(Chinese Simplified)	Self-publishing	March 2021	Mainland China	In-licensed	Maturity (aged 8 months)	60 months	52 months	232,165	
<i>Ares Virus</i> (阿瑞斯病毒)	Other RPG	Chinese (Simplified/Traditional); English	Self-publishing	August 2018	Mainland China and the U.S.	In-licensed	Maturity (aged 39 months)	60 months	21 months	36,748	
<i>Eternal Adventure</i> (無盡大冒險)	Idle	Chinese (Simplified) and Japanese	Self-publishing	June 2015	Mainland China	Developed in-house	Maturity (aged 77 months)	96 months	19 months	33,948	
			Third-party publishing	July 2020	Japan	Developed in-house	Maturity (aged 16 months)	60 months	44 months		
<i>Yu Gong 3</i> (愚公移山3—智叟的反擊)	Idle	Chinese (Simplified)	Self-publishing	January 2017	Mainland China	Developed in-house	Recession (aged 58 months)	66 months	8 months	6,529	

*Notes:*

- (1) The official launch date is the launch date that we announced on our official website.
- (2) Major markets are the ones we considered to be of strategic importance.
- (3) As our games are available in various language versions, a game’s lifecycle is the lifecycle(s) of the game’s language version(s) in the respective major market(s).
- (4) Expected lifecycles (months) are estimated based on the industry average lifecycles by different genres of games, our past experience of operating similar games and gross billings generated by the relevant game. However, the actual lifecycles of these games may differ from the time presented in the table.

## OUR GAME PIPELINE

Building upon our successful track record, we have continued to develop local versions for the overseas markets and develop and license in high-quality idle and rogue-like RPGs as well as explore new-genre games.

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The table below sets forth a breakdown of local versions of our existing games that we plan to launch in the near future. The launch date for each of these local versions is subject to changes according to their respective development and our marketing strategies.

Title	Mobile Game Genre	Source	Expected Launch Date	Markets for the Local Versions
<i>Lantern and Dungeon</i> (提燈與地下城)	Rogue-like RPG	In-licensed	Second quarter of 2022	Hong Kong, Macau and Taiwan
<i>The Marvelous Snail</i> (最強蝸牛)	Idle game (a type of casual games)	Developed in-house	Second quarter of 2022	Japan

As of the Latest Practicable Date, we also had a pipeline of 10 new mobile games. We expect to launch the first local version for each of these games in 2022 and 2023 and will release these games in markets such as mainland China, Hong Kong, Macau and Taiwan, Japan, South Korea, Europe and the U.S. The specific target markets of each game may vary depending on the game’s development progress and post-launch performance, market conditions and our marketing strategies. The following table sets forth details of our pipeline games as of the same date.

Title <sup>(1)</sup>	Mobile Game Genre <sup>(1)</sup>	Source	Development Stage as of the Latest Practicable Date <sup>(1)</sup>	Expected Launch Date <sup>(1)</sup>
<i>Time Voyager</i> (時光旅行社)	Rogue-like RPG	Developed in-house	Game production, testing and optimization	First quarter of 2022
<i>Project A</i>	Tower defense (a type of SLG)	Developed in-house	Game production, testing and optimization	Fourth quarter of 2022
<i>Servitor Project</i> (使魔計畫)	Idle game (a type of casual games)	Developed in-house	Game production, testing and optimization	Third quarter of 2022
<i>Ares Virus 2</i> (阿瑞斯病毒2)	RPG	In-licensed	Game production, testing and optimization	Second quarter of 2022
<i>Project B</i>	Casual game	In-licensed	Game production, testing and optimization	Third quarter of 2022
<i>Loot Rush</i> (騎士冲鴨)	ACT RPG	In-licensed	Game production, testing and optimization	Second quarter of 2022
<i>Project C</i>	ACT	In-licensed	Demo production	Third quarter of 2022
<i>Project D</i>	STG	In-licensed	Demo production	Fourth quarter of 2022
<i>Bladeheart Ninja 2</i> (刀心2)	Parkour (a type of casual games)	In-licensed	Game production, testing and optimization	Fourth quarter of 2022
<i>Project E</i>	SLG	Developed in-house	Demo production	Second quarter of 2023

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*Note:*

- (1) The expected launch date for each game refers to the launch date for the first local version of the game to be released. The title, genre, expected launch date, major markets and other information of each game in the pipeline may be subject to changes according to their respective development and, in the case of games to be launched in China, preapproval status.

### OVERSEAS MARKETS

We have been expanding our business globally since 2016, targeting a large worldwide player base, backed by our superior localization capabilities. In addition to our established presence in Hong Kong, Taiwan and Macau, we have been distributing our games in broader areas around the globe such as South Korea, Japan, Europe, the U.S., Southeast Asia and the Middle East. We expect to distribute nine of our 10 pipeline games in the overseas markets. See “Business—Overseas Markets” for more information on our strategies and achievements for overseas expansion.

### KEY OPERATING METRICS

We measure our games’ performance by the following key operating metrics, namely (i) average MAUs, (ii) average MPUs, (iii) ARPPU, and (iv) cumulative registered players. The following table sets forth these operating metrics for our mobile games that were in operation as of the Latest Practicable Date.

	<u>Year ended December 31,</u>			<u>Six months ended June 30,</u>	<u>Eight months ended August 31,</u>
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>
Average MAUs (in thousands)	1,693	1,240	3,448	3,064	2,935
Average MPUs (in thousands)	163	114	495	575	510
ARPPU (RMB)	49	62	206	221	N/A
	<u>As of December 31,</u>			<u>As of June 30,</u>	<u>As of August 31,</u>
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>
Cumulative registered players (in thousands)	27,458	35,978	59,585	67,979	70,151

The table below sets forth the movement of our mobile games in operation during the periods indicated.

	<u>Year ended December 31,</u>			<u>Six months ended June 30,</u>	<u>Eight months ended August 31,</u>
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>
<b>Number of Games</b>					
In operation at the beginning of the year/period	7	8	8	5	5
Newly launched	1	–	1	1	1
Terminated	–	–	4	–	–
<b>In operation at the end of the period</b>	<u>8</u>	<u>8</u>	<u>5</u>	<u>6</u>	<u>6</u>



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The following tables set forth the revenue contribution and performance of our mobile games that were in operation as of the Latest Practicable Date.

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB in thousands)				
	(Unaudited)				
<b>Revenues</b>					
<i>The Marvelous Snail (最強蝸牛)</i>	–	1,871	1,169,742	56,683	516,487
<i>Gumballs &amp; Dungeons (不思議迷宮)</i>	72,839	53,286	36,393	21,067	10,458
<i>Lantern and Dungeon (提燈與地下城)</i>	–	–	2,773		229,392
<i>Ares Virus (阿瑞斯病毒)</i>	14,140	10,068	8,485	3,942	4,055
<i>Eternal Adventure (無盡大冒險)</i>	4,237	19,247	8,182	6,085	2,281
<i>Yu Gong 3 (愚公移山3)</i>	4,029	1,682	620	567	198

	Year ended December 31,			Six months ended June 30,	Eight months ended August 31,
	2018	2019	2020	2021	2021
	(in thousands)				

### Average MAUs

<i>The Marvelous Snail (最強蝸牛)</i>	–	–	4,417	1,481	1,431
<i>Gumballs &amp; Dungeons (不思議迷宮)</i>	903	536	394	240	235
<i>Lantern and Dungeon (提燈與地下城)</i>	–	–	–	1,401	1,017
<i>Ares Virus (阿瑞斯病毒)</i>	1,585	572	424	380	477
<i>Eternal Adventure (無盡大冒險)</i>	43	90	42	24	22
<i>Yu Gong 3 (愚公移山3)</i>	86	43	11	4	6

	Year ended December 31,			Six months ended June 30,	Eight months ended August 31,
	2018	2019	2020	2021	2021
	(in thousands)				

### Average MPUs

<i>The Marvelous Snail (最強蝸牛)</i>	–	–	701	257	241
<i>Gumballs &amp; Dungeons (不思議迷宮)</i>	96	66	52	32	31
<i>Lantern and Dungeon (提燈與地下城)</i>	–	–	–	385	269
<i>Ares Virus (阿瑞斯病毒)</i>	135	28	26	25	32
<i>Eternal Adventure (無盡大冒險)</i>	7	18	8	4	4
<i>Yu Gong 3 (愚公移山3)</i>	4	2	1	0.4	0.6

	Year ended December 31,			Six months ended June 30,
	2018	2019	2020	2021
<b>ARPPU (RMB)</b>				
<i>The Marvelous Snail (最強蝸牛)</i>	–	–	238	335
<i>Gumballs &amp; Dungeons (不思議迷宮)</i>	63	67	59	55
<i>Lantern and Dungeon (提燈與地下城)</i>	–	–	–	149
<i>Ares Virus (阿瑞斯病毒)</i>	21	30	27	27
<i>Eternal Adventure (無盡大冒險)</i>	54	90	89	88
<i>Yu Gong 3 (愚公移山3)</i>	77	70	82	82

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	As of December 31,			As of June 30,	As of August 31,
	2018	2019	2020	2021	2021
	<i>(in thousands)</i>				
<b>Cumulative Registered Players</b>					
<i>The Marvelous Snail (最強蝸牛)</i>	–	–	17,929	19,935	20,638
<i>Gumballs &amp; Dungeons (不思議迷宮)</i>	18,539	21,120	22,884	23,297	23,426
<i>Lantern and Dungeon (提燈與地下城)</i>	–	–	–	4,373	4,569
<i>Ares Virus (阿瑞斯病毒)</i>	6,610	11,447	14,947	16,452	17,551
<i>Eternal Adventure (無盡大冒險)</i>	814	1,490	1,801	1,880	1,901
<i>Yu Gong 3 (愚公移山3)</i>	1,495	1,920	2,024	2,043	2,065

See “Business—Our Games—Key Operating Metrics” for the calculations and analysis of fluctuations of the above operating metrics.

### OUR STRENGTHS

We believe the following strengths contribute to our success and position us for continued growth:

- An established mobile game developer and publisher in China offering games with captivating content and distinctive experiences and particularly popular among the young generation;
- Strong content capabilities and systematic production and operation;
- A virtuous circle fostered by large, loyal and active player community;
- Strong publishing and operation capabilities leading to successful monetization; and
- Innovative, experienced and stable management team and core game producers with exceptional execution capabilities and support from industry-leading strategic investors.

### OUR STRATEGIES

We intend to pursue the following strategies to further grow our business:

- Continue to enrich our high-quality game portfolio and content offerings;
- Continue to strengthen our game development and operation capabilities to enhance profitability;
- Expand our player base and improve player stickiness and engagement;
- Continue to expand our overseas business; and
- Enter into strategic alliances, investments and acquisitions.

### OUR CUSTOMERS

For our self-published games, we consider the players that have purchased in-game virtual items as our customers. For our games published through third-party publishers, we consider these publishers as our customers. In 2018, 2019, 2020 and the six months ended June 30, 2021, revenue from our five largest customers amounted to RMB48.0 million, RMB35.3 million, RMB133.8 million and RMB34.0 million, respectively, accounting for 48.8%, 39.8%, 11.0% and 4.5% of our total revenues in the same respective periods. The decrease

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## SUMMARY

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in the proportion of revenue contribution from our five largest customers during the Track Record Period was mainly attributable to the increase in our game operating revenues (namely, revenues from games published by ourselves) as a percentage of our total revenues. Certain subsidiaries of G-bits, a substantial shareholder of our Company, have published our games. Our transaction terms with subsidiaries of G-bits are comparable to those with Independent Third Party customers. See “Business—Our Customers” for more information.

### OUR SUPPLIERS

Our suppliers primarily include third-party distribution platforms, payment channels, game developers from whom we license in games, other related game service providers, as well as third-party advertising and marketing service providers and server providers. In 2018, 2019, 2020 and the six months ended June 30, 2021, purchases from our five largest suppliers amounted to RMB20.6 million, RMB17.1 million, RMB535.1 million and RMB246.8 million, respectively, accounting for 43.3%, 50.2%, 61.8% and 55.6% of our total purchases in these respective same periods. Shenzhen Hot Zone Network Technology Co., Ltd., Guangzhou Jodo Information and Technology Co., Ltd., and Shenzhen Jishiwu Technology Co., Ltd. are our associate companies in which we have minority equity interest, and they provided game development and online advertising services, respectively, to us. The G-bits Group provided property leasing, administrative, marketing and promotion services, and game development services to us during the Track Record Period. Given (i) our success in launching licensed games *Ares Virus* (阿瑞斯病毒) and *Lantern and Dungeon* (提燈與地下城) during the Track Record Period and (ii) the commercial potential of a game developed by the G-bits Group, we licensed the game Project B from the G-bits Group in April 2021. Our transaction terms with the G-bits Group and other suppliers mentioned above are comparable to those with Independent Third Party suppliers.

During the Track Record Period, the G-bits Group was our supplier and customer. It contributed 6.4% and 8.0% of our total purchases in 2019 and 2020, respectively, and 44.8%, 35.6%, 4.7% and 2.5% of our total revenues in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively. See “Business—Our Suppliers” for more information.

### GAME DEVELOPMENT TEAM

As of June 30, 2021, our game development team consisted of 150 employees, approximately 77% of whom had a bachelor’s degree or higher. Our game development team members have spent an average of three years with us. Their roles include producers, designers, programmers, artists, sound engineers and testing engineers. To strengthen our R&D capabilities, we also discover and incubate future game producers who display strong innovation and game design talent. Our game development team primarily focuses on designing new games, innovating gameplay, originating game content, enhancing player experience and optimizing existing games. Our game development team works closely with our publishing and operation team at each stage of game development to optimize our games efficiently and productively. Our game development team also plays an essential role in determining the games to be licensed in by assessing the stability, benefits and risks associated with those games. See “Business—Game Developing—In-house Development” for more details.

### SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables summarize our consolidated financial information during the Track Record Period and should be read in conjunction with the section headed “Financial Information” of this document and the Accountant’s Report set out in Appendix I to this document. Our consolidated financial information was prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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### Summary of Consolidated Statements of Comprehensive Income

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>									
	<i>(Unaudited)</i>									
Revenues	98,421	100.0	88,704	100.0	1,226,920	100.0	88,550	100.0	762,950	100.0
Cost of revenues	(21,670)	(22.0)	(19,967)	(22.5)	(284,565)	(23.2)	(34,728)	(39.2)	(188,428)	(24.7)
Gross profit	76,751	78.0	68,737	77.5	942,355	76.8	53,822	60.8	574,522	75.3
Selling and marketing expenses	(13,917)	(14.1)	(16,763)	(18.9)	(559,215)	(45.6)	(186,426)	(210.5)	(245,071)	(32.1)
Research and development expenses	(25,305)	(25.7)	(25,612)	(28.9)	(146,108)	(11.9)	(12,258)	(13.8)	(18,043)	(2.4)
General and administrative expenses	(19,090)	(19.4)	(9,296)	(10.5)	(102,897)	(8.4)	(11,916)	(13.5)	(28,666)	(3.8)
Net impairment losses on financial assets	(657)	(0.7)	(170)	(0.2)	364	0.0	688	0.8	71	0.0
Fair value changes on investments measured at fair value through profit or loss	143	0.1	535	0.6	594	0.0	439	0.5	1,962	0.3
Other income	7,042	7.2	6,394	7.2	11,406	1.0	4,807	5.4	2,917	0.4
Other gains/(losses), net	1,262	1.3	1,741	2.0	(27,071)	(2.2)	(13)	(0.0)	(4,157)	(0.5)
<b>Operating profit/(loss)</b>	<b>26,229</b>	<b>26.7</b>	<b>25,566</b>	<b>28.8</b>	<b>119,428</b>	<b>9.7</b>	<b>(150,857)</b>	<b>(170.4)</b>	<b>283,535</b>	<b>37.2</b>
Finance (costs)/income, net	(98)	(0.1)	(91)	(0.1)	692	0.1	(17)	0.0	414	0.1
Fair value changes of convertible redeemable preferred shares	–	–	–	–	–	–	–	–	(338,380)	(44.4)
Share of results of investments accounted for using equity method	145	0.1	(154)	(0.2)	(404)	(0.0)	(202)	(0.2)	5,046	0.7
Losses on impairment of investments accounted for using the equity method	–	–	(2,000)	(2.3)	–	–	–	–	–	–
Losses from financial instruments issued to investors	–	–	(2,667)	(3.0)	(6,400)	(0.5)	(3,200)	(3.6)	(53,928)	(7.1)
Profit/(loss) before income tax	26,276	26.7	20,654	23.2	113,316	9.2	(154,276)	(174.2)	(103,313)	(13.5)
Income tax (expenses)/credit	(1,416)	(1.4)	(1,029)	(1.1)	(9,577)	(0.8)	(1,904)	(2.2)	9,528	1.2
<b>Profit/(loss) for the year/period</b>	<b>24,860</b>	<b>25.3</b>	<b>19,625</b>	<b>22.1</b>	<b>103,739</b>	<b>8.5</b>	<b>(156,180)</b>	<b>(176.4)</b>	<b>(93,785)</b>	<b>(12.3)</b>

### Non-IFRS Financial Data

To supplement our consolidated statements of comprehensive income which are presented in accordance with IFRSs, we use adjusted net profit/(loss) for the period, a non-IFRS financial measure. We present adjusted net profit/(loss) for the period because it is used by our management to evaluate our operating performance. We also believe that adjusted net profit/(loss) for the period provides useful information to [REDACTED] and others to understand and evaluate our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods.

We exclude share-based compensation, losses from financial instruments issued to investors, fair value changes of convertible redeemable preferred shares, and [REDACTED] in calculating adjusted net profit/(loss)

## SUMMARY

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for the period, because they are not directly related to our business operations. Our share-based compensation during the Track Record Period was mainly to compensate three senior management members. Our share-based compensation expenses are one-off and non-recurring in nature and not considered by our management to be indicative of our results of operation. Our gains/(losses) from financial instruments issued to investors during the Track Record Period mainly represented changes in the carrying amount of G-bits’ equity investment in the form of ordinary shares with preferential rights in QC Digital during the [REDACTED] stage. The financial instruments issued to investors were already derecognized upon the share exchange in May 2021. The losses from financial instruments issued to investors were not indicative of our results of operation and will not recur after the [REDACTED]. The fair value changes of convertible redeemable preferred shares (Series A and Series B Preferred Shares) were non-cash in nature and not indicative of our operating performance, and will not recur after the [REDACTED] as our Series A and Series B Preferred Shares will be converted into ordinary shares of our Company upon the [REDACTED]. During the Track Record Period, our [REDACTED] referred to expenses incurred in connection with the [REDACTED] and are not indicators of our operational performance. These items have caused volatility in our periodic earnings and have little analytical or predictive value. However, the presentation of adjusted net profit/(loss) for the period should not be construed as an indication that our future results will not be affected by other charges and gains we consider to be outside the ordinary course of our business.

The use of adjusted net profit/(loss) for the period has certain limitations. Share-based compensation, losses from financial instruments issued to investors, fair value changes of convertible redeemable preferred shares and [REDACTED] are not reflected in the presentation of adjusted net profit/(loss) for the period. We compensate for these limitations by providing the relevant disclosure of our share-based compensation, losses from financial instruments issued to investors, fair value changes of convertible redeemable preferred shares and [REDACTED] both in our reconciliations to the IFRS financial measures and in our consolidated financial statements, all of which should be considered when evaluating our performance.

In light of the above limitations, when assessing our operating performance, you should not consider our adjusted net profit/(loss) for the period in isolation from, or as a substitute for, our profit/(loss) for the period or any other operating performance measure that is calculated in accordance with IFRSs. In addition, this non-IFRS measure does not have a standardized meaning prescribed by IFRSs. Our adjusted net profit/(loss) for the period may not be comparable to adjusted net profit/(loss) for the period or other similarly titled measures utilized by other companies, since such other companies may not calculate adjusted net profit/(loss) for the period in the same manner as we do.

## SUMMARY

The following table sets forth a reconciliation of our profit/(loss) for the period attributable to equity holders of the Company to adjusted net profit or loss for the periods indicated. See “Financial Information—Non-IFRS Financial Data” for more information.

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB in thousands)			(Unaudited)	
<b>Profit/(loss) for the year/period attributable to equity holders of the Company</b>	24,860	19,625	103,739	(156,180)	(93,785)
Adjustments:					
Share-based compensation	14,000	–	56,017	8,965	–
Losses from financial instruments issued to investors	–	2,667	6,400	3,200	53,928
Fair value changes of convertible redeemable preferred shares	–	–	–	–	338,380
	<b>[REDACTED]</b>				
<b>Adjusted net profit/(loss) for the year/period (non-IFRSs)</b>	<b>[REDACTED]</b>	<b>[REDACTED]</b>	<b>[REDACTED]</b>	<b>[REDACTED]</b>	<b>[REDACTED]</b>

Our revenues decreased by 9.9% from RMB98.4 million in 2018 to RMB88.7 million in 2019, primarily attributable to a decrease in game licensing revenue generated from our self-developed games published by third parties, particularly *Gumballs & Dungeons* (不思議迷宮), and a decrease in game operating revenue from licensed games, primarily due to *Ares Virus* (阿瑞斯病毒) which was launched in August 2018.

Our revenue increased substantially from RMB88.7 million in 2019 to RMB1,226.9 million in 2020 primarily attributable to a substantial increase in game operating revenue generated from our self-developed games that we published by ourselves, particularly *The Marvelous Snail* (最強蝸牛), an exceptionally successful game that we launched in June 2020, and an increase in our information service revenue from *The Marvelous Snail* (最強蝸牛).

Our revenue increased substantially from RMB88.6 million in the six months ended June 30, 2020 to RMB763.0 million in the same period of 2021 primarily attributable to a substantial increase in game operating revenue from our self-developed games, mainly *The Marvelous Snail* (最強蝸牛), and from our licensed games, mainly *Lantern and Dungeon* (提燈與地下城) which we launched in March 2021.

Our profit for the year decreased by 21.1% from RMB24.9 million in 2018 to RMB19.6 million in 2019, primarily due to a decrease in our revenue and an increase in our selling and marketing expenses. Our profit for the year increased substantially from 2019 to RMB103.7 million in 2020, primarily due to significant increases in our revenue from *The Marvelous Snail* (最強蝸牛) and our launch of *Lantern and Dungeon* (提燈與地下城). Our loss for the period decreased by 40.0% from RMB156.2 million in the six months ended June 30, 2020 to RMB93.8 million in the same period of 2021. Our net loss in the six months ended June 30, 2020 was primarily due to (i) our incurrence of significant selling and marketing expenses to prepare for the launch of *The Marvelous Snail* (最強蝸牛) and shortly after that to promote this game, and (ii) our relatively small revenue from *The Marvelous Snail* (最強蝸牛), because this game was launched and in operation for only around a week in the first half of 2020 and a relatively high portion of its revenue around its launch was deferred to later periods. Our net loss in the six months ended June 30, 2021 was mainly attributable to our fair value losses of convertible redeemable preferred shares of RMB338.4 million. We recorded adjusted net profit (non-IFRS) in the six months ended June 30, 2021, compared to adjusted net loss (non-IFRS) in the same period of 2020; this change was

## SUMMARY

primarily due to our substantially increased revenue from *The Marvelous Snail* (最強蝸牛), and revenue from our newly launched *Lantern and Dungeon* (提燈與地下城).

### Summary of Consolidated Statements of Financial Position

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
Long-term investments measured at fair value through profit or loss	1,100	21,646	77,800	134,716
Total non-current assets	34,259	40,545	106,776	200,745
Trade receivables	13,872	10,233	121,536	72,181
Cash and cash equivalents	21,398	26,092	443,248	675,957
Total current assets	100,899	189,364	628,045	818,087
<b>Total assets</b>	<b>135,158</b>	<b>229,909</b>	<b>734,821</b>	<b>1,018,832</b>
Financial instruments issued to investors	–	82,667	89,067	–
Total non-current liabilities	1,685	82,667	95,883	1,776,116
Total current liabilities	39,679	33,823	424,735	186,546
<b>Total liabilities</b>	<b>41,364</b>	<b>116,490</b>	<b>520,618</b>	<b>1,962,662</b>
<b>Net current assets</b>	<b>61,220</b>	<b>155,541</b>	<b>203,310</b>	<b>631,541</b>
<b>Net assets/(liabilities)</b>	<b>93,794</b>	<b>113,419</b>	<b>214,203</b>	<b>(943,830)</b>
<b>Total equity and liabilities</b>	<b>135,158</b>	<b>229,909</b>	<b>734,821</b>	<b>1,018,832</b>

Our net assets increased from December 31, 2018 to December 31, 2020, primarily attributable to retained earnings from our profit for the year and capital contributions from the then shareholders of QC Digital, offset in part by dividend distribution by QC Digital to its then shareholders in 2018 and 2020. We recorded net liabilities of RMB943.8 million in the six months ended June 30, 2021, primarily due to our convertible redeemable preferred shares of RMB1,770.0 million as of the same date. The convertible redeemable preferred shares will be re-designated from financial liabilities to equity as a result of their automatic conversion into our ordinary shares upon the [REDACTED] of our Company, such that our net liabilities position will turn into net assets.

Our net current assets increased substantially from RMB61.2 million as of December 31, 2018 to RMB155.5 million as of December 31, 2019, primarily attributable to our term deposits with fixed rates of return from three months to one year. Our net current assets increased by 30.7% from December 31, 2019 to RMB203.3 million as of December 31, 2020, primarily due to a significant increase in cash and cash equivalents from operating activities and an increase trade receivables, offset in part by increases in contract liabilities and other payables and accruals. Our net current assets increased substantially from December 31, 2020 to RMB631.5 million as of June 30, 2021, primarily due to an increase in cash and cash equivalents, a decrease in contract liabilities, and a decrease in other payables and accruals, offset in part by decreases in trade receivables and prepayments, deposits and other assets. See “Financial Information—Discussion of Selected Items from Our Consolidated Statements of Financial Position” for more details.

## SUMMARY

### Summary of Consolidated Statements of Cash Flows

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>				
	<i>(Unaudited)</i>				
Net cash generated from operating activities	40,122	6,801	443,601	15,588	109,451
Net cash (used in)/generated from investing activities	(23,697)	(80,252)	49,588	58,838	(92,349)
Net cash (used in)/generated from financing activities	(11,267)	78,263	(60,366)	(1,242)	217,363
Net (decrease)/increase in cash and cash equivalents	5,158	4,812	432,823	73,184	234,465
Cash and cash equivalents at the beginning of year/ period	15,955	21,398	26,092	26,092	443,248
Effects of exchange rate changes on cash and cash equivalents	285	(118)	(15,667)	85	(1,756)
<b>Cash and cash equivalents at end of the year/period</b>	<b>21,398</b>	<b>26,092</b>	<b>443,248</b>	<b>99,361</b>	<b>675,957</b>

We had net cash generated from operating activities during the Track Record Period, and its fluctuations during the Track Record Period were primarily attributable to changes in our operating profit. The fluctuations of our net cash generated from or used in investing activities during the Track Record Period were primarily related to our equity investments, purchases of financial assets, and loans to related parties and third parties. The fluctuations of our net cash generated from or used in financing activities during the Track Record Period were primarily attributable to dividend distribution to then shareholders of QC Digital, capital contributions from the then shareholders of QC Digital, our issuance of financial instruments to investors and our issuance of convertible redeemable preferred shares. See “Financial Information—Liquidity and Capital Resources” for more information.

### KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates and for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>(Unaudited)</i>				
<b>Profitability ratios</b>					
Gross profit margin	78.0%	77.5%	76.8%	60.8%	75.3%
Net profit margin	25.3%	22.1%	8.5%	N/A	N/A
Return on equity	31.3%	18.9%	63.3%	N/A	N/A
Return on assets	20.6%	10.8%	21.5%	N/A	N/A
	As of December 31,			As of June 30,	
	2018	2019	2020	2021	
<b>Liquidity ratio</b>					
Current ratio	2.5	5.6	1.5		4.4

See “Financial Information—Key Financial Ratios” for a detailed analysis of the fluctuations of our key financial ratios.

### DIVIDENDS

In May 2018, our VIE, QC Digital, declared a dividend of RMB10.0 million and paid the dividend to its then equity holders in the same year. In December 2020, QC Digital declared a dividend of RMB90.0 million and



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paid the dividend to its then equity holders in the same year. In May 2021, QC Digital declared and paid a dividend of RMB180 million to its then equity holders. Our Company did not declare or pay any dividend during the Track Record Period and has not done so since our Company’s incorporation on March 12, 2021. After the Reorganization, we intend to permanently reinvest remaining undistributed earnings from QC Digital and its subsidiaries to further expand our businesses in the PRC and does not plan to require our PRC subsidiaries to distribute their undistributed earnings in the foreseeable future. We do not currently have a dividend policy. The payment and the amount of any future dividends will be at the discretion of our Board and will also depend on factors such as our results of operations, cash flow, capital requirements, general financial condition, contractual restrictions, future prospects and other factors that our Board deems relevant. See “Financial Information—Dividends” for more information.

### RISK FACTORS

There are certain risks involved in our business and industry and the [REDACTED], many of which are beyond our control. The details are set out in the section headed “Risk Factors.” Some of the major risks we face are relating to:

- A small number of games have generated a substantial majority of our revenues. Failure to maintain the success and extend the lifecycle of these games and competition from other games of the same genre with similar content may materially and adversely affect our business and results of operations.
- We may not be successful in developing new games, and if we are unable to effectively control our research and development costs, our results of operations may be materially and adversely affected.
- Our new games may not be commercially successful if we fail to adapt our games to new trends and attract new game players.
- We may not be able to maintain existing players and attract new players or keep our players engaged in our games, and new games may attract players away from our existing games, which could adversely affect our results of operations.
- Our profitability depends largely on the lifecycle of each game, and we cannot guarantee a game’s duration at each lifecycle stage or its revenue-generating capability at each stage.
- If we fail to keep up with technological developments or anticipate or successfully adapt our games to new trends, our business prospects and results of operations could be materially and adversely affected.
- A vast majority of our revenue is derived from sales of in-game virtual items, and failure to monetize effectively through this virtual item-based revenue model may adversely affect our business.

### LICENSES, PERMITS AND APPROVALS

We are required to maintain and renew the necessary permits, licenses and approvals for our business operations under applicable laws and regulations in China and overseas. Our PRC Legal Advisor advised us that there existed no material legal impediment to renew applicable licenses, permits and approvals as of the Latest Practicable Date, other than the Internet Culture Operation License, which the MOCT no longer issues because the MOCT no longer assumes the responsibility for the administration of the online game industry beginning from May 2019. As of the Latest Practicable Date, (i) it was still unclear whether the supervision responsibility of the MOCT in respect of the online game industry will be transferred to another governmental department, and (ii) no new laws, regulations or policies had been promulgated or issued regarding whether and how the Internet Culture Operation Licenses can be renewed, as advised by our PRC Legal Advisor. See “Regulatory Overview—Regulations On Online Games Publishing and Operation,” “Risk Factors—Risks Related to Our Business and Industry—Our failure to obtain, renew or retain requisite licenses, permits or approvals may adversely affect our ability to conduct our business” and “Business—Licenses, Permits and Approvals” for more information.

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### RECENT REGULATORY DEVELOPMENTS

On July 6, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council promulgated Opinions on Rigorously Cracking Down on Illegal Securities Activities (關於依法從嚴打擊證券違法活動的意見) (the “**Opinions on Illegal Securities Activities**”). Pursuant to the Opinions on Illegal Securities Activities, the enforcement and judiciary cooperation on cross-border supervision and the supervision on overseas-listed China-based companies (中概股公司) must be strengthened. See “Regulatory Overview—Regulations Relating to Information Security and Censorship” for more details. As the Opinions on Illegal Securities Activities are recently issued, official guidance and related implementation rules have not been issued yet, and it is still unclear whether and how such opinions will further evolve into supervisory measures of the CSRC and how such opinions or measures will be implemented. As of the date of this document, we have not received any inquiry, notice, warning, or sanctions from the CSRC or any other PRC government authorities in such respect.

On July 10, 2021, the Cyberspace Administration of China (中華人民共和國國家互聯網信息辦公室) (the “**CAC**”) promulgated the Measures for Cybersecurity Review (Revised Draft for Comments) (網絡安全審查辦法 (修訂草案徵求意見稿)) (the “**Draft Cybersecurity Review Measures**”). The Draft Cybersecurity Review Measures stipulate that critical information infrastructure operators purchasing network products and services, and data processors carrying out data processing activities that affect or may affect national security, are required to conduct cybersecurity review. See “Regulatory Overview—Regulations Relating to Information Security and Censorship” for more details. As advised by our PRC Legal Advisor, the Draft Cybersecurity Review Measures are still at a relatively preliminary stage of stipulation, and some provisions in the Draft Cybersecurity Review Measures are still unclear and are subject to the finalization or clarifications by relevant authorities. As of the date of this document, we have not been involved in any investigations on cybersecurity review made by the CAC pursuant to the Draft Cybersecurity Review Measures, and we have not received any inquiry, notice, warning, or sanctions from the CAC in such respect.

On November 14, 2021, the CAC issued the Administrative Regulations of Cyber Data Security (Draft for Comments) (網絡數據安全管理條例 (徵求意見稿)) (the “**Draft Data Security Regulations**”). See “Risk Factors—Risks Related to Our Business and Industry—Any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies, including privacy concerns relating to unauthorized use of game player information by us or third parties, could damage our reputation, adversely affect our game player base or engagement, or subject us to governmental regulation and other legal obligations” and “Regulatory Overview—Regulations relating to Information Security and Censorship” for more details on the requirements in this draft regulation. Our PRC Legal Advisor is of the view, which the Joint Sponsors’ PRC legal advisor concurs, that assuming the Draft Data Security Regulations are fully implemented in the current form, subject to further official guidance or related implementation rules, they will be applicable to us, as well as any other person or entity conducting data processing activities within mainland China and any other person or entity as stipulated in the Draft Data Security Regulations, especially with respect to relevant requirements on matters such as personal information requirement, security of important data, security management of cross-border data transfer and obligations of internet platform operators. We may incur substantial costs to ensure strict compliance with all applicable laws and regulations; see “Risk Factors—Risks Related to Our Business and Industry—Any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies, including privacy concerns relating to unauthorized use of game player information by us or third parties, could damage our reputation, adversely affect our game player base or engagement, or subject us to governmental regulation and other legal obligations.” Given that the Draft Data Security Regulations have been released for public consultation only as of the date of this document, we are still in the process of evaluating the applicability of the various requirements under the Draft Data Security Regulations to our business, and it is impractical for us to predict the impact of the Draft Data Security Regulations at the current stage.

Since (i) the Draft Cybersecurity Review Measures and the Draft Data Security Regulations (collectively, the “**Drafts**”) have been published recently and neither the adoption nor effective date of the Drafts is clear, and (ii) as of the date of this document, we have not been involved in any investigations on cybersecurity review conducted by the CAC on the basis of the Drafts, and we have not received any inquiry, notice, warning, or

## SUMMARY

sanctions in such respect, we and our PRC Legal Advisor do not expect, which the Joint Sponsors concur, that as of the date of this document, the Drafts would have a material adverse impact on our [REDACTED]. When the Drafts are finalized and become effective in the future, we will (i) take immediate steps to ensure compliance with new regulatory requirements within a reasonable period of time, including thoroughly reviewing our business practices and operational policies, improving our privacy policies and service agreements with our users, establishing relevant mechanism in response to data security incidents, applying for cybersecurity review as applicable, filing important data with competent authorities and submitting relevant data security assessment report as required; (ii) proactively maintain communications with the CAC’s local counterpart, and continuously improve our operational procedures, rectify any noncompliance in a timely manner and take preventative measures to avoid future non-compliance under the guidance of relevant authorities; (iii) continue to improve our data security protection technologies and measures to stay compliant with regulatory requirements, continue to monitor the developments of data security regulations in the PRC and engage external professional consultants to advise us on cybersecurity and data protection requirements, if needed. Based on the aforementioned measures to be taken by us to ensure continuous regulatory compliance and the fact that as of the Latest Practicable Date, (i) we had not been subject to material fines or administrative penalties imposed by relevant PRC government authorities for any violation of laws and regulations regarding data security and cybersecurity, and (ii) we had not experienced any material leakage of data or personal information, the Directors and our PRC Legal Advisor are of the view, which the Joint Sponsors concur, that if the Drafts are fully implemented in the current form, we currently do not expect the Drafts will have a material adverse impact on our business operations or financial performance. However, we and our PRC Legal Advisor cannot preclude the possibility that new rules or regulations promulgated in the future will impose additional compliance requirements, and we will closely monitor and assess any relevant regulatory development.

On August 30, 2021, the GAPP issued the Notice on Further Strict Administration to Prevent Minors from Indulging in Online Games (國家新聞出版署關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知) (the “**Notice on Further Preventing Minors from Indulging in Online Games**”), which became effective on September 1, 2021. Compared with the Notice on Preventing Minors from Indulging in Online Games (國家新聞出版署關於防止未成年人沉迷網絡遊戲的通知) issued by the NPPA on October 25, 2019, the Notice on Further Preventing Minors from Indulging in Online Games imposes stricter time limits for playing online games by minors (individuals under the age of 18) and requires that all the online games must be connected to the real-name registration and game addiction prevention system of the GAPP. On October 20, 2021, six PRC government authorities jointly issued the Notice on Strengthening the Management of Preventing Primary and Middle School Students from Indulging in Online Games (關於進一步加強預防中小學生沉迷網絡遊戲管理工作的通知), which provided for substantially the same requirements as the Notice on Further Preventing Minors from Indulging in Online Games. See “Risk Factors—Risks Relating to Our Business and Industry—The PRC laws and regulations governing the playing time and players’ age of online games may materially and adversely affect our business and operations” and “Regulatory Overview—Regulations on Real-Name Registration and Anti-Addiction” for more details.

Pursuant to the Notice on Preventing Minors from Indulging in Online Games (國家新聞出版署關於防止未成年人沉迷網絡遊戲的通知) issued by the NPPA on October 25, 2019, mobile game companies are required to verify the identity information of game players in mainland China. Under our agreements with some distribution channels (such as Bilibili, Huawei AppGallery, OPPO App Market, VIVO App Store and Xiaomi App Store) (the “**Relevant Third-Party Channels**”), these channels collect and verify the identities of game players who access and download our games through their platforms. For our self-published games, we collect and verify the identities of game players in mainland China who access and download our games through other channels, including our official website, iOS App Store or TapTap. In 2020 and the six months ended June 30, 2021, the average MPU with identities verified by us accounted for approximately 84% and 85%, respectively, of the average MPU of our self-published games in mainland China, and the average MPU of minors accounted for approximately 2.3% and 1.7%, respectively, of our average MPU with identities verified by us. Our players that register accounts with the Relevant Third-party Channels provide their personal information to these channels (instead of us). As service providers to these players, these channels are required to verify the players’ identities and implement anti-addiction measures pursuant to relevant PRC laws and regulations. Based on the confirmation from these channels, they have verified these players’ identities and implemented anti-addiction measures in accordance with relevant laws and regulations. In 2020 and the six months ended June 30, 2021, the

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## SUMMARY

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gross billings generated from minors were approximately RMB2.4 million and RMB857 thousand, respectively, accounting for approximately 0.2% and 0.2% of the gross billings generated from all of our paying players with identities verified by us during these respective periods. We believe that during these same periods, minors accounted for similar percentages of our total paying users with identities verified by third-party distributors, and the gross billings generated from minors accounted for similar percentages of the gross billings generated from all of our paying players with identities verified by third-party distributors. Our Directors are of the view, which the Joint Sponsors concur, that the Notice on Further Preventing Minors from Indulging in Online Games and the Notice on Strengthening the Management of Preventing Primary and Middle School Students from Indulging in Online Games have not had, and are not expected to have, a material adverse impact on our business or financial performance, given that minors and the gross billings generated from them only account for a small portion of our total paying users and gross billings generated from paying users with identities verified by us, respectively.

Based on the records available to us from 2020 to June 30, 2021, (i) the average weekly playing time spent on our games by minors in mainland China verified by us was approximately 138 minutes, (ii) the average playing time spent on our games by minors in mainland China verified by us who were active users from Monday to Thursday or from Friday to Sunday was approximately 94 and 91 minutes in aggregate during these respective periods, (iii) the average of the ratio of (a) the number of minors in mainland China who spent weekly playing time of no more than three hours and more than three hours, over (b) the total number of our players that were minors, whose identities have been verified by us in mainland China, was approximately 71% and 29%, respectively, and (iv) we generated approximately 21% and 79%, respectively, of our gross billings from minors in mainland China verified by us that spent weekly playing time of no more than three hours on our games and those that spent weekly playing time of more than three hours on our games.

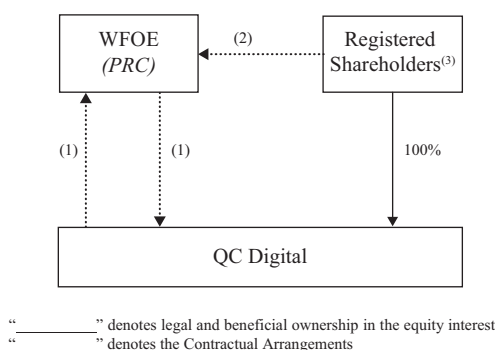
We have required all players to register using their real names and implemented a number of measures for all games published by us in mainland China in accordance with the relevant regulatory requirements. In addition, to the best knowledge of our Directors based on our communications with the third-party publisher (namely, the G-bits Group) that published our self-developed game, *Gumballs & Dungeons* (不思議謎宮), in mainland China, this third-party publisher has been connected to the real-name registration and game addiction prevention system of the GAPP and has implemented the anti-addiction measures in accordance with the Notice on Further Preventing Minors from Indulging in Online Games. Based on the above measures that we have taken, the Directors are of the view, which the PRC Legal Advisor and the Joint Sponsors concur, that we have been in compliance with the Notice on Further Preventing Minors from Indulging in Online Games. See “Regulatory Overview—Regulations on Real-name Registration and Anti-addiction” and “Business—Legal Proceedings and Regulatory Compliance” for more details.

## CONTRACTUAL ARRANGEMENTS

As certain aspects of the online games industry in which we operate are subject to foreign investment restrictions and prohibitions under the PRC laws and regulations, we do not directly own any equity interest in our PRC Consolidated Affiliated Entities. In light of the PRC regulatory requirements and with advice from our PRC Legal Advisor, we determined that it was not viable for our Company to hold the equity interests of our PRC Consolidated Affiliated Entities directly. Instead, we decided to adopt the Contractual Arrangements, which are entered into between WFOE, on the one hand, and QC Digital and the Registered Shareholders, on the other hand. The Contractual Arrangements enable us to gain effective control over and receive all the economic benefits generated by the businesses currently operated by our PRC Consolidated Affiliated Entities. Such Contractual Arrangements are commonly adopted by the industries in the PRC which are subject to foreign investment restrictions and prohibitions. The Contractual Arrangements allow the results of operations and assets and liabilities of our PRC Consolidated Affiliated Entities to be consolidated into our results of operations and assets and liabilities under the IFRS as if they were subsidiaries of our Group. For details of the Contractual Arrangements, please see the section headed “Contractual Arrangements” in this document.

## SUMMARY

The following simplified diagram illustrates the flow of economic benefits from our PRC Consolidated Affiliated Entities to WFOE as stipulated under the Contractual Arrangements.



*Notes:*

- (1) WFOE provides technical consultation and other services in exchange for service fees from QC Digital. See the section headed “Contractual Arrangements—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Exclusive Business Cooperation Agreement” in this document.
- (2) The Registered Shareholders executed an exclusive option agreement in favor of WFOE, for the acquisition of all or part of the equity interests and/or assets in QC Digital. See the section headed “Contractual Arrangements—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Exclusive Option Agreement” in this document.

The Registered Shareholders granted security interests in favor of WFOE, over the entire equity interests in QC Digital held by Registered Shareholders. See the section headed “Contractual Arrangements—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Equity Pledge Agreement” in this document.

The Registered Shareholders executed the Voting Rights Proxy Agreement and Powers of Attorney in favor of WFOE, for the exercise of all shareholders’ rights in QC Digital. See the section headed “Contractual Arrangements—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Voting Rights Proxy Agreement and Powers of Attorney” in this document.

The spouse of each Relevant Individual Shareholders executed an undertaking in favor of WFOE, see the section headed “Contractual Arrangements—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Spouse Undertakings” in this document.

- (3) G-bits, Xiamen Sealand, Wofan Qihang, Guangxi Tencent Venture Capital Co., Ltd. (廣西騰訊創業投資有限公司), Alibaba Lingxi, Shanghai Hode Information Technology Co., Ltd. (上海幻電信息科技有限公司) and the Relevant Individual Shareholders (including Mr. Yang, Mr. Huang, Mr. Liu, Mr. Zeng, Mr. Wei, Mr. Ye and Mr. Lin) are collectively referred to as “Registered Shareholders”. For details of each of their shareholding in QC Digital, see the section headed “History, Reorganization and Corporate Structure—QC Digital—Key shareholding changes of QC Digital prior to Reorganization” in this document.

Given that the Contractual Arrangements constitute non-exempt continuing connected transactions of our Company and they are for a term of more than three years, we have applied for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirement of, among others, limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules. For details, please see the section headed “Connected Transactions—Waivers from the Stock Exchange—The Contractual Arrangements” in this document.

## OUR CONTROLLING SHAREHOLDERS

Immediately before completion of the [REDACTED] and the [REDACTED], Mr. Yang, our founder and executive Director, through Keiskei Holding Ltd., a company indirectly controlled by Peter Yang Family Trust which was established by Mr. Yang as the settlor, through Yang Family Holding Limited, has an indirect interest in 5,296,696 Ordinary Shares. Immediately before the completion of the [REDACTED] and assuming that the Series A Preferred Shares and Series B Preferred Shares are fully converted into Ordinary Shares in accordance with the terms and conditions of the respective agreements in respect of the [REDACTED] (“Full Conversion

## SUMMARY

of Preferred Shares”), Mr. Yang will have an indirect interest, through Keiskei Holding Ltd., in approximately 34.34% of the total issued share capital of our Company. Immediately following completion of the [REDACTED] and assuming (i) the [REDACTED] is not exercised, and (ii) Full Conversion of Preferred Shares, Mr. Yang will have an indirect interest, through Keiskei Holding Ltd., in approximately [REDACTED] of the total issued share capital of our Company. Therefore, Mr. Yang, Yang Family Holding Limited and Keiskei Holding Ltd. will cease to be our controlling shareholders after [REDACTED]. However, Keiskei Holding Ltd. will remain as the single largest Shareholder after the [REDACTED]. For more information on Keiskei Holding Ltd.’s shareholding, please refer to the section headed “Substantial Shareholders” in this document. For details of the shareholding structure of our Company, please refer to the section headed “History, Reorganization and Corporate Structure” of this document. For further background of Mr. Yang, please refer to the section headed “Directors and Senior Management” of this document.

## CONNECTED TRANSACTIONS

We have entered into and are expected to continue with certain transactions after the [REDACTED], which will constitute our partially exempt continuing connected transactions and non-exempt continuing connected transactions, respectively, under Chapter 14A of Listing Rules upon [REDACTED]. Please see the sections headed “Connected Transactions” and “Waivers from Strict Compliance with the Listing Rules” of this document for more details.

## [REDACTED]

We introduced Guangxi Tencent Venture Capital Co., Ltd. (“**Guangxi Tencent**”), Tencent Mobility Limited (“**Tencent**”), Alibaba Lingxi, Alibaba Qookka, Shanghai Hode Information Technology Co., Ltd. (“**Shanghai Hode**”), Bilibili Inc. and Boyu, as our [REDACTED] through two rounds of [REDACTED] in 2021. For details of our [REDACTED], please refer to the section headed “History, Reorganization and Corporate Structure—[REDACTED]” in this document.

## RECENT DEVELOPMENTS

We expect to have significant net loss for the year ending December 31, 2021, primarily due to (i) changes in fair value of our convertible redeemable preferred shares (Series A and Series B Preferred Shares) as a result of our Company’s increased valuation as we get close to complete the [REDACTED], and (ii) losses from financial instruments issued to investors, which were primarily due to the share transfer in April 2021. These changes are non-cash items and not reflective of our operating performance, and will not recur after the [REDACTED] as our Series A and Series B Preferred Shares will be converted into ordinary shares of our Company upon the [REDACTED].

*The Marvelous Snail* (最強蝸牛) obtained the ranking of No. 6 on the iOS Bestseller Games List in China in the first eight months of 2021, and the gross billings of this game in the six months ended June 30, 2021 were RMB401.8 million. *Gumballs & Dungeons* (不思議迷宮) obtained the ranking of No. 77 on the iOS Free Games List in China in the period from September 2020 to August 2021, and the gross billings of this game in the six months ended June 30, 2021 were RMB29.0 million. *Lantern and Dungeon* (提燈與地下城) obtained the ranking of No. 44 on the iOS Bestseller Games List in China in the period from April to August 2021, and the gross billings of this game in the six months ended June 30, 2021 were RMB247.2 million. As of the Latest Practicable Date, *The Marvelous Snail* (最強蝸牛), *Gumballs & Dungeons* (不思議迷宮) and *Lantern and Dungeon* (提燈與地下城) were at their maturity stage in terms of lifecycle.

We expect that the growth of our revenue and operating profit in the second half of 2021 will be minimal and therefore you should not merely rely on our revenue and operating profit in the six months ended June 30, 2021 to estimate our full year results for the year ending December 31, 2021. This is primarily because (i) we do not expect to release any new game in the second half of 2021 (see “—Our Game Pipeline”) and (ii) our landmark games, particularly *The Marvelous Snail* (最強蝸牛) and *Lantern and Dungeon* (提燈與地下城), were at their maturity stage in the second half of 2021.

## SUMMARY

Save as otherwise disclosed here, our Directors confirm that up to the date of this document, there has been no material adverse change in our financial or trading position since June 30, 2021, the end of the period reported on in the Accountant’s Report set out in Appendix I to this document.

### COVID-19 Outbreak: Impact and Response

Our Directors confirmed that the outbreak of COVID-19 did not have any material adverse impact on our business operations, financial performance or working capital. Due to the COVID-19 pandemic and the quarantine policies of the governments in China and many other countries, people have spent more time on online entertainment and in-door activities, such as playing mobile phones, which has driven growth of China’s and the global mobile game markets. Accordingly, the size of China’s mobile game market increased by 31.9% from RMB181.7 billion in 2019 to RMB239.6 billion in 2020, and the global mobile game market grew by 23.6% from US\$87.6 billion in 2019 to US\$108.3 billion in 2020, according to Frost & Sullivan.

In response to the COVID-19 pandemics, (i) we have been carrying out our business in the ordinary course without experiencing any suspension of services, business interruption or supply-chain disruption; (ii) our employees were able to report duty and were sufficiently equipped to work from home as required by the PRC government in early 2020 and resumed normal work at the office starting from the second quarter of 2020 as the government lifted the temporary lock-down measures; and (iii) we have maintained stable relationships with our suppliers and customers despite the outbreak of COVID-19. Primarily due to the Chinese government’s effective measures to control the spread of COVID-19 and as the vaccines are being administered in China and various overseas markets, we do not expect our business will be significantly impacted by COVID-19. That said, we have been closely monitoring the situation of the COVID-19 pandemic as it is very fluid. See “Risk Factors—Risks Related to Our Business and Industry—Our business, financial condition and results of operations may be materially and adversely affected by epidemics, natural disasters, acts of war or terrorism or any other catastrophes” for more information on the developments of the pandemic and its impact.

### [REDACTED]

We estimate that the [REDACTED] from the [REDACTED], after deducting the estimated [REDACTED] and other estimated [REDACTED] payable by us (assuming the [REDACTED] is not exercised), will be approximately [REDACTED], assuming an indicative [REDACTED] of [REDACTED] (being the mid-point of the [REDACTED]). We expect to use the [REDACTED] from the [REDACTED] (assuming the [REDACTED] is not exercised) for the following purposes:

- Approximately [REDACTED] of the [REDACTED] to expand our game portfolio and invest in our game R&D capabilities and related technologies;
- Approximately [REDACTED] of the [REDACTED] to expand our business in the overseas markets;
- Approximately [REDACTED] of the [REDACTED] to strengthen our game publishing and operation capabilities in China’s mobile game market and the market recognition of our “QingCi” brand and our IPs;
- Approximately [REDACTED] of the [REDACTED] to pursue strategic investments in and acquisitions of upstream and downstream companies along the mobile game industry chain; and
- Approximately [REDACTED] of the [REDACTED] for working capital and general corporate purposes.

### [REDACTED]

Our [REDACTED] primarily include [REDACTED] paid to legal, accounting and other advisors for services rendered in relation to the [REDACTED]. Assuming full payment of the [REDACTED], the estimated

## SUMMARY

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total [REDACTED] (based on the mid-point of the [REDACTED] and assuming that the [REDACTED] is not exercised) for the [REDACTED] are approximately [REDACTED] (representing approximately [REDACTED] of our gross [REDACTED] from the [REDACTED]). During the Track Record Period, we incurred [REDACTED] of [REDACTED], of which approximately [REDACTED] was charged to the consolidated statements of profit or loss for the six months ended June 30, 2021 and approximately [REDACTED] was capitalized in the consolidated statements of financial position as of June 30, 2021 to be charged against equity upon the [REDACTED]. We expect to incur additional [REDACTED] of approximately [REDACTED], of which approximately [REDACTED] is expected to be expensed and approximately [REDACTED] is expected to be recognized as a deduction in equity directly upon the [REDACTED].

The table below sets forth a breakdown of the above estimated total [REDACTED] (based on the mid-point of the [REDACTED]).

RMB in millions

[REDACTED]

We do not believe any of the above fees or expenses are material to our Group, taken as a whole, or are unusually high.