You should read the following discussion and analysis in conjunction with our consolidated financial information as of and for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021 included in the Accountant's Report set out in Appendix I to this document, together with the respective accompanying notes. Our consolidated financial information has been prepared in accordance with IFRSs issued by the International Accounting Standards Board.

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

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. As of the Latest Practicable Date, we operated six mobile games and we had a pipeline of 10 mobile games. Our landmark mobile games, such as *The Marvelous Snail (最強蝸牛)*, *Gumballs & Dungeons (不思議迷宮)* and *Lantern and Dungeon (提燈與地下城)*, have recorded significant gross billings and achieved high rankings on the game lists widely recognized in our industry.

During the Track Record Period, we recorded strong financial performance. In 2018, 2019, and 2020, our revenues amounted to RMB98.4 million, RMB88.7 million and RMB1,226.9 million, respectively, representing a CAGR of 253.1% from 2018 to 2020, and our net profit amounted to RMB24.9 million, RMB19.6 million and RMB103.7 million, respectively, representing a CAGR of 104.3% from 2018 to 2020. In addition, 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, and our net loss 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. Moreover, in 2018, 2019 and 2020, our adjusted net profit for the year (non-IFRSs) amounted to RMB38.9 million, RMB22.3 million and RMB166.2 million, respectively, representing a CAGR of 106.8% from 2018 to 2020. Our adjusted net loss for the period (non-IFRSs) of RMB144.0 million in the six months ended June 30, 2020 changed to adjusted net profit for the period (non-IFRSs) of RMB313.7 million in the same period of 2021.

BASIS OF PRESENTATION

Our historical financial information has been prepared in accordance with IFRSs. The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

Immediately prior to and after the Reorganization, our business was mainly carried out by QC Digital and its subsidiaries. Pursuant to the Reorganization, our business is transferred to and held by our Company. Our Company was not involved in any other business prior to the Reorganization and its operations do not meet the definition of a business. The Reorganization is merely a recapitalization of our business operated by QC Digital and its subsidiaries and does not result in any changes in business substance, management or the ultimate owners of our business under QC Digital and its subsidiaries. The historical financial information of the companies comprising our Group is presented using the carrying value of our business for all periods presented as if the Reorganization had been completed before the Track Record Period.

Inter-company transactions, balances and unrealized gains or losses on transactions between companies in our Group are eliminated on consolidation.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, which primarily include the following:

General Factors

Our results of operations and business prospects are impacted by general factors affecting the mobile game industry in China and the overseas markets we expand into, such as:

- growth and competition of the mobile game industry including, in particular, growth of the player base, changes in player preferences, spending habit and demands, and changes in industry trends and the competitive landscape;

- regulatory changes affecting the mobile game industry, such as the PRC government's progress of approving game registration and issuance of publication numbers for mobile games and local regulations and policies in the markets we expand into; and

- overall economic growth and the political, economic and social stability of the markets we operate in or expand into.

Company Specific Factors

Our ability to capture the growth potential of the mobile game industry

Our results of operations are affected by the growth of the mobile game industry in the markets where we operate, primarily China. According to Frost & Sullivan, China's overall mobile game market grew at a CAGR of 25.3% from RMB97.2 billion in 2016 to RMB239.6 billion in 2020, and is expected to further grow at a CAGR of 12.5% from RMB239.6 billion in 2020 to RMB432.1 billion in 2025. See "Industry Overview" for more information on the development of China's mobile game industry. Leveraging our leadership in idle games, casual games and rogue-like RPGs in China and our overall strong game development and publishing capabilities, we believe that we are well positioned to benefit from these market trends. On the other hand, as we expand into overseas markets, our performance will also be affected by the industry trends of the markets we further expand into and the developments of those markets' economic conditions and regulatory environments.

In addition, our games are popular among young players who are generally attracted to mobile games with compelling storylines and renowned IPs. According to the Frost & Sullivan Survey, approximately 76% of our players were aged 30 or below, significantly higher than the industry average of 65%. As such, our growth will be affected by the expansion of China's young generation player base, their disposable income and spending habit, our ability to continue developing landmark games well received by young players, and our ability to monetize this player base.

Our ability to continue to offer high-quality popular games

Our results of operations depend on our ability to maintain the popularity of our existing games and offer new high-quality games that are well received by the players. Our landmark games, including *The Marvelous Snail (最強蝸牛)*, *Gumballs & Dungeons (不思議迷宮)*, *Lantern and Dungeon (提燈與地下城)*, *Ares Virus (阿瑞斯病毒)* and *Eternal Adventure (無盡大冒險)*, contributed 99.4% of our total revenues during the Track Record Period. In addition, the fluctuation of our performance during the Track Record Period was largely correlated to the launches and lifecycles of our landmark games. We seek to extend our games' lifecycles by offering continuous updates and new versions of the games.

In general, our business growth will depend on our ability to continue to develop in-house and license in from other outstanding game developers high-quality mobile games, bring these games to their full market potential by leveraging our in-depth industry know-how and expertise in customized publishing, and extend their lifecycles through our strong game operation capabilities.

Our ability to expand and monetize our player base

The size and engagement of our player base form the basis for our sustainable growth. We generate revenue primarily by monetizing our game player base, and we also rely on feedback from our players to develop and optimize our games and tailor our game publishing approaches. We experienced significant growth in our player base during the Track Record Period. In addition, given that we offer our games primarily on a free-to-play basis, we generate our revenue primarily from sales of in-game virtual items, which in turn depends on our ability to expand our player base and increase the spending of our players. The following tables set forth our games' average MAUs, average MPUs and ARPPU for the periods indicated and cumulative registered players as of the dates indicated.

	Year ended December 31,			Six months ended June 30,
	2018	**2019**	**2020**	**2021**
Average MAUs (in thousands)	1,693	1,240	3,448	3,064
Average MPUs (in thousands)	163	114	495	575
ARPPU (RMB)	49	62	206	221

	As of December 31,			As of June 30,
	2018	**2019**	**2020**	**2021**
Cumulative registered players (in thousands)	27,458	35,978	59,585	67,979

See "Business—Our Games—Key Operating Metrics" for the calculations and analysis of fluctuations of the above operating metrics. We expect our business prospects to continue to largely depend on our ability to retain existing players and attract new players, enhance engagement of our player community, offer additional high-quality and intriguing games, and optimize game monetization strategies.

Our ability to manage relationships with third-party distribution channels and game developers

Our profitability is affected by our ability to manage our relationships with third-party distribution channels. Aside from distribution through our official website, our games have been distributed primarily through third-party distribution platforms, including iOS App Store and Google Play globally as well as a number of other distribution channels in mainland China. We generally pay these third-party distribution channels commissions that are a prescribed percentage of the gross billings of our games distributed through their platforms. Our relationships with these channels will affect our ability to negotiate favorable terms and hence affect our profitability. In 2018, 2019, 2020 and the six months ended June 30, 2021, commissions charged by distributors and payment channels amounted to RMB13.9 million, RMB13.1 million, RMB249.1 million and RMB131.8 million, respectively, accounting for 64.3%, 65.4%, 87.5% and 70.0% of our cost of revenues during the same respective periods. To reduce our distribution costs, we need to increase game distribution through our own channel by increasing player loyalty and promotion of our brand, and to optimize the balance of our proprietary distribution channels and third-party distribution channels when publishing our games.

Moreover, a number of our existing and pipeline games are in-licensed from third-party game developers. Our ability to license in quality games from third-party game developers and manage our relationships with third-party game developers will affect our ability to effectively expand our game portfolio and acquire new players. We generally pay the third-party game developers fees amounting to a prescribed percentage of the gross billings (which are net of commissions to payment and distribution channels, marketing and promotion expenses and other expenses, as the case may be). We recognize these fees to game developers as commissions in our cost of revenues. Therefore, our relationships with the game developers will affect our ability to negotiate favorable fee arrangements with them and license in games at commercially reasonable costs, which will affect our results of operations.

Marketing and promotion of our games and "QingCi" brand

We rely on effective marketing strategies to promote our mobile games and our "QingCi" brand. We market our games through a number of online and offline marketing initiatives. We also promote our "QingCi" brand to increase our player community's loyalty to our brand.

The marketing and promotion expenses of a game will fluctuate along with the progression of its lifecycle. Our games generate a significant portion of their revenues from either the growth stage or the maturity stage. Our marketing and promotion strategies are in line with the stages of our games' lifecycles. At the early growth stage, we typically conduct comprehensive marketing and promotion campaigns to increase the exposure of the game and to attract new players within a relatively short period of time, as a result of which the marketing and promotion expenses of a game tend to increase rapidly and remain at a relative high level. At the maturity stage, we maintain regular marketing and promotion efforts and therefore, the marketing and promotion expenses of a game tend to be stable and lower than the early growth stage. When a game enters into its recession stage, we maintain only basic game operations for existing players and therefore, its marketing and promotion expenses tend to further decrease.

In 2018, 2019, 2020 and the six months ended June 30, 2021, we incurred marketing and promotion expenses of RMB10.0 million, RMB11.3 million, RMB524.3 million and RMB233.2 million, respectively, accounting for 10.2%, 12.7%, 42.7% and 30.6% of our total revenues during the same respective periods. As we continue to launch additional games in China and overseas, our marketing and promotion expenses are expected to remain at a relatively high level in the near future.

Our ability to conduct R&D cost-effectively

We develop a large number of our games in-house, and therefore R&D plays an important role in supporting our business growth. We have committed significant resources in building up our in-house game development team and strengthening our capabilities in developing popular mobile games. Game development is a time-consuming process and it requires substantial investments. In 2018, 2019, 2020 and the six months ended June 30, 2021, we incurred research and development expenses of RMB25.3 million, RMB25.6 million, RMB146.1 million and RMB18.0 million, respectively, accounting for 25.7%, 28.9%, 11.9% and 2.4% of our total revenues during the same respective periods.

As we roll out new mobile games to expand our game portfolio and increase our player base, we expect that we will continue to incur significant research and development expenses in the foreseeable future. Our ability to conduct R&D activities in a cost-effective manner will have a significant impact on our results of operations.

Preferential tax treatment

During the Track Record Period, we benefited from various preferential tax treatments in China. Our results of operations will be affected by our ability to continue to enjoy these preferential tax treatments. The EIT Law and its implementation regulations impose enterprise income tax at the statutory rate of 25% on Chinese enterprises. Our VIE, QC Digital, was accredited as a "software enterprise." A software enterprise is entitled to a tax holiday consisting of a two-year tax exemption beginning from the first profitable calendar year and a 50% tax reduction for the subsequent three calendar years. Therefore, QC Digital was exempt from enterprise income tax in 2017 and 2018 and is subject to half of the enterprise income tax rate in 2019, 2020 and 2021. Similarly, our VIE, QC Cultural, was accredited as a "software enterprise" and this preferential tax treatment started in 2020 and will terminate in 2024. In addition, according to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that became effective in 2018, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). Our tax effect of the Super Deduction of research and development expenses was RMB4.2 million, RMB2.4 million, RMB17.0 million and RMB2.6 million in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively. We cannot assure you that there will be no change to the PRC tax policies, that we will be able to renew these preferential tax treatments after they expire, or that we will continue to be eligible for these preferential tax treatments. If we fail to enjoy any of these preferential tax treatments, our enterprise income tax expenses may increase significantly and our profitability could be materially and adversely affected.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. We continually reevaluate these estimates and judgments based on historical experience and other factors, including industry practices and our expectations of future events that we believe to be reasonable under the circumstances. When reviewing our consolidated financial statements, you should consider (i) our critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below accounting policies that we believe are of critical importance to us or involve the most significant estimates, and judgments used in the preparation of our consolidated financial statements.

Revenue Recognition

We recognize the revenue when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. The following is a description of the accounting policy for our principal revenue streams:

We are a publisher of mobile games developed by us or third-party game developers. We publish mobile games either developed by ourselves or licensed in from third-party game developers and earn game operating revenue by publishing them to the game players through distribution channels including online application stores (such as iOS App Store and Google Play) and web-based and mobile game portals (including our own websites).

We operate games published by us primarily under free-to-play model whereby game players can play the games free of charge and are charged for the purchase of in-game virtual items via payment channels, such as the third-party internet payment systems.

When we publish mobile games developed by third-party game developers, proceeds earned from selling in-game virtual items, are shared between third-party game developers and us, with the amount paid to the game developers 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).

We evaluate agreements with the gamers, game developers, distribution channels and payment channels in order to determine whether or not we act as the principal or as an agent for the goods or service provided to the customer in the arrangement with each party respectively, which we consider in determining if relevant revenue should be reported gross or net of the predetermined amount of the proceeds shared with the other parties. Whether to record the revenue gross or net is determined based on an assessment of various factors, including but not limited to whether we: (i) are primarily responsible for fulfilling the promise to provide the specified good or service, which typically includes responsibilities for acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specification); (ii) have inventory risk before the specified good or service has been transferred to a customer, or after transferring the control to the customer (for example, if the customer has a right of return); (iii) have latitude in establishing the prices for the specified goods or services; and (iv) has discretion in selection of suppliers.

Game Operating Revenue

We take primary responsibilities in game operations. We consider ourselves as a principal in these game operating arrangements and record game operating revenues on a gross basis.

Under the arrangements that we take primary responsibilities, we consider that (i) we are generally the initiator who raises ideas and plans for providing specification, modification or update of the game products or services desired by the game players; (ii) for licensed games, we have the power to determine game content and to provide game services and products relating to gaming experience to game players; (iii) besides publishing, providing payment solutions and marketing promotion, we have the right to determine the pricing of in-game virtual items or charge of game downloading (if needed), as well as the selection of distribution channels and the payment channels. Thus, we view game players to be our customers, and consider ourselves as the principal to provide goods or services to game players. Accordingly, we record the mobile game revenue under such arrangements on a gross basis. Commission fees paid to distribution channels and payment channels and license fees paid to third-party game developers, if any, are recorded as cost of revenues.

Where we are acting as a principal primarily under the free-to-play model, we have determined that we are obligated to provide on-going services to game players, who purchased virtual items to gain an enhanced game-playing experience, and accordingly, we recognize the revenues derived from sales of in-game virtual items as below:

(i) Consumable virtual items represent items that are extinguished after consumption in the form of fixed charges levied on each round of games played. The paying players will not continue to benefit from the virtual items thereafter. Revenue is recognized (as a release from contract liabilities) when the items are consumed and the related services are rendered.

(ii) Durable virtual items represent items that are accessible and beneficial to paying players over an extended period of time, revenue is recognized ratably over the average life of durable virtual items for the applicable game, which we make best estimates to be the average playing period of paying players ("**Player Relationship Period**").

We estimate the Player Relationship Period on a game-by-game basis. If there is insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, we estimate the Player Relationship Period based on other similar types of games developed by us or by third-party developers until the new game establishes its own patterns and history. We consider the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period. While we believe our estimates to be reasonable based on available game player information, we may revise such estimates in the future as the games' operation periods change, sufficient individual game data become available, or there is indication that the similarities in characteristics and playing patterns of paying players of the games change. Any adjustments arising from changes in the Player Relationship Period would be applied prospectively on the basis that such changes are caused by new information indicating a change in game player behavior patterns.

We did not make any material adjustment to our games' estimated Player Relationship Periods during the Track Record Period. The following table sets forth the Player Relationship Period during the periods indicated for each of our existing games as of the Latest Practicable Date (other than *Gumballs & Dungeons (不思議迷宮)*[(1)]).

	Year ended December 31,			Six months ended June 30,
	2018	**2019**	**2020**	**2021**
	(in months)			
The Marvelous Snail (最強蝸牛)	N/A[(2)]	6	6	6
Lantern and Dungeon (提燈與地下城)	N/A[(2)]	N/A[(2)]	1	1
Ares Virus (阿瑞斯病毒)	1	1	1	1
Eternal Adventure (無盡大冒險)	2	2	2	2
Yu Gong 3 (愚公移山3)	4	4	4	4

Notes:

(1) The Player Relationship Period is not applicable to *Gumballs & Dungeons (不思議迷宮)*, because this game has no durable items and all of its virtual items are consumable items. Therefore, revenue from this game is recognized when the items are consumed and the related services are rendered.

(2) No gross billing was generated during the period indicated.

The following sensitivity analysis provides some illustration on the impact of hypothetical changes in the Player Relationship Periods of our existing games as of the Latest Practicable Date (other than *Gumballs & Dungeons (不思議迷宮)*) (assuming no change to any other factors and that the gross billings from our games are evenly distributed on each day during each month within the Track Record Period) on our contract liabilities as of the dates indicated and our revenue and net profit for the periods indicated. We consider a 10.0% change in Player Relationship Periods to be reasonable based on the stable Player Relationship Periods of our games during the Track Record Period as well as our estimated outlook of the market. A 10.0% increase in the Player Relationship Periods of our existing games as of the Latest Practicable Date (other than *Gumballs & Dungeons (不思議迷宮)*) would increase our contract liabilities by RMB19 thousand, RMB8 thousand, RMB39.5 million and RMB8.2 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. A 10.0% decrease in the Player Relationship Periods of these same games would reduce our contract liabilities by RMB18 thousand, RMB3 thousand, RMB25.3 million and RMB6.3 million as of these same respective dates. A 10.0% increase in the Player Relationship Periods of these same games would change our revenue by negative RMB18 thousand, RMB9 thousand, negative RMB39.5 million and RMB31.2 million in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively, and change our net profit by negative RMB15 thousand, RMB8 thousand, negative RMB39.5 million and RMB31.2 million in these same respective periods. A 10.0% decrease in the Player Relationship Periods of these same games would change our revenue by RMB18 thousand, negative RMB15 thousand, RMB25.3 million and negative RMB19.0 million in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively, and change our net profit by RMB15 thousand, negative RMB12 thousand, RMB25.3 million and negative RMB19.0 million in these respective periods.

The relatively large fluctuations in our contract liabilities as of December 31, 2020 and June 30, 2021 and our net profit in 2020 and the six months ended June 30, 2021 in the above sensitivity analysis are mainly attributable to the significant contribution to these line items from our newly launched game *The Marvelous Snail (最強蝸牛)*.

Game Licensing Revenue

We derive revenue from licensing our self-developed games to game publishers, who operate our mobile games in defined regions or countries within a specific period. The license fees normally comprise non-refundable fixed license fees (either up-front or under specific payment schedule) and variable license fees calculated based on prescribed terms.

We have evaluated the respective roles and responsibilities of game publishers and us in the delivery of game experience to players and concluded that the game publishers have the primary responsibility in these licensing arrangements, as they are responsible for marketing and promotion of the games in the market, hosting the game servers, determining the price of the in-game virtual items, selection of distribution and payment channels and providing customer services, and therefore have exposure to the significant risks and rewards associated with the operation of these games under the licensing arrangements. Accordingly, the variable license fees (revenue share), which are calculated based on a prescribed percentage of the proceeds received by the game publishers from players, are recognized as revenue on a net basis when the sales occur. The non-refundable fixed license fees are initially recorded as contract liabilities and are then recognized as revenue rateably over the license period, because the licensing arrangements are considered to be right-to-access licensing arrangements.

Information Service Revenue

Information service revenue mainly represents revenue generated from in-game marketing and promotion services, which mainly comprises revenues derived from performance based in-game marketing and promotion services we provided. Performance based marketing and promotion contracts were signed between us and the advertisers or their agents to establish the service to be provided by us and the relevant performance measures.

We recognize revenue from in-game marketing and promotion services when relevant actual performance measures of in-game marketing and promotion services, such as delivery of download, purchase and registration, are fulfilled.

Contract Liabilities

Contract liabilities primarily consists of (i) the unamortized revenue from sales of virtual items for mobile games, where there is still obligation to be provided by us to game players, and (ii) the unamortized balance of the initial license fees paid by licensees.

Current and Deferred Income Tax

Income tax expense or credit for the relevant period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

We recognize current and deferred tax in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current Income Tax

Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where our Company's subsidiaries operate and generate taxable income. We periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. We establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Income Tax Inside Basis Differences

We recognize deferred income tax using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, we do not recognize deferred tax liabilities if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

We recognize deferred income tax assets only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred Income Tax Outside Basis Differences

We recognize deferred income tax liabilities on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future. Generally we are unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives us the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

We recognize deferred income tax assets on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Convertible redeemable preferred shares

Preferred shares issued by our Company (the "Preferred Shares") are redeemable upon occurrence of certain future events. These instruments are also attached with a conversion option.

We designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss. The component of fair value changes relating to our own credit risk is recognized in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realized. Other fair value changes relating to market risk are recognized in profit or loss.

The Preferred Shares were classified as non-current liabilities unless the Preferred Shares holders can demand us to redeem the Preferred Shares within 12 months after the end of the reporting period.

The convertible redeemable preferred shares issued by our Company are not traded in an active market and the respective fair value is determined by using valuation techniques. We applied the discounted cash flow method to determine the underlying equity value method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. See Note 30 to the Accountant's Report included in Appendix I to this document for details of the valuation models, key assumptions and inputs.

Fair value estimation

We measure fair value of financial instruments using the following fair value hierarchy by the level of inputs to valuation techniques:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or the liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or the liability that are not based on observable market data (that is, unobservable inputs) (level 3).

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments mainly include:

- Quoted market prices or dealer quotes for similar instruments;

- The fair value of foreign currency forward contracts is determined using forward exchange rates at each of the balance sheet dates; and

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

Our valuation techniques mainly included the market approach. The following table summarizes quantitative information about significant unobservable inputs used in recurring level 3 fair value measurements.

	Fair value at					Range of inputs				Relationship of unobservable inputs to fair value
	December 31,			June 30,	Unobservable inputs	December 31,			June 30,	
Description	**2018**	**2019**	**2020**	**2021**		**2018**	**2019**	**2020**	**2021**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*						
Investments in unlisted companies and private equity funds	1,100	21,646	77,800	134,716	Expected volatility	–	40.30%-62.05%	44.79%-72.05%	43.79%-58.71%	The higher the expected volatility, the higher the fair value
					Discount for lack of marketability ("DLOM")	–	30.00%	30%-40%	30.00%	The higher the DLOM, the lower the fair value
Wealth management products issued by commercial bank	–	–	–	30,018	Expected return rate	–	–	–	1.5%-3.32%	The higher expected return rate, the higher fair value

See Note 3.3 to the Accountant's Report included in Appendix I to this document for more details on the fair value estimation.

In relation to the fair value estimation of level 3 financial instruments, our Directors (i) reviewed the transaction terms; (ii) engaged an independent valuer, provided necessary financial and non-financial information for the valuer to perform valuation procedures, and discussed with the valuer on relevant assumptions; (iii) carefully considered all information, especially non-market related information, that requires management assessment and estimate; and (iv) reviewed the valuation working papers and results prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable.

The Joint Sponsors performed the following due diligence work in relation to the valuation of the level 3 financial instruments:

- obtained and reviewed the relevant valuation reports prepared by external valuer, and conducted due diligence with the valuer to understand, among others, the credentials and experiences of the valuer, the independence of the valuer from our Company, the scope of review and valuation methodologies;

- reviewed the Accountant's Report and the relevant notes in the Accountant's Report contained in Appendix I to this document and discussed with our Reporting Accountant the audit procedures it has conducted and its views on the historical financial information as a whole, of our Group;

- obtained and reviewed the articles of association, investment agreements and management accounts of the investee companies, and conducted desktop searches for public information relating to the investee companies to understand their nature of business, their shareholding structure and whether there is any material historical event that had likely affected their valuation; and

- discussed with the management of our Company during the due diligence sessions to understand, among other, (i) the nature and background of the investee companies, (ii) decision-making related procedures and internal approval process by our Company prior to the investments, such as the feasibility reports and due diligence reports, (iii) the bases on which our Company determined the fair value of such investments, (iv) factors or information considered by our Company prior to making such investments, including whether any independent appraisal of the worth of investments was conducted.

Based on the due diligence conducted by the Joint Sponsors as stated above, and having considered the confirmations from the Directors, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the treatment of the valuation results.

In respect of the valuation of level 3 financial instruments, details and the quantitative information about the significant unobservable inputs used in level 3 fair value measurements are set forth in Notes 19 to the Accountant's Report, which is prepared in accordance with the Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants, as set forth in Appendix I to this document. The historical financial information in the Accountant's Report gives a true and fair view of our financial position, financial performance and cash flows for the Track Record Period as a whole.

OUR CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets forth our consolidated statements of comprehensive income in absolute amounts and as percentages of our 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)*			
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)
Operating profit/(loss)	**26,229**	**26.7**	**25,566**	**28.8**	**119,428**	**9.7**	**(150,857)**	**(170.4)**	**283,535**	**37.2**
Finance income	53	0.1	47	0.1	795	0.1	48	0.1	697	0.1
Finance costs	(151)	(0.2)	(138)	(0.2)	(103)	(0.0)	(65)	(0.1)	(283)	(0.0)
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
Profit/(loss) for the year/period	**24,860**	**25.3**	**19,625**	**22.1**	**103,739**	**8.5**	**(156,180)**	**(176.4)**	**(93,785)**	**(12.3)**

NON-IFRS FINANCIAL DATA

To supplement our consolidated statements of comprehensive income which are presented in accordance with IFRSs, we use adjusted net profit or loss for the period, a non-IFRS financial measure. We present adjusted net profit or loss for the period because it is used by our management to evaluate our operating performance. We also believe that adjusted net profit or 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) 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 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 one-off **[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 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.

The following table sets forth a reconciliation of our profit for the period attributable to equity holders of the Company to adjusted net profit or loss for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB in thousands)				
				(Unaudited)	
Profit/(loss) for the year/period attributable to equity holders of the Company	24,860	19,625	103,739	(156,180)	(93,785)
Adjustments:					
Share-based compensation(1)	14,000	–	56,017	8,965	–
Losses from financial instruments issued to investors(2)	–	2,667	6,400	3,200	53,928
Fair value changes of convertible redeemable preferred shares(3)	–	–	–	–	338,380
[REDACTED]					
[REDACTED]					

Notes:

(1) In 2018, Mr. Yang transferred 3.5% of the shares of QC Digital beneficially owned by him to Mr. Huang at consideration of RMB1 to reward Mr. Huang's contribution and performance in the past years. The fair value of the transferred shares of RMB14.0 million was recognized as share-based compensation.

In February 2020, the subscription right for 8% shares of QC Digital were granted to two senior management members with performance conditions and the agreed exercise price. The two senior management members completed performance conditions in December 2020 and injected capital into QC Digital through their holding vehicles with the agreed exercise price. The fair value of the share option at the grant date was recognized as share-based compensation expenses accordingly, and recorded over the period from February 2020 to December 2020, amounting to approximately RMB22 million.

In December 2020, 2% shares of QC Digital were granted to a senior management member upon signing employment offer with agreed exercise price. The senior management member completed capital injection in the same month with the agreed exercise price. The fair value of the share option at the grant date was recognized as share-based compensation expenses accordingly in December 2020, amounting to approximately RMB34 million. See Note 6 to the Accountant's Report included in Appendix I to this document for more details.

(2) The financial instruments were issued by our VIE, QC Digital, to an investor in 2019, which were ordinary shares that will become redeemable by G-bits under certain events which are out of the control of our Group. QC Digital does not have the unconditional right to avoid delivering cash or other financial assets to settle contractual obligation upon occurrence of certain events which are out of the control of our Group. We recognized the instruments as financial liabilities at the present value of the redemption amount which is computed based on the investment amount of RMB80 million plus an interest rate of 8% per annum. Any changes in the carrying amount of the financial liabilities were recorded in "losses from financial instruments issued to investors" of our consolidated statements of comprehensive income. See Note 29 to the Accountant's Report included in Appendix I to this document for more details.

(3) We issued convertible redeemable preferred shares (Series A and Series B Preferred Shares) to certain investors in May 2021. Our Series A and Series B Preferred Shares will be converted into ordinary shares of our Company upon the **[REDACTED]**. See Note 30 to the Accountant's Report included in Appendix I to this document for more details.

(4) Represents the **[REDACTED]** related to the **[REDACTED]**.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenues

Our revenues amounted to RMB98.4 million, RMB88.7 million and RMB1,226.9 million in 2018, 2019 and 2020, respectively. In addition, our revenues amounted to RMB88.6 million and RMB763.0 million in the six months ended June 30, 2020 and 2021, respectively.

Revenue by Source

The following table sets forth a breakdown of our revenues 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
Subtotal	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
Total revenues	**98,421**	**100.0**	**88,704**	**100.0**	**1,226,920**	**100.0**	**88,550**	**100.0**	**762,950**	**100.0**

We consider ourselves as principal in arrangements of "game operating revenues" where we act as the publisher, and we recognize revenue on a gross basis for both of our self-developed and licensed games that we publish. Our mobile games are currently offered primarily on a free-to-play basis. We generate revenues primarily from the sales of in-game virtual items.

We consider ourselves as agent in arrangements of "game licensing revenue" where we engage third parties to publish our self-developed games. We recognize license fees from third-party publishers as our revenue, including typically non-refundable fixed license fees and variable license fees calculated based on prescribed terms.

In addition, we generated information service revenue by providing performance-based in-game marketing and promotion services to advertisers or their agents who promote their customers' products in our games to players. See "—Critical Accounting Policies, Judgments and Estimates—Revenue Recognition" for more details.

The following table sets forth a breakdown of our revenues by game for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB in thousands)			**(Unaudited)**	
Revenues					
The Marvelous Snail (最強蝸牛)	–	1,871	1,169,742	56,683	516,487
Gumballs & Dungeons (不思議迷宮)	72,839	53,286	36,393	21,067	10,458
Lantern and Dungeon (提燈與地下城)	–	–	2,773	–	229,392
Ares Virus (阿瑞斯病毒)	14,140	10,068	8,485	3,942	4,055
Eternal Adventure (無盡大冒險)	4,237	19,247	8,182	6,085	2,281
Others	7,205	4,232	1,345	773	277
Total	**98,421**	**88,704**	**1,226,920**	**88,550**	**762,950**

The following tables set forth a breakdown of our revenues generated by game for the periods indicated.

Game operating revenues—self-developed

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB in thousands)			(Unaudited)	
The Marvelous Snail (最強蝸牛)	–	1,871	1,063,345	50,207	490,960
Gumballs & Dungeons (不思議迷宮)	25,017	19,704	12,226	7,251	3,414
Eternal Adventure (無盡大冒險)	4,237	18,008	5,743	4,182	1,743
Others	6,227	3,735	984	445	274
Total	**35,481**	**43,318**	**1,082,298**	**62,085**	**496,391**

Game operating revenues—licensed

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB in thousands)			(Unaudited)	
Lantern and Dungeon (提燈與地下城)	–	–	2,773	–	229,392
Ares Virus (阿瑞斯病毒)	14,132	9,557	8,075	3,778	3,850
Others	978	497	302	274	–
Total	**15,110**	**10,054**	**11,150**	**4,052**	**233,242**

Game licensing revenue

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB in thousands)			(Unaudited)	
The Marvelous Snail (最強蝸牛)	–	–	34,026	–	11,817
Gumballs & Dungeons (不思議迷宮)	47,822	33,582	24,167	13,816	7,044
Eternal Adventure (無盡大冒險)	–	–	335	335	68
Others	–	–	48	47	1
Total	**47,822**	**33,582**	**58,576**	**14,198**	**18,930**

Information service revenue

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB in thousands)			(Unaudited)	
The Marvelous Snail (最強蝸牛)	–	–	72,371	6,477	13,710
Ares Virus (阿瑞斯病毒)	8	511	410	163	205
Eternal Adventure (無盡大冒險)	–	1,239	2,104	1,567	470
Others	–	–	11	8	2
Total	**8**	**1,750**	**74,896**	**8,215**	**14,387**

Revenue by Geographic Area

The following table sets forth a breakdown of our revenues by geographic area 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)			
Mainland China	67,044	68.1	62,686	70.7	1,178,903	96.1	80,353	90.7	742,945	97.4
Outside mainland China[(1)]	31,377	31.9	26,018	29.3	48,017	3.9	8,197	9.3	20,005	2.6
Total	**98,421**	**100.0**	**88,704**	**100.0**	**1,226,920**	**100.0**	**88,550**	**100.0**	**762,950**	**100.0**

Note:

(1) Revenues generated from outside mainland China mainly included revenues generated from local versions of games in the U.S., Hong Kong, Taiwan and Macau.

Cost of Revenues

Our cost of revenues was RMB21.7 million, RMB20.0 million and RMB284.6 million in 2018, 2019 and 2020, respectively. In addition, our cost of revenues was RMB34.7 million and RMB188.4 million in the six months ended June 30, 2020 and 2021, respectively. Our cost of revenues during the Track Record Period consisted of (i) commissions charged by distribution and payment channels, representing revenue share payments to third-party distribution platforms and payment service providers for our self-published games, (ii) commissions charged by third-party game developers, (iii) bandwidth and servers custody fee, (iv) employee benefits expenses related to our system maintenance and customer service personnel, including wages, salaries, bonuses, social security contributions and other employee benefits, and (v) others, including outsourced technical service fees for short messaging services, professional service fees and miscellaneous expenses.

The following table sets forth a breakdown of our cost of revenues by nature in absolute amounts and as percentages of our total cost of 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 percentages)						*(Unaudited)*			
Commissions charged by distribution and payment channels	13,929	64.3	13,068	65.4	249,107	87.5	26,801	77.2	131,823	70.0
Commissions charged by third-party game developers	5,180	23.9	2,922	14.6	2,430	0.9	1,277	3.7	33,210	17.6
Bandwidth and servers custody fee	1,293	6.0	1,996	10.0	16,022	5.6	4,501	13.0	12,902	6.8
Employee benefits expenses	1,090	5.0	1,830	9.2	9,844	3.5	1,569	4.5	3,434	1.8
Others	178	0.8	151	0.8	7,162	2.5	580	1.6	7,059	3.8
Total	**21,670**	**100.0**	**19,967**	**100.0**	**284,565**	**100.0**	**34,728**	**100.0**	**188,428**	**100.0**

Gross Profit and Gross Profit Margin

Our gross profit was RMB76.8 million, RMB68.7 million and RMB942.4 million in 2018, 2019 and 2020, respectively. In addition, our gross profit was RMB53.8 million and RMB574.5 million in the six months ended June 30, 2020 and 2021, respectively. The following table sets forth our gross profit and gross profit margin for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
				(Unaudited)	
Gross profit (RMB in thousands)	76,751	68,737	942,355	53,822	574,522
Gross profit margin (%)	78.0	77.5	76.8	60.8	75.3

Selling and Marketing Expenses

Our selling and marketing expenses were RMB13.9 million, RMB16.8 million and RMB559.2 million in 2018, 2019 and 2020, respectively. In addition, our selling and marketing expenses were RMB186.4 million and RMB245.1 million in the six months ended June 30, 2020 and 2021, respectively. Our selling and marketing expenses consisted of (i) marketing and promotion expenses paid to our online and offline marketing service providers, including traffic acquisition and brand marketing and promotion expenses, which represented 72.0%, 67.3%, 93.7% and 95.1% of our total selling and marketing expenses in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively, (ii) employee benefits expenses related to our sales and marketing personnel, and (iii) others, including office expenses incurred for our sales and marketing activities and miscellaneous expenses.

The following table sets forth a breakdown of our selling and marketing expenses in absolute amounts and as percentages of our total selling and marketing expenses 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)*			
Marketing and promotion expenses	10,013	72.0	11,277	67.3	524,259	93.7	182,964	98.1	233,170	95.1
—Traffic acquisition	7,410	53.3	3,155	18.8	434,999	77.7	148,253	79.5	144,089	58.8
—Brand marketing and promotion	2,603	18.7	8,122	48.5	89,260	16.0	34,711	18.6	89,081	36.3
Employee benefits expenses	3,138	22.5	4,417	26.3	33,418	6.0	2,952	1.6	8,573	3.5
Others	766	5.5	1,069	6.4	1,538	0.3	510	0.3	3,328	1.4
Total	**13,917**	**100.0**	**16,763**	**100.0**	**559,215**	**100.0**	**186,426**	**100.0**	**245,071**	**100.0**

Our marketing and promotion expenses consist of traffic acquisition expenses and brand marketing and promotion expenses. See "Business—Marketing and Promotion" for our traffic acquisition as well as brand marketing and promotion activities. Our traffic acquisition expenses decreased by 57.4% from RMB7.4 million in 2018 to RMB3.2 million in 2019, primarily due to the decrease in traffic acquisition expenses we incurred for games, including *Gumballs & Dungeons (不思議迷宮)* for markets outside mainland China. Our traffic acquisition expenses further increased substantially to RMB435.0 million in 2020, primarily related to our blockbuster game *The Marvelous Snail (最強蝸牛)*. Our traffic acquisition expenses remained relatively stable at RMB148.3 million in the six months ended June 30, 2020 and RMB144.1 million in the same period of 2021, primarily attributable to *The Marvelous Snail (最強蝸牛)* and *Lantern and Dungeon (提燈與地下城)*.

Our brand marketing and promotion expenses increased substantially from RMB2.6 million in 2018 to RMB8.1 million in 2019, primarily in relation to our marketing and promotion of the updated version of our *Eternal Adventure (無盡大冒險)*. Our brand marketing and promotion expenses further increased substantially to RMB89.3 million in 2020, primarily due to our launch of *The Marvelous Snail (最強蝸牛)*. Our brand marketing and promotion expenses increased substantially from RMB29.5 million in the six months ended June 30, 2020 to RMB78.5 million in the same period of 2021, primarily in relation to *The Marvelous Snail (最強蝸牛)* as well as *Lantern and Dungeon (提燈與地下城)* , which was launched in March 2021.

Research and Development Expenses

Our research and development expenses were RMB25.3 million, RMB25.6 million and RMB146.1 million in 2018, 2019 and 2020, respectively. In addition, our research and development expenses were RMB12.3 million and RMB18.0 million in the six months ended June 30, 2020 and 2021, respectively. Our research and development expenses consisted of (i) employee benefits expenses related to our R&D staff, (ii) outsourced technical service fee, and (iii) others, including office expenses incurred for our R&D activities, depreciation of right-of-use assets, rental expenses, utilities and miscellaneous expenses.

The following table sets forth a breakdown of our research and development expenses in absolute amounts and as percentages of our total research and development expenses 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)*			
Employee benefits expenses	25,064	99.0	25,041	97.8	144,831	99.1	11,547	94.2	16,238	90.0
Outsourced technical service fee	241	1.0	567	2.2	999	0.7	14	0.1	559	3.1
Others	–	–	4	0.0	278	0.2	697	5.7	1,246	6.9
Total	**25,305**	**100.0**	**25,612**	**100.0**	**146,108**	**100.0**	**12,258**	**100.0**	**18,043**	**100.0**

General and Administrative Expenses

Our general and administrative expenses were RMB19.1 million, RMB9.3 million and RMB102.9 million in 2018, 2019 and 2020, respectively. In addition, our general and administrative expenses were RMB11.9 million and RMB28.7 million in the six months ended June 30, 2020 and 2021, respectively. Our general and administrative expenses primarily consisted of (i) employee benefits expenses related to our supporting staff, (ii) share-based compensation, (iii) depreciation of right-of-use assets on our leases, (iv) **[REDACTED]**, (v) tax surcharges, including VAT surcharges and stamp duty, (vi) rental expenses and utilities, and (vii) others, including office expenses, depreciation of property, plant and equipment, professional services fee and miscellaneous expenses.

The following table sets forth a breakdown of our general and administrative expenses in absolute amounts and as percentages of our total general and administrative expenses 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)*			
Employee benefits expenses	2,659	13.9	6,040	65.0	38,226	37.1	1,677	14.1	7,829	27.3
Share-based compensation	14,000	73.3	–	–	56,017	54.4	8,965	75.2	–	–
Depreciation of right-of-use assets	65	0.3	99	1.1	148	0.1	64	0.5	154	0.5
		[REDACTED]								
Tax surcharges	494	2.6	302	3.2	3,764	3.7	320	2.7	2,275	7.9
Rental expenses and utilities	161	0.8	425	4.6	395	0.4	10	0.1	31	0.1
Others	1,711	9.1	2,430	26.1	4,347	4.3	880	7.4	3,207	11.3
		[REDACTED]								

Net Impairment Losses on Financial Assets

We recorded net impairment losses of RMB657 thousand and RMB170 thousand on financial assets in 2018 and 2019, respectively, and reversal of previous impairment losses on these financial assets of RMB364 thousand in 2020. We recorded net impairment losses of RMB688 thousand and RMB71 thousand on financial assets in the six months ended June 30, 2020 and 2021, respectively. Our net impairment losses on financial assets represented changes in provisions of expected credit losses of our financial assets, primarily including trade and other receivables. See Note 22 to the Accountant's Report included in Appendix I to this document for more information on our financial assets.

Fair Value Changes on Investments Measured at Fair Value through Profit or Loss

We recorded fair value gains on investments measured at fair value through profit or loss of RMB143 thousand, RMB535 thousand and RMB594 thousand in 2018, 2019 and 2020, respectively. We recorded fair value losses on investments measured at fair value through profit or loss of RMB439 thousand and RMB2.0 million in the six months ended June 30, 2020 and 2021, respectively. Our fair value changes on investments measured at fair value through profit or loss reflected changes in the fair value of (i) certain of our long-term equity investments, which were equity investments in private equity funds as limited partners without significant influence, and investments in investee companies and (ii) our short-term investments, primarily consisting of investments in derivative instruments with a major PRC commercial bank and investments in funds that invest primarily in publicly-traded securities. See Notes 8, 18 and 23 to the Accountant's Report in Appendix I to this document for details of the fair value measurement.

In addition to strategic investments in the mobile game developers or other businesses, we make short-term investments to make better use of our excess cash generated from operating activities. Our short-term investments during the Track Record Period were primarily derivative instruments that we made with a major PRC commercial bank and short-term investments in funds that invest primarily in publicly-traded securities. Our chief financial officer is responsible for investing in and managing these investments. We have adopted investment policies and prudent investment strategies during the course of our business, and we evaluate and manage each investment based on its specific terms and risks. See "Business—Risk Management and Internal Control—Investment Risk Management" for more details.

Other Income

Our other income was RMB7.0 million, RMB6.4 million and RMB11.4 million in 2018, 2019 and 2020, respectively. In addition, our other income was RMB4.8 million and RMB2.9 million in the six months ended June 30, 2020 and 2021, respectively. Our other income primarily consisted of (i) interest income from loans to third parties and related parties (see "—Related Party Transactions" for more information), (ii) interest income from financial assets at amortized cost, mainly representing interest income from term deposits, (iii) investment return from wealth management products issued by commercial banks, and (iv) subsidies, mainly including government subsidies granted by local governments to support our R&D activities and in recognition of our contribution to local economic development.

The following table sets forth a breakdown of our other income for the periods indicated.

	Year ended December 31,			**Six months ended June 30,**	
	2018	**2019**	**2020**	**2020**	**2021**
	(RMB in thousands)				
				(Unaudited)	
Interest income from loans to third parties and related parties	1,458	1,368	2,627	1,159	–
Interest income from financial assets at amortized cost	634	1,205	1,090	1,042	–
Investment return from wealth management products issued by commercial banks	–	–	–	–	120
Subsidies	4,950	3,821	7,689	2,606	2,797
Total	**7,042**	**6,394**	**11,406**	**4,807**	**2,917**

In the second quarter of 2021, we purchased a wealth management product issued and managed by a commercial bank in China, which was a low-risk and principal-guaranteed structured deposit with maturity of 14 days. We typically purchase low-risk, principal-guaranteed wealth management products to better utilize our idle funds. Our financial department manages these investments under the supervision of our senior management, including our chief financial officer. For the relevant qualifications and experience of our chief financial officer, see "Directors and Senior Management."

Other Gains/(Losses), Net

We recorded net other gains of RMB1.3 million and RMB1.7 million in 2018 and 2019, respectively. We recorded net other losses of RMB27.1 million, RMB13 thousand and RMB4.2 million in 2020 and the six months ended June 30, 2020 and 2021, respectively. Our net other gains or losses primarily consisted of (i) net foreign exchange gains or losses arising from revenue and trade receivables denominated in U.S. dollars, (ii) donations to charity organizations, and (iii) dividend distribution from a private equity fund we invested in.

The following table sets forth a breakdown of our other gains or losses, net, for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2018	**2019**	**2020**	**2020**	**2021**
			(RMB in thousands)		
				(Unaudited)	
Foreign exchange gain/(loss), net	1,235	1,681	(24,712)	1,251	(4,005)
Donations to charity organizations	–	–	(2,254)	(1,261)	(187)
Dividend distribution	–	–	–	–	8
Others[(1)]	27	60	(105)	(3)	27
Total	**1,262**	**1,741**	**(27,071)**	**(13)**	**(4,157)**

Note:

(1) We disposed of Xiamen Changwan Network technology Co., Limited (廈門暢玩網絡科技有限公司)("Changwan") to one of our employees in 2018. Changwan did not have any substantive business operations before the disposal, and we disposed of this company due to a change in business strategy. The purchaser purchased 100% equity interest in Changwan at nil consideration, which was determined based on its net liabilities status as of December 31, 2017, and to our knowledge, the purchaser intended to operate his own business with this company. We did not have any transactions with Changwan following the disposal. Changwan complied with applicable laws and regulations in all material respects, and was not subject to any material claims, litigation or legal proceedings during the Track Record Period and up to the date of its disposal.

We voluntarily dissolved Xiamen Changleyou Network technology Co., Limited (廈門暢樂游網絡科技有限公司)("Changleyou") in 2019. Changleyou did not have any material business operations and we dissolved it due to a change in business strategy. Changleyou complied with applicable laws and regulations in all material respects, and was not subject to any material claims, litigation or legal proceedings during the Track Record Period and up to the date of its dissolution.

Finance (Costs)/Income, Net

Our finance income was RMB53 thousand, RMB47 thousand and RMB795 thousand in 2018, 2019 and 2020, respectively. Our finance income was RMB48 thousand and RMB697 thousand in the six months ended June 30, 2020 and 2021, respectively. Our finance income primarily consisted of interest income from bank deposits.

Our finance costs were RMB151 thousand, RMB138 thousand and RMB103 thousand in 2018, 2019 and 2020, respectively. In addition, our finance costs were RMB65 thousand and RMB283 thousand in the six months ended June 30, 2020 and 2021, respectively. Our finance costs primarily consisted of interest expenses on lease liabilities and bank charges.

The following table sets forth a breakdown of our finance income and finance costs for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB in thousands)			*(Unaudited)*	
Finance income					
Interest income from bank deposits	53	47	795	48	697
Finance costs					
Interest expenses on lease liabilities	(136)	(124)	(74)	(49)	(237)
Bank charges	(15)	(14)	(29)	(16)	(46)
Subtotal	(151)	(138)	(103)	(65)	(283)
Finance (costs)/income, net	**(98)**	**(91)**	**692**	**(17)**	**414**

Fair Value Changes of Convertible Redeemable Preferred Shares

We recorded fair value losses of convertible redeemable preferred shares of RMB338.4 million in the six months ended June 30, 2021. These preferred shares represented Series A and Series B preferred shares that we issued to certain investors in May 2021. For details, please see Note 30 to the Accountant's Report included in Appendix I to this document.

Share of Results of Investments Accounted for Using Equity Method

We recorded share of net loss of investments accounted for using equity method of RMB154 thousand, RMB404 thousand and RMB202 thousand in 2019, 2020 and the six months ended June 30, 2020, respectively. We recorded share of net gain of investments accounted for using equity method RMB145 thousand and RMB5.0 million in 2018 and the six months ended June 30, 2021, respectively. Our share of results of investments accounted for using equity method represented our share of net profit or loss of our associate companies in which we made minority equity investments but had significant influence.

Losses on Impairment of Investments Accounted for Using the Equity Method

We recorded losses on impairment of investments accounted for using the equity method of RMB2.0 million in 2019 related to an associate company that was wound up in 2019.

Losses from Financial Instruments Issued to Investors

We recorded losses from financial instruments issued to investors of RMB2.7 million, RMB6.4 million, RMB3.2 million and RMB53.9 million in 2019, 2020 and the six months ended June 30, 2020 and 2021, respectively. Our losses from financial instruments issued to investors represented the ordinary shares issued by our VIE, QC Digital, to an investor for an aggregate consideration of RMB80.0 million in July 2019, representing 13.33% of equity interest in QC Digital. The ordinary shares will become redeemable by G-bits under certain events which are out of the control of our Group. QC Digital does not have the unconditional right to avoid delivering cash or other financial assets to settle contractual obligation upon occurrence of certain events which are out of the control of our Group. See Note 29 to the Accountant's Report in Appendix I to this document for further details.

Income Tax (Expenses)/Credit

We recorded income tax expenses of RMB1.4 million, RMB1.0 million and RMB9.6 million in 2018, 2019 and 2020, respectively. In addition, we had income tax expenses of RMB1.9 million and income tax credit of RMB9.5 million in the six months ended June 30, 2020 and 2021, respectively.

Cayman Islands

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

British Virgin Islands

Under the current laws of the BVIs, entities incorporated in the BVIs are not subject to tax on their income or capital gains.

Hong Kong

Hong Kong profits tax rate has been provided at the rate of 16.5% on the estimated assessable profit in respect of operations in Hong Kong.

PRC

PRC Enterprise Income Tax ("EIT")

We have made EIT provisions on the estimated assessable profits of entities within our Group incorporated in the PRC, and these provisions were calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC EIT rate was 25% during the Track Record Period.

Our VIEs, QC Cultural and QC Digital, have each been accredited as a "software enterprise" under the relevant PRC Laws and regulations. They are exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generated from prior years beginning from 2017 and 2020, respectively.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2018, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year, or the Super Deduction. We have made our best estimate for the Super Deduction to be claimed for entities within our Group in ascertaining their assessable profits during the Track Record Period. See "Risk Factors—Risks Relating to Doing Business in the PRC—Failure to obtain any preferential tax treatment and governmental subsidies or the discontinuation, reduction, request for return or delay of any of the preferential tax treatments that may be available to us could adversely affect our results of operations" for more information.

PRC Withholding Tax

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% withholding tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5% in certain circumstances.

Since we intend to permanently reinvest earnings from QC Digital to further expand our businesses in the PRC after the Reorganization, we do not intend to declare dividends to QC Digital's immediate foreign holding entities in the foreseeable future. Accordingly, no deferred income tax liability on QC Digital's PRC withholding tax was accrued as of December 31, 2018, 2019 and 2020 and June 30, 2021. Cumulative undistributed earnings of our PRC subsidiaries intended to be permanently reinvested were RMB137.0 million as of June 30, 2021.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Period Ended June 30, 2021 Compared to Period Ended June 30, 2020

Revenues

Our revenues 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 (i) an RMB434.3 million increase in game operating revenue from our self-developed games, mainly attributable to a significant increase in revenue from our exceptionally successful game *The Marvelous Snail (最強蝸牛)* while 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, and (ii) an RMB229.2 million increase in game operating revenue from our licensed games, mainly from our landmark game *Lantern and Dungeon (提燈與地下城)* which we launched in March 2021. The increase in our revenues was also due to an RMB6.2 million increase in our information service revenue from our in-game marketing and promotion services.

Cost of Revenues

Our cost of revenues increased substantially from RMB34.7 million in the six months ended June 30, 2020 to RMB188.4 million in the same period of 2021, which was primarily due to (i) an RMB105.0 million increase in commissions charged by distribution and payment channels in line with the increase in our game operating revenue from *The Marvelous Snail (最強蝸牛)* and (ii) an RMB31.9 million increase in commissions charged by game developers primarily in relation to our in-licensed game *Lantern and Dungeon (提燈與地下城)*. The increase was also attributable to an RMB8.4 million increase in bandwidth and servers custody fee.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased substantially from RMB53.8 million in the six months ended June 30, 2020 to RMB574.5 million in the same period of 2021. Our gross profit margin increased from 60.8% in the six months ended June 30, 2020 to 75.3% in the same period of 2021 primarily because *The Marvelous Snail (最強蝸牛)* had a small revenue relative to its cost in the six months ended June 30, 2020 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.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 31.5% from RMB186.4 million in the six months ended June 30, 2020 to RMB245.1 million in the same period of 2021, primarily due to (i) an RMB50.2 million increase in marketing and promotion expenses incurred primarily for *The Marvelous Snail (最強蝸牛)* to prepare for its launch and shortly after that to promote this game, as well as (ii) *Lantern and Dungeon (提燈與地下城)*, which was launched in March 2021 and required substantial promotion to increase its exposure.

Research and Development Expenses

Our research and development expenses increased by 31.7% from RMB12.3 million in the six months ended June 30, 2020 to RMB18.0 million in the same period of 2021, primarily due to an RMB4.7 million increase in employee benefits expenses as a result of increases in headcount and average remuneration of our R&D personnel.

General and Administrative Expenses

Our general and administrative expenses increased substantially from RMB11.9 million in the six months ended June 30, 2020 to RMB28.7 million in the same period of 2021, primarily due to (i) **[REDACTED]** in

[REDACTED] we incurred in the six months ended June 30, 2021 which we did not have in the same period of 2020, (ii) an RMB6.2 million increase in employee benefits expenses due to increases in headcount and average remuneration, and (iii) an RMB2.0 million increase in tax surcharges generally in line with our revenue growth. These factors were offset in part by the fact that we had share-based compensation of RMB9.0 million in the six months ended June 30, 2020 while we did not have these expenses in the same period of 2021.

Net Impairment Losses on Financial Assets

We recorded reversal of previous net impairment losses on financial assets of RMB688 thousand and RMB71 thousand in the six months ended June 30, 2020 and 2021, respectively, representing changes in provisions of expected credit losses of our financial assets.

Fair Value Changes on Investments Measured at Fair Value through Profit or Loss

Our fair value gains on investments measured at fair value through profit or loss increased substantially from RMB439 thousand in the six months ended June 30, 2020 to RMB2.0 million in the same period of 2021, primarily attributable to our investments in unlisted companies and the fair value gains on our existing investments.

Other Income

Our other income decreased by 39.6% from RMB4.8 million in the six months ended June 30, 2020 to RMB2.9 million in the same period of 2021, primarily due to an RMB1.2 million decrease in the interest income loans to third parties and related parties and an RMB1.0 million decrease in interest income from financial assets at amortized cost.

Other Losses, Net

We recorded net other losses of RMB13 thousand and RMB4.2 million in the six months ended June 30, 2020 and 2021, respectively. The substantial increase was primarily due to an RMB4.0 million net foreign exchange loss in the six months ended June 30, 2021, compared to an RMB1.3 million net foreign exchange gain in the same period of 2020; this change was primarily a result of the appreciation of RMB against U.S. dollars in 2020 affecting our U.S. dollar dominated revenues and trade receivables. The increase in our net other losses was partially offset by an RMB1.1 million decrease in donations to charity organizations.

Finance (Costs)/Income, Net

We recorded net finance costs of RMB17 thousand in the six months ended June 30, 2020, mainly consisting of interest expenses on lease liabilities. We recorded net finance income of RMB414 thousand in the six months ended June 30, 2021, representing interest income from bank deposits net of interest expenses on lease liabilities and bank charges.

Fair Value Changes of Convertible Redeemable Preferred Shares

We recorded fair value losses of convertible redeemable preferred shares of RMB338.4 million in the six months ended June 30, 2021, and did not have the same in the prior period.

Share of Results of Investments Accounted for Using Equity Method

We recorded share of net profit of investments accounted for using equity method of RMB5.0 million in the six months ended June 30, 2021 compared to share of net loss of investments accounted for using equity method of RMB202 thousand in the same period of 2020, attributable to results of operations of our associate companies.

Losses from Financial Instruments Issued to Investors

Our losses from financial instruments issued to investors increased substantially from RMB3.2 million in the six months ended June 30, 2020 to RMB53.9 million in the same period of 2021, primarily due to an increase in the fair value of the financial instruments issued to investors.

Income Tax (Expenses)/Credit

We recorded income tax expenses of RMB1.9 million in the six months ended June 30, 2020 and income tax credit of RMB9.5 million in the same period of 2021. Our income tax credit in the six months ended June 30, 2021 was primarily attributable to our recognition of deferred tax assets amounting to RMB14.1 million related to our marketing and promotion expenses to be deductible for tax purposes in future periods.

According to the PRC corporate income tax law promulgated by the PRC government, a company's annual tax-deductible marketing and promotion expenses are capped at 15% of its current year's revenue. The marketing and promotion expenses incurred by the company that exceed this cap in the current year (the "Excess Marketing and Promotion Expenses") can be utilized for tax deductions in the future.

In late 2020, our game revenue and marketing and promotion expenses were mainly generated or incurred by QC Cultural. Based on our original operating plan and tax planning, QC Cultural would publish more games in the future. Accordingly, it would likely continue to incur significant Excess Marketing and Promotion Expenses when new games are launched, and therefore QC Cultural is highly unlikely to utilize its prior periods' accumulated Excess Marketing and Promotion Expenses. As a result, we did not record corresponding deferred income tax assets in our consolidated statements of financial position as of December 31, 2020. In contrast, we did not have any Excess Marketing and Promotion Expenses in 2018 or 2019.

In August 2021, we established QC Chengdu Interactive to conduct game publishing and operation. According to our new operating plan and tax planning, QC Chengdu Interactive will generate revenues from publishing our major new games and incur most of our marketing and promotion expenses. However, QC Cultural will carry on running our existing games and according to our previous game operation experience, the operation of existing games will continue to generate revenues without incurring significant marketing and promotion expenses. Therefore, we expect that in the foreseeable future, QC Cultural will be able to utilize approximately 19% of the prior periods' accumulated Excess Marketing and Promotion Expenses. Based on the above, we recognized corresponding deferred income tax assets in our consolidated statements of financial position as of June 30, 2021.

The temporary differences attributable to the marketing and promotion expenses in Note 16 to the Accountant's Report included in Appendix I hereto accounted for only 4.5% of our adjusted net profit for the six months ended June 30, 2021 and therefore had limited impact on our results of operations. Our management will keep assessing the available future taxable income, the available Excess Marketing and Promotion Expenses, our operation and tax planning to determine the utilization of the Excess Marketing and Promotion Expenses at the end of each future reporting period, and adjust the recognition and the recoverability of deferred tax assets accordingly. Upon utilization of any Excess Marketing and Promotion Expenses in the future periods, we will recognize the tax impact of corresponding utilized amount of these expenses in our income tax expenses and reduce our deferred tax assets.

Loss for the Period and Net Loss Margin

As a result of the foregoing, 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 primarily caused by 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 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)*.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenues

Our revenues increased substantially from RMB88.7 million in 2019 to RMB1,226.9 million in 2020, primarily due to (i) an RMB1,039.0 million increase in game operating revenue generated from our self-developed games that we published by ourselves, particularly a significant increase in revenue from *The Marvelous Snail (最強蝸牛)*, an exceptionally successful game that we launched in June 2020, and (ii) an RMB73.1 million increase in our information service revenue from *The Marvelous Snail (最強蝸牛)* in 2020. These factors were offset in part by decreases in game operating revenues from *Gumballs & Dungeons (不思議迷宮)* (launched in August 2016) and *Eternal Adventure (無盡大冒險)* (launched in June 2015), both of which experienced decreases in gross billings after being in operation for a few years.

Cost of Revenues

Our cost of revenues increased substantially from RMB20.0 million in 2019 to RMB284.6 million in 2020, which was primarily due to an RMB236.0 million increase in commissions charged by distribution and payment channels, generally in line with the increase in our revenues. The increase in our cost of revenues was also due to increases in our bandwidth and servers custody fee and employee benefits expenses.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased substantially from RMB68.7 million in 2019 to RMB942.4 million in 2020. Our gross profit margin remained relatively stable at 77.5% in 2019 and 76.8% in 2020.

Selling and Marketing Expenses

Our selling and marketing expenses increased substantially from RMB16.8 million in 2019 to RMB559.2 million in 2020, primarily due to an RMB513.0 million increase in marketing and promotion expenses. Our marketing and promotion expenses increased significantly from RMB11.3 million in 2019 to RMB524.3 million in 2020, primarily due to the significant increase in expenses incurred for the marketing and advertising of our game *The Marvelous Snail (最強蝸牛)*, as well as marketing and promotion expenses for our other self-published games. This increase was also attributable to an RMB29.0 million increase in employee benefits expenses due to an increase in headcount of our marketing and sales staff and the bonus payment.

Research and Development Expenses

Our research and development expenses increased significantly from RMB25.6 million in 2019 to RMB146.1 million in 2020, primarily due to an increase in employee benefits expenses as a result of increases in headcount and average remuneration primarily in relation to the success of our games.

General and Administrative Expenses

Our general and administrative expenses increased substantially from RMB9.3 million in 2019 to RMB102.9 million in 2020, primarily as a result of (i) RMB56.0 million in share-based compensation that we incurred in 2020 which we did not have in 2019, and (ii) an RMB32.2 million increase in employee benefits expenses due to increases in headcount and average remuneration.

Net Impairment Losses on Financial Assets

We recognized reversal of previous impairment losses on financial assets of RMB364 thousand in 2020 and net impairment losses on financial assets of RMB170 thousand in 2019, representing changes in provisions of expected credit losses of our financial assets.

Fair Value Changes on Investments Measured at Fair Value through Profit or Loss

Our fair value changes on investments measured at fair value through profit or loss remained relatively stable at RMB535 thousand in 2019 and RMB594 thousand in 2020.

Other Income

Our other income increased by 78.4% from RMB6.4 million in 2019 to RMB11.4 million in 2020, primarily due to the increased subsidies that we received in 2020.

Other Gains/(Losses), Net

Our net other gains were RMB1.7 million in 2019, compared to net other losses of RMB27.1 million in 2020, primarily due to net foreign exchange losses of RMB24.7 million we recorded in 2020 as compared to net foreign exchange gains of RMB1.7 million in 2019. This change was mainly attributable to the appreciation of RMB against U.S. dollars in 2020 affecting our U.S. dollar dominated revenues and trade receivables.

Finance (Costs)/Income, Net

We recorded finance costs of RMB91 thousand in 2019 and net finance income of RMB692 thousand in 2020, primarily due to an RMB748 thousand increase in interest income from bank deposits.

Share of Results of Investments Accounted for Using Equity Method

Our share of net loss of investments accounted for using equity method increased significantly from RMB154 thousand in 2019 to RMB404 thousand in 2020, which was attributable losses made by our associate companies in which we had minority equity interest.

Losses on Impairment of Investments Accounted for Using the Equity Method

We recorded losses on impairment of investments accounted for using the equity method of RMB2.0 million in 2019 related to an associate company that was wound up in 2019. We did not record any losses on impairment of investments accounted for using the equity method in 2020.

Losses from Financial Instruments Issued to Investors

We recorded losses from financial instruments issued to investors of RMB2.7 million in 2019 and RMB6.4 million in 2020. The change was primarily the financial instruments were issued around mid-2019, and as a result their changes in carrying amount were relatively small in 2019.

Income Tax Expenses

Our income tax expenses increased significantly from RMB1.0 million in 2019 to RMB9.6 million in 2020. Our effective tax rate was 5.0% in 2019 and 8.5% in 2020, respectively. These effective tax rates were both below the 25% statutory EIT rate, primarily attributable to the preferential income tax rates applicable to our VIEs and the Super Deduction we enjoyed for our research and development expenses.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit for the year increased significantly from RMB19.6 million in 2019 to RMB103.7 million in 2020. Our net profit margin decreased from 22.1% in 2019 to 8.5% in 2020, primarily due to a substantial increase in selling and marketing expenses to promote our games.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenues

Our revenues decreased by 9.9% from RMB98.4 million in 2018 to RMB88.7 million in 2019, primarily due to (i) an RMB14.2 million decrease in game licensing revenue generated from our self-developed games published by third parties, particularly a decrease in revenue from *Gumballs & Dungeons (不思議迷宮)*, and (ii) an RMB5.1 million decrease in game operating revenue from licensed games, primarily attributable to *Ares Virus (阿瑞斯病毒)* which was launched in August 2018. These factors were offset in part by an increase in game operating revenue from self-developed games, primarily attributable to an increase in revenue from *Eternal Adventure (無盡大冒險)* (launched in June 2015) for which we released new versions with substantial updates and conducted enhanced promotion in 2019.

Cost of Revenues

Our cost of revenues decreased by 7.9% from RMB21.7 million in 2018 to RMB20.0 million in 2019, which was primarily attributable to an RMB2.3 million decrease in commissions charged by game developers generally in line with the decrease in game operating revenue attributable to licensed games, offset in part by an RMB740 thousand increase in employee benefits expenses and an RMB703 thousand increase in bandwidth and servers fee.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 10.4% from RMB76.8 million in 2018 to RMB68.7 million in 2019. Our gross profit margin remained relatively stable at 78.0% in 2018 and 77.5% in 2019.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 20.4% from RMB13.9 million in 2018 to RMB16.8 million in 2019, primarily due to (i) an RMB1.3 million increase in employee benefits expenses attributable to the expansion of our sales and marketing team and their increased remuneration, and (ii) an RMB1.3 million increase in marketing and promotion expenses incurred to promote our games.

Research and Development Expenses

Our research and development expenses remained relatively stable at RMB25.3 million in 2018 and RMB25.6 million in 2019.

General and Administrative Expenses

Our general and administrative expenses decreased by 51.3% from RMB19.1 million in 2018 to RMB9.3 million in 2019, primarily because we incurred RMB14.0 million in share-based compensation in 2018 while we did not have this expense in 2019. The decrease was offset in part by an RMB3.4 million increase in employee benefits expenses due to increases in headcount and average compensation of our administrative staff.

Net Impairment Losses on Financial Assets

We recorded net impairment losses on financial assets of RMB657 thousand in 2018 and RMB170 thousand in 2019, primarily as a result of the provision for impairment of our financial assets.

Fair Value Changes on Investments Measured at Fair Value through Profit or Loss

Our fair value gains on investments measured at fair value through profit or loss increased significantly from RMB143 thousand in 2018 to RMB535 thousand in 2019, primarily due to an increase in fair value gains on our short-term investments measured at fair value through profit or loss related to our investments in private equity funds in 2019 offset in part by fair value losses in long-term investments measured at fair value through profit or loss that we incurred in 2019.

Other Income

Our other income decreased by 9.2% from RMB7.0 million in 2018 to RMB6.4 million in 2019, due to an RMB90 thousand decrease in interest income from loans to third parties and related parties and an RMB1.1 million decrease in subsidies we received, offset in part by an RMB571 thousand increase in interest income from financial assets at amortized cost.

Other Gains, Net

We recorded net other gains of RMB1.3 million in 2018 and RMB1.7 million in 2019. This increase was primarily due to an RMB446 thousand increase in foreign exchange gain as a result of the appreciation of RMB against U.S. dollars in 2020 affecting our U.S. dollar dominated revenues and trade receivables.

Finance Costs, Net

Our net finance costs decreased by 7.1% from RMB98 thousand in 2018 to RMB91 thousand in 2019.

Share of Results of Investments Accounted for Using Equity Method

We recorded share of gains of investments accounted for using equity method of RMB145 thousand in 2018, compared to share of losses of investments accounted for using equity method of RMB154 thousand in 2019, attributable to losses made by our associate companies.

Losses on Impairment of Investments Accounted for Using the Equity Method

We recorded losses on impairment of investments accounted for using the equity method of RMB2.0 million in 2019 related to an associate company that was wound up in 2019. We did not recognize this item in 2018.

Losses from Financial Instruments Issued to Investors

We recorded losses from financial instruments issued to investors of RMB2.7 million in 2019. We did not have this item in 2018.

Income Tax Expenses

Our income tax expenses decreased by 27.3% from RMB1.4 million in 2018 to RMB1.0 million in 2019. Our effective income tax rate was 5.0% in 2019 as compared to 5.4% in 2018, both below the statutory rate of 25%, primarily due to preferential income tax rates applicable to certain of our VIEs and the Super Deduction we enjoyed for research and development expenses.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit for the year decreased by 21.1% from RMB24.9 million in 2018 to RMB19.6 million in 2019. Our net profit margin slightly decreased from 25.3% in 2018 to 22.1% in 2019, primarily due to an increase in selling and marketing expenses to promote our games, offset in part by a decrease in general and administrative expenses.

DISCUSSION OF SELECTED ITEMS FROM OUR CONBINED STATEMENTS OF FINANCIAL POSITION

Net Current Assets

The following table sets forth our net current assets and net current liabilities as of the dates indicates.

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB in thousands)			
Current assets				
Trade receivables	13,872	10,233	121,536	72,181
Inventories	–	–	222	269
Prepayments, deposits and other assets	40,401	55,880	59,490	37,846
Short-term investments measured at fair value through profit or loss	15,143	10,818	1,299	31,115
Short-term investments measured at amortized cost	10,085	86,341	–	–
Restricted cash	–	–	2,250	719
Cash and cash equivalents	21,398	26,092	443,248	675,957
Total current assets	**100,899**	**189,364**	**628,045**	**818,087**
Current liabilities				
Trade payables	3,144	1,908	13,329	39,647
Other payables and accruals	19,806	21,469	169,464	41,371
Contract liabilities	12,345	6,017	227,949	96,516
Financial liabilities at fair value through profit or loss	–	–	–	65
Current income tax liabilities	3,295	2,154	10,415	6,224
Lease liabilities	1,089	2,275	3,578	2,723
Total current liabilities	**39,679**	**33,823**	**424,735**	**186,546**
Net current assets	**61,220**	**155,541**	**203,310**	**631,541**

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, which resulted in an RMB76.3 million increase in short-term investments measured at amortized cost.

Our net current assets increased by 30.7% from RMB155.5 million as of December 31, 2019 to RMB203.3 million as of December 31, 2020, primarily due to (i) an RMB417.2 million increase in cash and cash equivalents, mainly attributable to our cash flows generated from operating activities, and (ii) an RMB111.3 million increase in trade receivables, which was generally in line with our business growth. These factors were partially offset by (i) an RMB222.0 million increase in contract liabilities (current portion), generally in line with our business growth, and (ii) an RMB148.0 million increase in other payables and accruals, mainly due to increases in salaries and benefits payables and other tax payables.

Our net current assets increased substantially from RMB203.3 million as of December 31, 2020 to RMB631.5 million as of June 30, 2021, primarily due to (i) an RMB232.7 million increase in cash and cash equivalents, mainly attributable to our issuance of convertible redeemable preferred shares and our cash flows generated from operating activities, (ii) an RMB131.4 million decrease in contract liabilities, as a result of recognition of revenue for game players' purchases of in-game virtual items, and (iii) an RMB128.1 million decrease in other payables and accruals, mainly due to decreases in salaries and benefits payables and other tax payables. These factors were partially offset by (i) an RMB49.4 million decrease in trade receivables due to lower monthly gross billings, and (ii) an RMB21.6 million decrease in prepayments, deposits and other assets.

We had total current assets of RMB841.3 million, total current liabilities of RMB164.8 million and net current assets of RMB676.5 million as of September 30, 2021. Our net current assets increased by 7.1% from RMB631.5 million as of June 30, 2021 to RMB676.5 million as of September 30, 2021, primarily due to decreases in trade payables, other payables and accruals and contract liabilities, partially offset by decreases in financial assets at fair value through profit or loss, trade receivables, and prepayments, deposits and other assets.

Trade Receivables

Our trade receivables represent outstanding amounts receivable from third-party distribution channels and game publishers, as well as our information service customers. The following table sets forth a breakdown of our trade receivables as of the dates indicated.

	As of December 31,			As of June 30,
	2018	**2019**	**2020**	**2021**
	(RMB in thousands)			
Distribution channels	4,186	1,880	80,000	49,675
Game publishers	10,334	7,238	34,936	20,091
Information service customers	8	1,832	6,832	2,541
	14,528	**10,950**	**121,768**	**72,307**
Less: allowance for impairment	(656)	(717)	(232)	(126)
Total trade receivables	**13,872**	**10,233**	**121,536**	**72,181**

Our trade receivables decreased by 26.2% from RMB13.9 million as of December 31, 2018 to RMB10.2 million as of December 31, 2019, primarily due to our collection of trade receivables before the end of 2019.

Our trade receivables increased substantially from RMB10.2 million as of December 31, 2019 to RMB121.5 million as of December 31, 2020, generally in line with the growth of our revenue from *The Marvelous Snail (最強蝸牛)*.

Our trade receivables decreased by 40.6% from RMB121.5 million as of December 31, 2020 to RMB72.2 million as of June 30, 2021, primarily due to lower monthly gross billings.

We typically grant to our third-party distribution platforms and third-party publishers credit terms ranging from 30 to 60 days. The following table sets forth an aging analysis of our trade receivables based on the recognition date as of the dates indicated.

	As of December 31,			As of June 30,
	2018	**2019**	**2020**	**2021**
	(RMB in thousands)			
Within 3 months	12,437	9,377	99,028	65,811
3 months to 6 months	1,442	852	22,698	6,478
6 months to 1 year	35	115	42	18
1 to 2 years	136	–	–	–
Over 2 years	478	606	–	–
Total	**14,528**	**10,950**	**121,768**	**72,307**

We applied the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. We consider the shared credit risk characteristics and days past due of each type of trade receivables to measure the expected credit losses. During the Track Record period, the expected loss rate for our trade receivables from related parties was close to zero, and the expected loss rate for our trade receivables from distribution channels, game publishers and in-game marketing and promotion service customers are determined according to a provision matrix. See Note 22 to the Accountant's Report included in Appendix I to this document for more information on this matrix.

The following table sets forth our trade receivables turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2018	**2019**	**2020**	**2021**
Trade receivables turnover days[(1)]	67	50	20	23

Note:

(1) Trade receivables turnover days were calculated using the average of the opening and closing balance of the trade receivables for the relevant period, divided by the corresponding revenue for the period, multiplied by 365 days for a year and 182 days for a six-month period.

Our trade receivables turnover days decreased from 67 days in 2018 to 50 days in 2019 primarily due to a decrease in trade receivables from third-party game publishers. Trade receivables from third-party game publishers (in respect of games they published for us) generally have longer credit terms than trade receivables from third-party distribution channels (in respect of our self-published games), because our game publishers generally pay us license fees after they receive the relevant fees from the distribution channels they use, while for our self-published games we receive the revenue sharing directly from third-party distribution channels. Our trade receivables turnover days further decreased to 20 days in 2020, primarily due to a significant increase in trade receivables from third-party distribution channels related to our self-published games. Our trade receivables turnover days increased slightly from 20 days in 2020 to 23 days in the six months ended June 30, 2021.

As of September 30, 2021, RMB62.9 million, or 87.0%, of our trade receivables as of June 30, 2021 had been subsequently settled.

Inventories

We do not have material inventories. Our inventories represent game-related peripheral products. We began to sell game-related peripheral products in 2020, and recorded inventories of RMB222 thousand as of December 31, 2020 and RMB269 thousand as of June 30, 2021.

Prepayments, Deposits and Other Assets (Current)

The following table sets forth a breakdown of our prepayments, deposits and other assets (current) as of the dates indicated.

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB in thousands)			
Prepayments for marketing and promotion services	–	–	50,788	22,514
Prepayment to service providers	138	112	3,031	3,450
Prepayments for sharing of proceeds[1]	–	–	1,000	566
Prepaid expenses and other current assets	218	–	532	4,160
Rental and other deposits	19	192	3,223	2,742
Advance to employees	3,250	4,090	367	–
Amounts due from a related party	33,533	47,829	–	–
Loans due from related parties	2,024	2,838	–	–
Loan due from third parties	774	338	165	56
[REDACTED]				
Others	566	711	427	1,009
Less: allowance for impairment	(121)	(230)	(43)	(78)
Total	**40,401**	**55,880**	**59,490**	**37,846**

Note:

(1) We license online games from game developers and pay game license fees and sharing of proceeds earned from selling in-game virtual items to game developers. The prepayments for game license fees are transferred to our intangible assets when we receive related licensed games. The prepayments for sales-based sharing are expensed in our cost of revenues on an as-incurred basis.

Our prepayments, deposits and other assets (current) increased by 38.3% from RMB40.4 million as of December 31, 2018 to RMB55.9 million as of December 31, 2019, primarily due to an RMB14.3 million increase in amounts due from a related party, representing the amount that Brilliance Investment Limited collected on behalf of us from overseas game distribution channels.

Our prepayments, deposits and other assets (current) increased by 6.5% from RMB55.9 million as of December 31, 2019 to RMB59.5 million as of December 31, 2020, primarily due to our incurrence of RMB50.8 million in prepayments for marketing and promotion services to promote our games, offset in part by the settlement of RMB47.8 million in amounts due from a related party.

Our prepayments, deposits and other assets (current) decreased by 36.4% from RMB59.5 million as of December 31, 2020 to RMB37.8 million as of June 30, 2021, primarily due to an RMB28.3 million decrease in prepayments for marketing and promotion services for our games.

We began incurring prepayments for marketing and promotion services in 2020 as we procured certain new marketing and promotion services, including celebrity endorsement and certain traffic acquisition services within China, for which the service providers required us to make advance payments. The following table sets forth a breakdown of our prepayments for marketing and promotion services by service type as of the dates indicated.

	As of December 31,	As of June 30,
	2020	2021
	(RMB in thousands)	
Traffic acquisition	23,922	8,673
Brand marketing and promotion	26,866	13,841
Total prepayments for marketing and promotion services	50,788	22,514

The following tables set forth a breakdown of our prepayments for marketing and promotion services by service provider as of the dates indicated.

	Type of services	As of December 31, 2020
		(RMB in thousands)
Vendor A	Brand marketing and promotion	13,111
Vendor B	Traffic acquisition	9,217
Vendor C	Traffic acquisition	8,347
G-bits Group	Traffic acquisition	5,425
Vendor D	Brand marketing and promotion	4,009
Others	Traffic acquisition and brand marketing and promotion	10,679
Total		50,788

	Type of services	As of June 30, 2021
		(RMB in thousands)
G-bits Group	Traffic acquisition	5,371
Vendor A	Brand marketing and promotion	5,189
Vendor F	Brand marketing and promotion	2,803
Vendor G	Brand marketing and promotion	1,434
Vendor E	Brand marketing and promotion	1,415
Others	Traffic acquisition and brand marketing and promotion	6,302
Total		22,514

Leveraging our extensive experience and resources in the mobile game industry, we have conducted business development activities to seek out and assess the capabilities of potential candidate marketing and promotion service providers, and we maintain a pool of qualified service providers. We procured marketing and promotion services from the G-bits Group and Guangzhou Jodo considering their background as game publishing companies and their strong capabilities in acquiring new players. G-bits is a substantial shareholder of our Company. We made a minority equity interest in Guanzhou Jodo in late 2020. See "Business—Related Party Transactions," "Financial Information—Discussion of Selected Items From Our Consolidated Statements of Financial Position—Long-term Investments Measured at Fair Value Through Profit or Loss," "Contractual Arrangements" and "Connected Transactions" for more information on our respective relationships with the G-bits Group and Guangzhou Jodo and the services they provided to us. Tianjin Haochuan is an animation service provider to us, and we consider that it provides high quality services with competitive prices. After gaining further understanding of Tianjin Haochuan along with our business cooperation, we entered into an investment agreement with it in April 2021 and became one of its shareholders. See "Waivers from Strict Compliance with the Listing Rules" for more details on our investment in Tianjin Haochuan. In addition, to our knowledge, the G-bits Group, through its controlled entity Xiamen Jixiang Equity Investment Co., Ltd. (廈門吉相股權投資有限公司), indirectly held a 10.0% equity interest in Tianjin Haochuan as of August 31, 2021. Moreover, an indirect shareholder of one of our marketing and promotion service providers is a controlled entity of our shareholder Bilibili Inc. We also procured marketing and promotion services from other service providers considering primarily their respective business capabilities, market reputation, pricing and credit terms. For example, Vendor B is a subsidiary of a company listed on China's National Equities Exchange and Quotations (全國中小企業股份轉讓系統) with significant business operations and strong industry experience. Vendor B (considering its parent's resources) and Vendor C have abundant experience in traffic acquisition through placing advertisements on platforms, such as Douyin, TouTiao, Tencent and Baidu, and they generally offer competitive pricing and credit terms. Vendor A, Vendor E, Vendor F and Vendor G provide brand marketing and promotion services with high service quality and competitive pricing. In addition, Vendor A and Vendor D were the respective signing entities used by two game ambassadors to advertise one of our games. Other than the relationships described and referenced to above, to our knowledge, as of September 30, 2021 there was no material relationship, including business, employment, family, trust, financing and fund flow, among our marketing and promotion services providers, or between each of them and our Group, including their and our respective directors, shareholders, senior management or any of their associates.

Short-term Investments Measured at Fair Value through Profit or Loss

Our short-term investments measured at fair value through profit or loss primarily included derivative instruments, investments in funds that invest primarily in publicly-traded securities and wealth management products issued by commercial banks. See Note 23 to the Accountant's Report included in Appendix I to this document for more details.

Our short-term investments measured at fair value through profit or loss decreased by 28.6% from RMB15.1 million as of December 31, 2018 to RMB10.8 million as of December 31, 2019, primarily attributable to a decrease in our short-term investments in funds that invest primarily in publicly-traded securities.

Our short-term investments measured at fair value through profit or loss decreased significantly from RMB10.8 million as of December 31, 2019 to RMB1.3 million as of December 31, 2020, primarily due to a decrease in our short-term investments in derivatives and investments in funds that invest primarily in publicly-traded securities.

Our short-term investments measured at fair value through profit or loss increased significantly from RMB1.3 million as of December 31, 2020 to RMB31.1 million as of June 30, 2021, primarily due to our purchase of a wealth management product (being a structured deposit) and the increase in fair value of our investments in funds that invest primarily in publicly-traded securities.

Financial Assets at Amortized Cost

Our financial assets at amortized cost consisted of (i) long-term investments measured at amortized cost, representing term deposits with a term of more than one year and a fixed rate of return, and (ii) short-term investments measured at amortized cost, representing term deposits with a term of three months to one year and a fixed rate of return. See Note 20 to the Accountant's Report included in Appendix I to this document for more details.

We recorded long-term investments measured at amortized cost of RMB20.8 million as of December 31, 2018 and did not have any long-term investments measured at amortized cost as of December 31, 2019, 2020 or June 30, 2021. We recorded short-term investments measured at amortized cost of RMB10.1 million and RMB86.3 million as of December 31, 2018 and 2019, respectively. We did not have any short-term investments measured at amortized cost as of December 31, 2020 or June 30, 2021.

Trade Payables

We had trade payables of RMB3.1 million, RMB1.9 million, RMB13.3 million and RMB39.6 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. Our trade payables are primarily related to the purchase of services for server custody, advertisement and sharing of proceeds due to third-party game developers.

Our trade payables decreased by 39.3% from RMB3.1 million as of December 31, 2018 to RMB1.9 million as of December 31, 2019, primarily due to a decrease in payables to third-party game developers in line with a decrease in our game operating revenue from in-licensed games in 2019.

Our trade payables increased by substantially from RMB1.9 million as of December 31, 2019 to RMB13.3 million as of December 31, 2020, primarily due to increases in payables to marketing channels and technical service providers, generally in line with our revenue growth.

Our trade payables increased substantially from RMB13.3 million as of December 31, 2020 to RMB39.6 million as of June 30, 2021, primarily due to the increases in payables to the third-party game developer and marketing channels for our newly launched game *Lantern and Dungeon (提燈與地下城)*.

The credit terms of trade payables granted to us typically range from 30 to 90 days. The following table sets forth an aging analysis of our trade payables based on the recognition date as of the dates indicated.

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB in thousands)			
Within 3 months	2,447	918	12,291	23,176
Over 3 months	697	990	1,038	16,471
	3,144	**1,908**	**13,329**	**39,647**

The following table sets forth our trade payables turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2018	2019	2020	2021
Trade payables turnover days[(1)]	59	46	10	26

Note:

(1) Trade payables turnover days were calculated using the average of the opening and closing balance of the trade payables for the relevant period, divided by the corresponding cost of revenues for the period, multiplied by 365 days for a year and 182 days for a six-month period.

Our trade payables turnover days decreased from 59 days in 2018 to 46 days in 2019 and further to 10 days in 2020, primarily due to accelerated settlement with our service providers and third-party game developers. Our trade payables turnover days increased from 10 days in 2020 to 26 days in the six months ended June 30, 2021 due to the increases in payables to third-party game developers and distribution channels for our newly launched game *Lantern and Dungeon (提燈與地下城)*, which resulted in relatively high trade payables as of June 30, 2021.

As of September 30, 2021, RMB32.5 million, or 81.9%, of our trade payables as of June 30, 2021 had been subsequently settled.

Other Payables and Accruals

The following table sets forth a breakdown of our other payables and accruals as of the dates indicated.

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB in thousands)			
Salaries and benefits payables	18,766	20,513	115,143	19,136
Other tax payables	864	855	53,866	3,911
[REDACTED]				
Payables for acquisition	–	–	–	8,000
Others	176	101	455	1,456
	19,806	**21,469**	**169,464**	**41,371**

Our other payables and accruals increased by 8.4% from RMB19.8 million as of December 31, 2018 to RMB21.5 million as of December 31, 2019, primarily attributable to an RMB1.7 million increase in salaries and benefits payables due to increases in headcount and average remuneration of our employees.

Our other payables and accruals increased substantially from RMB21.5 million as of December 31, 2019 to RMB169.5 million as of December 31, 2020, primarily due to an RMB94.6 million increase in salaries and benefits payables due to increases in headcount of our employees and bonus payment, and an RMB53.0 million increase in other tax payables as a result of the withholding and prepayment of individual income tax for bonus paid to our employees.

Our other payables and accruals decreased substantially from RMB169.5 million as of December 31, 2020 to RMB41.4 million as of June 30, 2021, primarily due to an RMB96.0 million decrease in salaries and benefits payables and an RMB50.0 million decrease in other tax payables, both of which we paid off in the first six months of 2021. These factors were partially offset by an RMB8.0 million payables for acquisition, which represents our investment payables to three unlisted companies, and an **[REDACTED]** in 2021.

Contract Liabilities

The following table sets forth a breakdown of our contract liabilities as of the dates indicated.

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB in thousands)			
Non-current:				
Game licensing	645	–	–	–
Current:				
Game operating	7,073	4,288	227,033	95,610
Game licensing	5,272	1,729	916	906
Total	**12,990**	**6,017**	**227,949**	**96,516**

Our contract liabilities primarily consist of (i) unamortized revenue from sales of virtual items for our mobile games where we still have an obligation towards the game players; these are mainly un-used consumable virtual items and unamortized durable virtual items, for which the amortization period is determined with a reference to the Player Relationship Period, and (ii) unamortized balances of the initial license fees paid to us by the licensees, namely, third-party game publishers.

The following table sets forth a breakdown of our unamortized revenue from sales of virtual items by game as of the dates indicated.

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB in thousands)			
Game operating				
The Marvelous Snail (最強蝸牛)	–	–	223,590	90,266
Gumballs & Dungeons (不思議迷宮)	4,796	3,393	2,571	2,281
Lantern and Dungeon (提燈與地下城)	–	–	518	2,890
Eternal Adventure (無盡大冒險)	2,007	710	286	129
Yu Gong 3 (愚公移山3)	270	185	68	44
Game licensing				
Gumballs & Dungeons (不思議迷宮)	5,917	1,729	916	906
Total	**12,990**	**6,017**	**227,949**	**96,516**

Our unamortized revenue decreased by 53.7% from RMB13.0 million as of December 31, 2018 to RMB6.0 million as of December 31, 2019, primarily due to an RMB4.2 million decrease in the unamortized revenue from *Gumballs & Dungeons (不思議迷宮)* and an RMB1.3 million decrease in the unamortized revenue from *Eternal Adventure (無盡大冒險)*, both of which were recognized as our revenue in 2019.

Our unamortized revenue increased significantly from RMB6.0 million as of December 31, 2019 to RMB227.9 million as of December 31, 2020, primarily due to RMB223.6 million of unamortized revenue we recorded from our blockbuster game *The Marvelous Snail (最強蝸牛)*, which was launched in June 2020 in mainland China.

Our unamortized revenue decreased by 57.7% from RMB227.9 million as of December 31, 2020 to RMB96.5 million as of June 30, 2021, primarily due to an RMB133.3 million decrease in unamortized revenue from our *The Marvelous Snail (最強蝸牛)* as a result of (i) the amortization of durable items during the Player Relationship Period, (ii) a decrease in the unit value of virtual items as we give virtual items to players for free in certain promotion events such as the Chinese New Year promotions, and (iii) an increase in players' use of consumable virtual items as a result of our promotions. These factors were partially offset by an RMB2.4 million increase in unamortized revenue, mainly resulting from the increase in unamortized virtual items in *Lantern and Dungeon (提燈與地下城)*, which was launched in March 2021.

The balance of unamortized revenue as at the end of each period depends on the amount of in-game virtual items purchased by players, the amount of consumable virtual items that the players consumed, and the amount durable virtual items that were amortized. Therefore, the balance of unamortized revenue will fluctuate when we launch updated versions of our games (which could increase our sale of virtual items) and hold promotion events (which could decrease the unit value of virtual items as we give a relatively large amount of virtual items to players for free and which could also increase players' use of consumable virtual items). As we have rolled out updated versions of our games and held promotion events following June 30, 2021, we estimate that our unamortized revenue have not fluctuated materially since then. Therefore, we do not expect fluctuations of unamortized revenue to have had a material adverse impact on our revenue since June 30, 2021. Instead, we estimate that our revenue since June 30, 2021 primarily depends on the amount of virtual items we sold in the period (namely, gross billings).

Our contract liabilities decreased by 53.7% from RMB13.0 million as of December 31, 2018 to RMB6.0 million as of December 31, 2019, primarily due to an RMB4.2 million decrease in contract liabilities for game licensing and an RMB2.8 million decrease in contract liabilities for game operating, which were generally in line with recognition of our revenues.

Our contract liabilities increased substantially from RMB6.0 million as of December 31, 2019 to RMB227.9 million as of December 31, 2020, primarily due to an RMB222.7 million increase in contract liabilities for game operating, mainly as a result of the launch of our blockbuster game *The Marvelous Snail (最強蝸牛)*.

Our contract liabilities decreased by 136.2% from RMB227.9 million as of December 31, 2020 to RMB96.5 million as of June 30, 2021, primarily due to our recognition of revenue for certain contract liabilities.

As of September 30, 2021, RMB94.5 million, or 97.9%, of our contract liabilities as of June 30, 2021 had been subsequently recognized in revenue.

Long-term Investments Measured at Fair Value Through Profit or Loss

Our long-term investments measured at fair value through profit or loss primarily included (i) investments in five unlisted companies that are our associates with significant influence in the form of redeemable instruments and measured at fair value through profit or loss, including Chengdu Lemai Interactive Entertainment Technology Co., Ltd. (成都樂麥互娛科技有限公司) ("Chengdu Lemai"), Xiamen Heimai Network Technology Co., Ltd. (廈門黑脈網絡科技有限公司) ("Xiamen Heimai"), Guangzhou Jodo Information and

Technology Co., Ltd. (廣州卓動信息科技有限公司) ("Guangzhou Jodo") and Fuzhou Kakapo Entertainment Co., Ltd. (福州卡卡波娛樂有限公司) ("Fuzhou Kakapo"). Our executive Director Mr. Zeng is a director of each of Chengdu Lemai, Xiamen Heimai, Guangzhou Jodo and Fuzhou Kakapo. Chengdu Lemai's shareholders include Xiamen Jixiang Equity Investment Co., Ltd. (廈門吉相股權投資有限公司) and Xiamen Jixiang, both of which are members of the G-bits Group. Another shareholder of Chengdu Lemai is a fund, whose general partner is under common control with the general partner of a shareholder of QC Digital. Guangzhou Jodo is our information service provider. Xiamen Heimai is the game developer of our game *Bladeheart Ninja 2 (刃心2)*. We entered into a game licensing agreement with Xiamen Heimai in 2019, pursuant to which we licensed in *Bladeheart Ninja 2* and will pay fees to Xiamen Heimai amounting to 50% of the gross billings (which are net of commissions to payment and distribution channels and reasonable expenses) generated from the jurisdictions where we operate the game. *Bladeheart Ninja 2* is expected to be launched in the fourth quarter of 2022, and therefore has not generated any gross billings. During the Track Record Period, we did not have any transaction amount with Xiamen Heimai. Fuzhou Kakapo is the game developer of our game *Loot Rush (騎士沖鴨)*, and one of its shareholders is Xiamen Nut Heli, a private equity fund we invested in as described below. To our knowledge, the G-bits Group holds approximately 10% of equity interest in Tianjin Haochuan; and (ii) equity investments in four private equity funds as limited partners without significant influence, including Xiamen Nut Heli Venture Capital Partnership (Limited Partnership) (廈門堅果核力創業投資合夥企業（有限合夥）) ("Xiamen Nut Heli"), Xiamen Jixiang Tiancheng Venture Capital Partnership (Limited Partnership) (廈門吉相天成創業投資合夥企業（有限合夥）) ("Xiamen Jixiang"), Xiamen Nuowei Heyue Venture Capital Partnership (Limited Partnership) (廈門諾惟合悅創業投資合夥企業(有限合夥)) ("Xiamen Nuowei Heyue") and Suzhou Youge Huaxin Venture Capital Partnership (Limited Partnership) (蘇州優格華欣創業投資中心（有限合夥）) ("Suzhou Youge"). One of the general partners of Xiamen Nut Heli is a shareholder of a general partner in a shareholder of QC Digital, a limited partner of Xiamen Nut Heli is a member of the G-bits Group, and Xiamen Nut Heli is a shareholder of Fuzhou Kakapo. The general partners of Xiamen Jixiang and Xiamen Nuowei are subsidiaries of the G-bits Group. Some limited partners of Suzhou Youge are shareholders of QC Digital. Our VIE, QC Digital, holds the equity interest in these companies and funds we invested in. In 2020 and the six months ended June 30, 2021, we paid RMB53 thousand and RMB6 thousand, respectively, to a PRC company invested in by Xiamen Nut Heli for its marketing and promotion services. In addition, in these same respective periods, we paid RMB1.8 million and RMB3.0 million, respectively, to a PRC company invested in by Xiamen Nut Heli and Xiamen Jixiang for its marketing and promotion services. To our knowledge, during the Track Record Period, other than the above transactions, we did not have any transaction with (i) the unlisted companies in which we held equity interests, or (ii) the underlying companies invested in as of July 31, 2021 by the private equity funds that we have invested in. For details of equity interest in these companies and their principal businesses, see "Contractual Arrangements—PRC Regulatory Background—Qualification Requirements—Investment Held by QC Digital."

Our long-term investments measured at fair value through profit or loss increased substantially from RMB1.1 million as of December 31, 2018 to RMB21.6 million as of December 31, 2019, primarily attributable to an increase in investments in private equity funds by RMB17.7 million, because we obtained 7.81% and 4.95% shares in two private equity funds which mainly invested in the internet and game industry in 2019.

Our long-term investments measured at fair value through profit or loss increased substantially from RMB21.6 million as of December 31, 2019 to RMB77.8 million as of December 31, 2020, primarily attributable to an increase in investments in unlisted companies by RMB56.2 million, because we obtained 10% shares of an unlisted company which mainly engaged in promotion services and game operation in 2020.

Our long-term investments measured at fair value through profit or loss increased substantially from RMB25.4 million as of June 30, 2020 to RMB134.7 million as of June 30, 2021, primarily attributable to (i) an increase in investments in private equity funds by RMB40.5 million because we obtained 10.31% and 3.58% shares in two private equity funds which mainly invested in the internet and game industry in the six months ended June 30, 2021, and (ii) an increase in investments in unlisted companies by RMB54.3 million because we obtained 10% shares of an unlisted company which mainly engaged in promotion services and game operation in 2020.

See Note 19 to the Accountant's Report included in Appendix I to this document for more information.

Financial Instruments Issued to Investors

Our financial instruments issued to investors represented ordinary shares issued by our VIE, QC Digital to an investor for an aggregate consideration of RMB80.0 million in July 2019, representing 13.33% of equity interest in QC Digital. The ordinary shares will become redeemable by G-bits under certain events which are out of the control of our Group. QC Digital does not have the unconditional right to avoid delivering cash or other financial assets to settle contractual obligation upon occurrence of certain events which are out of the control of our Group.

We recognized the instruments as financial liabilities at the present value of the redemption amount which is computed based on the investment amount of RMB80.0 million plus an interest rate of 8% per annum. We recognized financial instruments issued to investors of RMB82.7 million and RMB89.1 million as of December 31, 2019 and 2020, respectively. The increase was due to changes in the carrying amount of the financial instruments. We did not record any financial instruments issued to investors as of June 30, 2021, primarily because they were exchanged for our Preferred Shares in May 2021. See Note 29 to the Accountant's Report included in Appendix I to this document for more information.

LIQUIDITY AND CAPITAL RESOURCES

We fund our operations primarily through cash generated from our operating activities and capital contribution from our Shareholders. The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2018	**2019**	**2020**	**2020**	**2021**
			(RMB in thousands)		
				(Unaudited)	
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)
Cash and cash equivalents at end of the year/period	**21,398**	**26,092**	**443,248**	**99,361**	**675,957**

Net Cash Generated from Operating Activities

Our primary source of cash generated from operating activities consists of revenue from our mobile games. Our net cash generated from operating activities are mainly used to fund the development, publishing and operation of our mobile games.

In the six months ended June 30, 2021, our net cash generated from operating activities was RMB109.5 million, which was primarily attributable to loss before income tax of RMB103.3 million, as adjusted to add back losses in fair value of convertible redeemable preferred shares of RMB338.4 million and losses from financial instruments issued to investors of RMB53.9 million, and due to changes in working capital. Our net cash outflow from working capital changes was primarily due to (i) an RMB132.1 million decrease in other payables and accruals and (ii) an RMB131.4 million decrease in contract liabilities, offset in part by an RMB49.4 million decrease in trade receivables and an RMB26.3 million increase in trade payables.

In 2020, our net cash generated from operating activities was RMB443.6 million, which was primarily attributable to profit before income tax of RMB113.3 million, as adjusted to add back share-based payments of RMB56.0 million and net exchange differences of RMB15.7 million, and due to changes in working capital. Our net cash inflow from working capital changes was primarily due to (i) an RMB221.9 million increase in contract liabilities generally in line with our business growth and (ii) an RMB147.0 million increase in other payables and accruals, partially offset by an RMB110.7 million increase in trade receivables.

In 2019, our net cash generated from operating activities was RMB6.8 million, which was primarily attributable to profit before income tax of RMB20.7 million, as adjusted to add back impairment of long-term assets of RMB2.0 million and depreciation of RMB1.9 million and to deduct other income of RMB2.6 million, and due to changes in working capital. Our net cash outflow from working capital changes was primarily due to (i) an RMB13.2 million increase in prepayments, deposits and other assets, (ii) an RMB7.0 million decrease in contract liabilities, offset in part by an RMB3.6 million decrease in trade receivables.

In 2018, our net cash generated from operating activities was RMB40.1 million, which was primarily attributable to profit before income tax of RMB26.3 million, as adjusted to add back share-based payments of RMB14.0 million, and due to changes in working capital. Our net cash inflow from working capital changes was primarily due to (i) an RMB6.6 million increase in prepayments, deposits and other assets and (ii) an RMB5.1 million decrease in contract liabilities, offset in part by (i) an RMB8.6 million decrease in trade receivables and (ii) an RMB4.6 million increase in other payables and accruals.

Net Cash (Used in)/Generated from Investing Activities

In the six months ended June 30, 2021, our net cash used in investing activities was RMB92.3 million, primarily attributable to (i) acquisition of long-term investments measured at fair value through profit or loss of RMB48.0 million, (ii) purchase of financial assets at fair value through profit or loss of RMB30.0 million, and (iii) acquisition of investments accounted for using the equity method of RMB12.1 million.

In 2020, our net cash generated from investing activities was RMB49.6 million, primarily attributable to (i) proceeds from financial assets at amortized cost of RMB85.0 million and (ii) redemption of financial assets at fair value through profit and loss of RMB18.4 million. These factors were partially offset by (i) acquisition of long-term investments measured at fair value through profit or loss of RMB56.2 million, (ii) loan to related parties and third parties of RMB18.7 million.

In 2019, our net cash used in investing activities was RMB80.3 million, primarily attributable to (i) payments for financial assets measured at amortized cost of RMB65.0 million, (ii) loan to related parties and third parties of RMB23.7 million, and (iii) acquisition of long-term investments measured at fair value through profit or loss of RMB20.8 million. These factors were partially offset by loan repayment from related parties and third parties of RMB22.6 million.

In 2018, our net cash used in investing activities was RMB23.7 million, primarily attributable to (i) loan to related parties and third parties of RMB34.9 million, and (ii) purchase of financial assets at fair value through profit and loss of RMB15.0 million. These factors were partially offset by loan repayment from related parties and third parties of RMB30.2 million.

Net Cash (Used in)/Generated from Financing Activities

In the six months ended June 30, 2021, our net cash generated from financing activities was RMB217.4 million, which was primarily attributable to issuance of convertible redeemable preferred shares of RMB401.0 million, offset in part by dividend paid to the then shareholders of our subsidiaries of RMB180.8 million.

In 2020, our net cash used in financing activities was RMB60.4 million, which was primarily attributable to dividend paid to the then shareholders of QC Digital of RMB90.0 million, offset by capital contributions from the then shareholders of RMB32.0 million.

In 2019, our net cash generated from financing activities was RMB78.3 million, which was attributable to proceeds from the issue of financial instruments to investors of RMB80.0 million, offset by payment for lease liabilities (including interests) of RMB1.7 million.

In 2018, our net cash used in financing activities was RMB11.3 million, which was attributable to (i) dividend paid to the then shareholders of QC Digital of RMB10.0 million, and (ii) payment for lease liabilities (including interests) of RMB1.3 million.

Working Capital Sufficiency

Taking into account our available financial resources, including cash flows from our operating activities, capital injection by our Shareholders, cash and cash equivalents on hand as well as the estimated **[REDACTED]** of the **[REDACTED]** to be received by us, our Directors are of the view that we have sufficient working capital to meet our present cash requirements and for at least the next 12 months from the date of this document.

INDEBTEDNESS

As of September 30, 2021, we did not have any borrowings. As of the same date, we had an RMB50.0 million banking facility, and we had drawn down approximately RMB880 thousand under this facility as deposit to secure our obligations under our foreign currency forward contract. The following table sets forth a breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2018	**2019**	**2020**	**2021**	**2021**
			(RMB in thousands)		*(Unaudited)*
Non-current:					
Lease liabilities	1,040	–	6,816	6,096	8,825
Financial instruments issued to investors	–	82,667	89,067	–	–
Convertible redeemable preferred shares	–	–	–	1,770,020	1,970,869
Current:					
Lease liabilities	1,089	2,275	3,578	2,723	4,925
Total	**2,129**	**84,942**	**99,461**	**1,778,839**	**1,984,619**

As of September 30, 2021, we did not have any outstanding debt securities, mortgage, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness, leasing and financial leasing commitments, hire purchase commitments, guarantees or other material contingent liabilities.

CONTINGENT LIABILITIES

We did not have any material contingent liabilities as of December 31, 2018, 2019 and 2020 and June 30 and September 30, 2021.

RELATED PARTY TRANSACTIONS

The following table sets forth a summary of our transactions with related parties during the Track Record Period.

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB in thousands)			
Trade receivables from related parties				
Game publishing				
G-bits Group	10,334	7,238	34,936	20,091
Prepayments to related parties				
Prepayments for marketing and promotion services				
G-bits Group	–	–	5,425	5,371
Prepayments for sharing of proceeds(1)				
G-bits Group			–	566
Shenzhen Jishiwu Technology Co., Ltd.	–	–	1,000	–
Prepayments for game licenses(1)				
G-bits Group	–	–	–	1,698
Total	**–**	**–**	**6,425**	**7,635**
Trade payables to related parties				
Commissions charged by game developers				
Shenzhen Jishiwu Technology Co., Ltd.	–	–	–	21,545
Shenzhen Hot Zone Network Technology Co., Ltd	2,001	737	805	229
Chengdu Weimei Interactive Technology Co., Ltd.	112	134	311	311
Marketing and promotion				
Guangzhou Jodo Information and Technology Co., Ltd.	–	–	3,624	1,974
G-bits Group	763	986	2,740	1,522
Total	**2,876**	**1,857**	**7,480**	**25,581**
Other receivables from related parties				
Amounts due from a related party				
Brilliance Investment Limited	33,533	47,829	–	–
Loans due from related parties				
Mr. Yang Xu	690	807	–	–
Mr. Huang Zhiqiang	810	770	–	–
Mr. Zeng Xiangshuo	–	801	–	–
Mr. Wei Shumu	523	459	–	–
Rental and other deposits				
G-bits Group	114	173	343	320
Total	**35,670**	**50,839**	**343**	**320**

Note:

(1) We license online games from game developers and pay game license fees and sharing of proceeds earned from selling in-game virtual items to game developers. The prepayments for game license fees are transferred to our intangible assets when we receive related licensed games. The prepayments for sales-based sharing are expensed in our cost of revenues on an as-incurred basis.

Our trade receivables from G-bits Group during the Track Record Period were related to our engagement of fellow subsidiaries to publish our self-developed games, including *Gumballs & Dungeons (不思議迷宮)* in mainland China and *The Marvelous Snail (最強蝸牛)* in Hong Kong, Macau and Taiwan.

Our prepayments and trade payables to G-bits Group during the Track Record Period were prepayments for game publishing and promotion services, and prepayments for licensing services and sharing of proceeds related to our in-licensing of Project B from the G-bits Group. Our prepayments to Shenzhen Jishiwu Technology Co., Ltd. during the Track Record Period were sharing of proceeds paid or payable by us related to our in-licensing of a game developed by that company, in which we had minority equity interest.

Our trade payables to Guangzhou Jodo and G-bits Group during the Track Record Period were marketing and promotion fees. Our trade payables to Shenzhen Jishiwu Technology Co., Ltd., Shenzhen Hot Zone Network Technology Co., Ltd and Chengdu Weimei Interactive Technology Co., Ltd. were commissions we paid to game developers.

Our other receivables from related parties as of December 31, 2018, 2019 and 2020 and June 30, 2021 were primarily related to (i) amounts due from Brilliance Investment Limited at an interest rate of 2.25% per annum, representing the amount it collected on behalf of us from overseas game distribution channels, and (ii) loans due from Mr. Yang, Mr. Huang, Mr. Zeng and Mr. Wei at an interest rate of 4.35% per annum. These loans were unsecured and has terms of generally of one to two years. These loans were fully settled in 2020. Prior to the establishment of our first offshore subsidiary in 2019, we entrusted Brilliance Investment Limited to collect fees from and enter into contracts on our behalf with overseas game distribution channels to ensure smooth business dealings with overseas counterparties, because Brilliance Investment Limited would be able to process overseas payments more efficiently.

Brilliance Investment Limited is an investment holding company and is owned as to 90% by Mr. Yang and 10% by Mr. Huang who are also the directors of Brilliance Investment Limited. The arrangement between us and Brilliance Investment Limited was made mainly for business convenience purpose because at the time of entering into such arrangement, we did not have any offshore subsidiaries and had experienced difficulties when entering into contracts with overseas companies and settling payment overseas. In light of the overlapping shareholders between us and Brilliance Investment Limited and our limited expertise in setting up and maintaining offshore companies, Brilliance Investment Limited became the commercially best option to facilitate the development of our overseas business by collecting fees from, and entering into contracts on our behalf with, overseas companies, which mainly included contracts with independent third parties in relation to provision and receipt of marketing and advertising services, ancillary services for the operation of our games and game distribution.

Brilliance Investment Limited collected fees of approximately RMB24.3 million, RMB19.0 million, RMB7.0 million and nil for us in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively. We did not request for immediate repayment by Brilliance Investment Limited of the fees it collected because there were also overseas payments to be settled by us for services we have received from independent service providers including marketing and advertising and game distribution services (approximately RMB14.7 million, RMB7.2 million, RMB2.1 million and nil was paid by Brilliance Investment Limited on our behalf in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively). Therefore, the fees collected continued to be held by Brilliance Investment Limited for easier and timely settlement of our overseas payment when due.

Further, as the amount required for settling our overseas payment was less than the fees collected on behalf of us by Brilliance Investment Limited, a portion of the fees collected by Brilliance Investment Limited were dormant. In light of this, Brilliance Investment Limited utilized such dormant fees for equity investments for its own benefits and at its own risks, in return, it agreed to pay an annual interest of 2.25% to us, which matches the typical interest rate of a 2-year time deposit with an onshore bank as if the dormant fees collected were deposited with an onshore bank. Brilliance Investment Limited did not charge us any service fee for the above arrangement. Our PRC Legal Advisor has confirmed that such arrangement was in full compliance with the requirements of the applicable laws and regulations.

As the Group has established our own offshore subsidiaries for the expansion and development of the Group's overseas business, the arrangement was fully terminated in 2020 and we need not enter into any similar arrangement with Brilliance Investment Limited going forward.

Our other receivables from related parties also included lease deposits with the G-bits Group under the property leasing arrangement between us and the G-bits Group. The G-bits Group will repay the lease deposits to us upon expiry of the property leasing arrangement. For details regarding the property leasing arrangement during the Track Record Period and after the **[REDACTED]**, see "Connected Transactions—Continuing Connected Transactions—Partially Exempt Continuing Connected Transactions—2. Property Leasing and Administrative Services" of this document. As of the Latest Practicable Date, other than the lease deposits with the G-bits Group, all non-trade receivables had been settled.

Our related party transactions primarily consist of marketing and promotion, game development, game publishing, as well as property leasing and administrative services.

Marketing and Promotion Services

We purchased marketing and promotion services, particularly traffic acquisition services, from our related parties Guangzhou Jodo and the G-bits Group for promoting our game *The Marvelous Snail (最強蝸牛)* during the Track Record Period. The scope of services includes utilizing the relevant related party's own, or certain third parties', channels to promote our games, and designing and implementing promotion strategies based on the materials, forms, dates and duration we provided. In respect of these services, we are required to pay our related parties (i) the total amount of their accumulated promotion costs, or our accumulated promotion revenue (if it is not more than the relevant related party's accumulated promotion costs), plus (ii) 50% of the portion of our accumulated promotion revenue exceeding the relevant related party's accumulated promotion costs. Our promotion revenue includes our sales of virtual items from, and information service revenue generated from, the new players brought in as a result of the related party's promotion efforts. When a new player clicks on the links provided by the marketing and promotion service providers, the player will download tailored game installation packages, which will bookmark the new player's game account to the relevant marketing and promotion service providers in our system. As a result, all revenues from sales of virtual items and information services that we generated from the new player's game account can be recognized as promotion revenue related to these service providers. For purposes of calculating the fee we are required to pay under the agreement, the maximum number of new players that can be brought in is capped at two million and we only count the revenue generated by a new player within 18 months after the new player is brought in. The distribution of revenue generated by new players subsequent to the two-million cap or beyond the 18-month period will be separately negotiated between us and the relevant related party. The formula for calculating these fees were determined between the relevant parties in line with market practice considering factors including quality and expected performance of *The Marvelous Snail (最強蝸牛)*, capital resources and capability in traffic acquisition of Guangzhou Jodo Information and Technology Co., Ltd. and the G-bits Group, and our stable relationships with these business partners. In particular, our fee structure with Guangzhou Jodo was agreed in our marketing and promotion service agreement with it dated June 2020, before we decided to invest in Guangzhou Jodo and entered into an investment agreement with it in September 2020.

As advised by Frost & Sullivan, the fee structure for marketing and promotion service, particularly traffic acquisition services, in the mobile game market varies from case to case subject to negotiations between the relevant parties based on a number of factors, such as the brand, experience and capital resources of the service providers, quality and expected performance of the relevant game, and relationships between the business partners. According to Frost & Sullivan, there are generally two types of traffic acquisition services provided by marketing and promotion service providers in the industry: (i) the primary type is that the marketing and promotion service providers provide traffic acquisition services according to the CPC (cost per click) or CPM (cost per mille) model. In this scenario, the game companies bear all the risks that the games' gross billings are insufficient to cover the traffic acquisition costs; and (ii) in some circumstances, the marketing and promotion service providers provide traffic acquisition services according to the CPS (cost per sale) model. In this scenario, the service providers typically bear the traffic acquisition costs and potential risks that the fees they charged from the game companies are insufficient to cover the traffic acquisition costs. Correspondingly, these service providers typically charge from the game companies approximately 50% to 80% of the games' gross billings. The marketing and promotion services provided by Guangzhou Jodo and the G-bits Group to us are generally consistent with the CPS model, and our fees paid to them (comprising accumulated promotion revenue or accumulated promotion costs, plus, if any, 50% of the excess promotion revenue, as described above) generally fall within the above fee range of the CPS model. Therefore, according to the same source, the fee arrangements adopted under our marketing and promotion service agreements with our related parties are consistent with industry practice and are within a reasonable range compared to that charged by Independent Third Party service providers.

Game Development Service

We have entered into game licensing agreements with game developers Shenzhen Jishiwu Technology Co., Ltd., Shenzhen Hot Zone Network Technology Co., Ltd., Chengdu Weimei Interactive Technology Co., Ltd. and the G-bits Group who were our related parties during the Track Record Period. We generally pay fees to related-party game developers at a prescribed percentage (ranging from 45% to 50%) of the gross billings (which are net of commissions to payment and distribution channels, marketing and promotion expenses and other expenses, as the case may be). Other key terms of the licensing agreements with our related parties are similar to those under the licensing agreements we entered into with other game developers. See "Business—Our Business Processes—Game Development—Game Licensing" for details of certain major terms of our licensing agreements. See also "—Our Suppliers" for more information on our licensing arrangement with the G-bits Group. The fee arrangement under our licensing agreements with related-party game developers was determined between the relevant parties, after taking into consideration, among other factors, quality and expected performance of the games, and reasonable fees generally charged by game developers in the industry.

According to Frost & Sullivan, the fees received by game developers in the industry typically are (A) (i) a prescribed percentage (typically 20% to 35% when game developers hold the IP) of the gross billings without netting certain costs and expenses, or (ii) a prescribed percentage (typically 30% to 75% when game developers hold the IP) of the gross billings net of certain costs and expenses; these costs and expenses mainly include commissions to payment and distribution channels as well as marketing and promotion expenses (which, in aggregate, typically account for 30% to 55% of the gross billings), and (B) in certain circumstances, an additional lump sum license fee. According to the same source, the fee arrangements adopted under our game licensing agreements with our related parties are consistent with industry practice and are within a reasonable range comparable to that charged by Independent Third Party game developers.

Game Publishing Service

We licensed our self-developed games *Gumballs & Dungeons (不思議迷宮)* in mainland China and *The Marvelous Snail (最強蝸牛)* in Hong Kong, Macau and Taiwan to certain subsidiaries of the G-bits Group to publish during the Track Record Period. Our trade receivables due from the G-bits Group consist of license fees payable at a prescribed percentage (ranging from 22% to 40%) of the gross billings (which are net of commissions to payment and distribution channels, marketing and promotion expenses and other expenses, as the case may be), on a monthly basis. In addition to the monthly license fee, the G-bits Group also pays us a lump sum license fee for one of our games, which is payable in installments, and a discretionary incentive fee if the game's monthly gross billings exceed a certain amount. Other key terms of the licensing agreements with the G-bits Group in respect of our self-developed games mentioned above are similar to those under the licensing agreements we entered with other game publishers. See "Business—Our Business Processes—Game Publishing and Operating—Third-party Publishing" for details of certain key terms of the licensing agreements. The fee arrangement under our licensing agreements with the G-bits Group was determined between the relevant parties, after taking into consideration, among other factors, quality and expected performance of the games, publishing and operation capability of the G-bits Group, and reasonable fees generally paid by game publishers to game developers in the industry.

According to Frost & Sullivan, the fees received by game developers in the industry typically are (A) (i) a prescribed percentage (typically 20% to 35% when game developers hold the IP) of the gross billings without netting certain costs and expenses, or (ii) a prescribed percentage (typically 30% to 75% when game developers hold the IP) of the gross billings net of certain costs and expenses; these costs and expenses mainly include commissions to payment and distribution channels as well as marketing and promotion expenses (which, in aggregate, typically account for 30% to 55% of the gross billings), and (B) in certain circumstances, an additional lump sum license fee. According to the same source, the fees that we charged under our game licensing agreements with the G-bits Group is consistent with industry practice and are within a reasonable range comparable to that charged by Independent Third Party game developers.

Property Leasing and Administrative Services

We purchased property leasing and administrative services from our related party, the G-bits Group, during the Track Record Period. The scope of services typically consists of providing leasing properties as our office premises and providing relevant administrative services such as cleaning and security. In respect of the leasing services, we pay both rent and service fees to the G-bits Group on a quarterly basis. These fees were determined between the relevant parties, after taking into consideration, among other factors, (i) the gross area of the relevant property and the lease term, (ii) conditions of the relevant property, and (iii) fees charged by other lessors and administrative service providers for comparable properties of similar conditions in the vicinity.

Our PRC Legal Advisor advised us that Article 61 of the General Lending Provisions (貸款通則) issued by the PBOC prohibits any financing arrangements or lending transactions between non-financial institutions, and that pursuant to Article 73 of the General Lending Provisions, the PBOC may impose on the non-compliant lender a fine of one to five times the income received by the lender from such loans. Our PRC Legal Advisor further advised that, notwithstanding the General Lending Provisions, the Supreme People's Court has made new interpretations concerning financing arrangements and lending transactions between non-financial institutions in the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) (the "**Judicial Interpretations on Private Lending Cases**") which came into effect on September 1, 2015 and was latest amended on December 29, 2020. According to Article 10 of the Judicial Interpretations on Private Lending Cases, the Supreme People's Court recognizes the validity and legality of financing arrangements and lending transactions between non-financial institutions so long as such lending are for business operation purposes and do not fall into certain situations stipulated in the Civil Code of the PRC and Article 13 of Judicial Interpretations on Private Lending Cases. PRC courts will support a company's claim for interest in respect of such lending as long as the annual interest rate does not exceed four times of the applicable prime lending rate for one-year loans.

During the Track Record Period and up to the Latest Practicable Date, we had not received any notice of claim or were subject to any investigations or penalties relating to the interest-bearing loans to related parties and third parties and based on the public searches conducted by our PRC Legal Advisor, we had not been subject to any administrative penalties in respect of such interest-bearing loans by PRC government authorities as of the Latest Practicable Date.

Our PRC Legal Advisor is of the view that the financing agreements between us and our related parties or third parties do not violate any applicable law or regulation in the PRC, and the risk that we may be subject to any penalties with respect to our interest-bearing loans to related parties and third parties pursuant to the General Lending Provisions is low.

See Note 36 to the Accountant's Report included in Appendix I to this document for more information on the nature and balances of our transactions with related parties. See "Connected Transactions" section for information regarding our continuing connected transactions.

Our Directors have confirmed that all of the related party transactions we entered into during the Track Record period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

CAPITAL EXPENDITURES

In 2018, 2019, 2020 and the six months ended June 30, 2021, our capital expenditures were RMB55 thousand, RMB470 thousand, RMB3.5 million and RMB4.0 million, respectively, which were our purchase of property, plant and equipment, mainly relating to purchase of office equipment and vehicles. We funded these expenditures with cash generated from our operations. We plan to fund our future capital expenditures with our cash from operating activities.

COMMITMENTS

Capital Commitments

Our capital commitments were made in respect of our long-term equity investments. The following table sets forth our future commitments under non-cancelable agreements as of the dates indicated.

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB in thousands)			
Long-term investments	2,000	–	31,000	19,000

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
Profitability ratios					
Gross profit margin(1)	78.0%	77.5%	76.8%	60.8%	75.3%
Net profit margin(2)	25.3%	22.1%	8.5%	N/A	N/A
Return on equity(3)	31.3%	18.9%	63.3%	N/A	N/A
Return on assets(4)	20.6%	10.8%	21.5%	N/A	N/A

	As of December 31,			As of June 30,
	2018	2019	2020	2021
Liquidity ratio				
Current ratio(5)	2.5	5.6	1.5	4.4

Notes:

(1) Gross profit margin is calculated as gross profit divided by revenue, multiplied by 100%.

(2) Net profit margin is calculated as net profit divided by revenue, multiplied by 100%.

(3) Return on equity is calculated based on net profit for a period divided by the arithmetic mean of the opening and closing balances of total equity of the same period, multiplied by 100%. Return on equity for the first six months of 2021 was annualized.

(4) Return on assets is calculated based on net profit for a period divided by the arithmetic mean of the opening and closing balances of total assets of the same period, multiplied by 100%. Return on assets for the first six months of 2021 was annualized.

(5) Current ratio is calculated as total current assets divided by total current liabilities.

See "—Description of Major Components of Our Results of Operations" in this section for a discussion of the factors affecting our gross profit margin and net profit margin during the relevant periods.

Return on Equity

Our return on equity decreased from 31.3% in 2018 to 18.9% in 2019, primarily due to a decrease in our net profit and an increase in our total equity. Our return on equity increased from 18.9% in 2019 to 63.3% in 2020, primarily because our net profit increased at a higher rate than our total equity.

Return on Assets

Our return on assets decreased from 20.6% in 2018 to 10.8% in 2019, primarily due to a decrease in our net profit and an increase in our total assets. Our return on assets increased from 10.8% in 2019 to 21.5% in 2020, primarily because our net profit increased at a higher rate than our total assets.

Current Ratio

Our current ratio increased from 2.5 as of December 31, 2018 to 5.6 as of December 31, 2019, primarily due to an increase in our total current assets, which were mainly attributable to the increase in short-term investments measured at amortized cost and prepayment, deposits and other assets. Our current ratio decreased from 5.6 as of December 31, 2019 to 1.5 as of December 31, 2020, primarily because our total current liabilities increased at a higher rate that our total current assets. Our current ratio increased from 1.5 as of December 31, 2020 to 4.4 as of June 30, 2021, primarily because of an increase in our net current assets.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

In the ordinary course of our business, we are exposed to market risks (including foreign exchanges risk, price risk, cash flow and fair value interest rate risk), credit risk, as well as liquidity risk. Our risk management strategy aims to monitor financial markets and minimize potential adverse effects of such risks on our financial performance. Our senior management conducts risk management work on a regular basis.

Market Risks

Foreign Exchange Risk

We operate globally through overseas third-party publishers and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to U.S. dollars. Our foreign exchange risk primarily arose from recognized assets and liabilities when receiving or to receive foreign currencies from overseas counterparties. We managed our foreign exchange risk exposures through foreign currency forward contracts during the Track Record Period.

For our subsidiaries and VIEs operating in China with RMB as their functional currency, if U.S. dollars appreciate/depreciate by 5% against RMB with all other variables held constant, our net profit would have been approximately RMB0.4 million, RMB0.3 million, RMB22.8 million and RMB32.0 million higher/lower in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in U.S. dollars, regardless of the foreign currency forward contracts. We enter into foreign currency forward contracts to manage the foreign currency exposure from receivables dominated in USD from third-party distribution channels.

Price Risk

We are exposed to price risk in respect of our long-term and short-term investments measured at fair value through profit or loss. We are not exposed to commodity price risk. To manage our price risk arising from the investments, we diversify our investment portfolio and our senior management manages each investment on a case-by-case basis. See Note 3.3 to the Accountant's Report included in Appendix I to this document for details of our sensitivity analysis.

Cash Flow and Fair Value Interest Rate Risk

Our income and operating cash flows are substantially independent from changes in market interest rates and we do not have significant interest-bearing assets except for cash and cash equivalents, other receivables from related parties and third parties, details of which are disclosed in Notes 21, 24 and 36(c) to the Accountant's Report included in Appendix I to this document.

Credit Risk

We are exposed to credit risk in relation to our cash and cash equivalents, short-term investments measured at amortized cost, trade receivables, deposits and other assets. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets.

Credit Risk of Cash and Cash Equivalents

To manage risks arising from cash and cash equivalents, we only transact with state-owned or reputable financial institutions in China. There has been no recent history of default in relation to these financial institutions. The expected credit loss is immaterial.

Credit Risk of Trade Receivables

Trade receivables at the end of each reporting period were due from third-party distribution channels and game publishers and information service customers. If our strategic relationships with third-party distribution channels, game publishers and information service customers are terminated or scaled-back, or if they alter the cooperation arrangements, or if they experience financial difficulties in paying us, the recoverability of our corresponding trade receivables might be adversely affected. To manage this risk, we maintain frequent communications with third-party distribution channels, game publishers and information service customers to ensure the effective credit control. In view of the history of cooperation with them, our Directors believe that the credit risk inherent in our outstanding trade receivable balances due from third-party distribution channels, game publishers and information service customers is low.

Credit Risk of Deposits and Other Assets

For deposits and other assets, our management make periodic collective and individual assessments on the recoverability of deposits and other assets based on historical settlement records and past experiences. See Note 3.1(b)(iii) to the Accountant's Report in Appendix I to this document for information on factors considered for the assessment.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making contractual payment or repayable demanded. A default on a financial asset is when the counterparty fails to make contractual payments or repayable demanded within 180 days from the due date. We write off our financial assets when there is no reasonable expectation of recovery. We write off our deposits and other assets when a debtor fails to make contractual payments or repayable demanded greater more than 720 days from the due date. In the case of deposits and other assets have been written off, we continue to engage in enforcement activities to recover the due amount.

In view of our prudent risk management and assessment procedures, our Directors believe that the credit risk inherent in the outstanding deposits and other assets due from the debtors is low and has not increased significantly since initial recognition.

Liquidity Risk

Due to the dynamic nature of our underlying business, our finance department maintains sufficient cash and cash equivalents to meet our liquidity requirements in the short and longer term. See Note 3.1(c) to the Accountant's Report in Appendix I to this document for information on the quantitative analysis of our liquidity risk.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

During the Track Record Period and as of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

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 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. Any declaration and payment as well as the amount of dividends will be subject to our Articles and the Cayman Companies Act. Subject to the Cayman Companies Act and the Articles, the Company in general meeting may declare dividends, but shall exceed the amount recommended by our Board. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

We are a holding company incorporated in the Cayman Islands. Our ability to declare and pay dividends will depend on the availability of dividends received from group companies in the PRC and other jurisdictions. PRC laws require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits as the statutory common reserve fund until the cumulative amount of the statutory common reserve fund reaches 50% or more of such enterprises' registered capital, if any, to fund its statutory common reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

DISTRIBUTABLE RESERVES

As of June 30, 2021, our Group had no retained earnings available for distribution to equity holders of our Company.

[REDACTED]

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

[REDACTED]

[REDACTED]

[REDACTED]

NO MATERIAL ADVERSE CHANGE

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

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to disclosure required under Rules 13.13 to 13.19 of the Listing Rules.