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Qingci Games Inc.

青瓷游戏有限公司

(the “Company”)

(Incorporated in the Cayman Islands with limited liability)

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Qingci Games Inc.
青瓷游戏有限公司

(Incorporated in the Cayman Islands with limited liability)
[REDACTED]

Number of [REDACTED] under the : [REDACTED] Shares [(subject to the [REDACTED])]
[REDACTED]
Number of [REDACTED] : [REDACTED] Shares [(subject to adjustment)]
Number of [REDACTED] : [REDACTED] Shares [(subject to adjustment and the
[REDACTED])]
Maximum [REDACTED] : [REDACTED]
Nominal value : US\$0.00001 per Share
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Joint Sponsors, [REDACTED] and [REDACTED]



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IMPORTANT

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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This document is issued by Qingci Games Inc. solely in connection with the [REDACTED] and the [REDACTED] and does not constitute an [REDACTED] to sell or a solicitation of an [REDACTED] to buy any securities other than the [REDACTED] by this document pursuant to the [REDACTED]. This document may not be used for the purpose of, and does not constitute, an [REDACTED] or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a [REDACTED] or the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document and the [REDACTED] and sale of the [REDACTED] in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

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SUMMARY

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

OUR MISSION

Bring fantastic experiences to game players globally through iconic and captivating games and content.

OVERVIEW

We are a leading mobile game developer and publisher in China, offering mobile games with captivating content as well as distinctive and fantastic gameplay experiences to players around the world. Our games are particularly popular among the young generation that is aged 30 or below. As a pioneer and leader in casual games, especially idle games, and rogue-like RPGs in China, we have developed, published and operated a number of exceptionally 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 exceptional gross billings and achieved high rankings on the game lists widely recognized in our industry. For example, *The Marvelous Snail* recorded gross billings exceeding RMB400 million in the first month following its launch in June 2020 and had an average MAU of 4.4 million from June to December 2020. It also obtained the highest ranking of No. 2 on the iOS Bestseller Games List in China in 2020. The gross billings of *Lantern and Dungeon* exceeded RMB185 million in the first month following its launch in March 2021. It also topped the iOS Top 10 Free Games Chart in China for six consecutive days after its launch and obtained the highest ranking of No. 4 on the iOS Bestseller Games List in China. Our outstanding game publishing and operation capabilities enable us to reach a broad, active player base. In the three months ended March 31, 2021, the average MAU for all of our games amounted to 3.7 million.

According to Frost & Sullivan, we have achieved the following industry-leading results:

- We ranked third and second among all mobile game companies in China in 2020 in terms of gross billings from casual games and idle games, respectively.
- We ranked second among all mobile game companies in China in 2020 in terms of gross billings from self-developed rogue-like RPGs.
- We ranked fourth, in terms of average gross billings per self-developed game in 2020, among all mobile game companies in China that had aggregate gross billings from self-developed games of over RMB1.0 billion.

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



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

We continuously pursue our goal of improving player engagement. Supported by the strong willingness of game players, especially the young generation, to share game experiences with others, our “QingCi” brand has attracted a large, loyal and active player base that forms our player community, which we call “QingCi community.” As of March 31, 2021, we had over 11 million QingCi Enthusiasts who were connected with us on our official accounts and groups on social media platforms. We have a dedicated operation team that manages our player community accounts and actively interacts with the community participants. From October 1, 2020 to March 31, 2021, our articles on the official WeChat account of *The Marvelous Snail* obtained over 24 million views in aggregate, with approximately 130 thousand views per article on average. Our frequent and close interactions with our QingCi Enthusiasts create a virtuous circle, as the feedback from the player community helps us to develop and improve our games, which in turn attract more active players. In addition, these interactions further enhance our player stickiness and monetization, and increase the recognition of our “QingCi”

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brand. Due in part to these efforts, the average weekly player retention rate of *The Marvelous Snail*, from its launch in June 2020 to March 31, 2021, reached 29%, which is significantly higher than the industry average of approximately 12% for idle games, according to Frost and Sullivan. Supported by our strong brand recognition and effective community connections, as of March 31, 2021, approximately 1.7 million of the 3.8 million registered players of *Lantern and Dungeon* were converted from our other games, despite their different genres and characteristics.

Our strong capabilities in applying customized approaches to game publishing and operation, coupled with our ability to capture evolving market trends for game publishing and distribution, have become a key success factor for us. We have quickly adopted new channels in game publishing and established close partnerships with popular vertical distribution channels such as TapTap and Bilibili, which helps us reach our target audience, particularly young players, more effectively. In addition, we tailor our publishing approach for each of our games based on its characteristics, players’ interest and distribution channels’ features. We identify the game’s target audience and then customize our marketing campaigns so that our game can “break the circle” to reach a large audience. For instance, we accurately identified potential core players for *Lantern and Dungeon* and engaged comprehensive and frequent marketing campaigns suited for its gameplay and characteristics before its official launch. As a result, this game gained great popularity upon launch and swiftly broke through to a vast number of players. Moreover, our strong operation capabilities enable us to accurately capture players’ interest and achieve high player lifetime value while maintaining relatively low player acquisition costs. In 2020 and the three months ended March 31, 2021, our overall ARPPU was RMB206 and RMB205, respectively, which were higher than the industry average, according to Frost & Sullivan.

Building upon our successful track record and our systematic approach in game development and operation, we have continued to develop and license in high-quality mobile games, including games of new genres and types, such as parkour, SLG (including tower defense and others), ACT, STG and ACT RPG. As of the Latest Practicable Date, we had a pipeline of 10 games, including four self-developed games, that we plan to launch in 2021, 2022 and 2023. In addition, we plan to launch local versions for *Lantern and Dungeon* in Hong Kong, Macau and Taiwan in the fourth quarter of 2021 and *The Marvelous Snail* in Japan in the second quarter of 2022.

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OUR BUSINESS MODEL

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

	Year ended December 31,						Three months ended March 31,			
	2018		2019		2020		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>									
	<i>(Unaudited)</i>									
Game operating revenues										
Self-developed	35,481	36.1	43,318	48.8	1,082,298	88.2	16,374	55.9	324,076	67.4
Licensed	15,110	15.3	10,054	11.3	11,150	0.9	2,713	9.2	134,576	28.0
<i>Subtotal</i>	50,591	51.4	53,372	60.1	1,093,448	89.1	19,087	65.1	458,652	95.4
Game licensing revenue	47,822	48.6	33,582	37.9	58,576	4.8	8,290	28.3	11,816	2.5
Information service revenue	8	0.0	1,750	2.0	74,896	6.1	1,932	6.6	10,118	2.1
Total revenues	98,421	100.0	88,704	100.0	1,226,920	100.0	29,309	100.0	480,586	100.0

OUR EXISTING GAME PORTFOLIO

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

- *The Marvelous Snail (最強蝸牛)* is our self-developed idle game launched in June 2020. This game generated gross billings exceeding RMB400 million in the first month following its launch and had an average MAU of 4.4 million from June to December 2020. It also obtained the highest ranking of No. 2 on the iOS Bestseller Games List in China in 2020.
- *Gumballs & Dungeons (不思議迷宮)* is our self-developed rogue-like RPG launched in August 2016. This game topped the iOS Paid Games List in China for over 70 days in 2017 and had over 23.1 million cumulative registered players as of March 31, 2021—making it a benchmark game in China’s rogue-like RPG category.
- *Lantern and Dungeon (提燈與地下城)* is our in-licensed new rogue-like RPG launched in March 2021. The game generated gross billings of over RMB185 million in the first month following its launch. It also topped the iOS Top 10 Free Games Chart in China for six consecutive days after its launch and obtained the highest ranking of No. 4 on the iOS Bestseller Games List in China.

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- *Ares Virus* (阿瑞斯病毒) is our in-licensed zombie survival RPG launched in August 2018. The game topped the iOS Paid Games List in China overnight after its official launch, and it had remained as one of the top 10 iOS Paid Adventure Games for over 30 days.
- *Eternal Adventure* (無盡大冒險), launched in June 2015, is our self-developed idle game that combines the features of idle gameplay experience and Diablo-like adventure. The game had received over 150 times of “Editor’s Choice” recommendation and obtained the highest score of 4.7 out of 5.0 on the iOS App Store in China as of the Latest Practicable Date.

OUR GAME PIPELINE

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

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

Title	Mobile Game Genre	Source	Expected Launch Date	Markets for the Local Versions
<i>Lantern and Dungeon</i> (提燈與地下城)	Rogue-like RPG	In-licensed	Fourth quarter of 2021	Hong Kong, Macau and Taiwan
<i>The Marvelous Snail</i> (最強蝸牛)	Idle game (a type of casual games)	Developed in-house	Second quarter of 2022	Japan

As of the Latest Practicable Date, we also had a pipeline of 10 new mobile games. We expect to launch the first local version for each of these games in 2021, 2022 and 2023 and will release these games in markets such as mainland China, Hong Kong, Macau and Taiwan, Japan, South Korea, Europe and the U.S. The specific target markets of each game may vary depending on the game’s development progress and post-launch performance, market conditions and our marketing strategies. The following table sets forth details of our pipeline games as of the same date.

Title ⁽¹⁾	Mobile Game Genre ⁽¹⁾	Source	Development Stage as of the Latest Practicable Date ⁽¹⁾	Expected Launch Date ⁽¹⁾
<i>Time Voyager</i> (時光旅行社)	Rogue-like RPG	Developed in-house	Game production, testing and optimization	Fourth quarter of 2021
<i>Project A</i>	Tower defense (a type of SLG)	Developed in-house	Game production, testing and optimization	Second quarter of 2022
<i>Servitor Project</i> (使魔計畫)	Idle game (a type of casual games)	Developed in-house	Game production, testing and optimization	Second quarter of 2022
<i>Ares Virus 2</i> (阿瑞斯病毒2)	RPG	In-licensed	Game production, testing and optimization	Second quarter of 2022
<i>Project B</i>	Casual	In-licensed	Game production, testing and optimization	Third quarter of 2022

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Title ⁽¹⁾	Mobile Game Genre ⁽¹⁾	Source	Development Stage as of the Latest Practicable Date ⁽¹⁾	Expected Launch Date ⁽¹⁾
<i>Loot Rush</i> (騎士沖鴨)	ACT RPG	In-licensed	Game production, testing and optimization	Third quarter of 2022
<i>Project C</i>	ACT	In-licensed	Demo production	Third quarter of 2022
<i>Project D</i>	STG	In-licensed	Demo production	Fourth quarter of 2022
<i>Bladeheart Ninja 2</i> (刀心2)	Parkour (a type of casual games)	In-licensed	Game production, testing and optimization	Fourth quarter of 2022
<i>Project E</i>	SLG	Developed in-house	Demo production	Second quarter of 2023

Notes:

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

OVERSEAS MARKETS

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

KEY OPERATING METRICS

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

	Year ended December 31,			Three months ended March 31,
	2018	2019	2020	2021
Average MAUs (in thousand)	1,693	1,240	3,448	3,701
Average MPUs (in thousand)	163	114	495	782
ARPPU (RMB)	47	60	206	205
	As of December 31,			As of March 31,
	2018	2019	2020	2021
Cumulative registered players (in thousand)	27,458	35,978	59,585	65,753

See “Business—Our Games—Our Games’ Performance” for a discussion on our landmark games’ key operating metrics during the Track Record Period.

OUR STRENGTHS

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

- A leading mobile game developer and publisher in China offering games with captivating content and distinctive experiences and particularly popular among the young generation;

SUMMARY

- Strong content capabilities and systematic production and operation;
- A virtuous circle fostered by large, loyal and active player community;
- Strong publishing and operation capabilities leading to successful monetization; and
- Innovative, experienced and stable management team and core game producers with exceptional execution capabilities and support from industry-leading strategic investors.

OUR STRATEGIES

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

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

OUR CUSTOMERS

For our self-published games, we consider the players that have purchased in-game virtual items as our customers. For our games published through third-party publishers, we consider these publishers as our customers. In 2018, 2019, 2020 and the three months ended March 31, 2021, revenue from our five largest customers amounted to RMB48.0 million, RMB35.3 million, RMB133.8 million and RMB22.7 million, respectively, accounting for 48.8%, 39.8%, 11.0% and 4.8% of our total revenues in the same respective periods. The decrease in the proportion of revenue contribution from our five largest customers during the Track Record Period was mainly attributable to the increase in our game operating revenues (namely, revenues from games published by ourselves) as a percentage of our total revenues. Certain subsidiaries of G-bits, a principal shareholder of our Company, have published our games. Our transaction terms with subsidiaries of G-bits are comparable to those with Independent Third-Party customers. See “Business—Our Customers” for more information.

OUR SUPPLIERS

Our suppliers primarily include third-party distribution platforms, payment channels, game developers from whom we license in games, other related game service providers, as well as third-party advertising and marketing service providers and server providers. In 2018, 2019, 2020 and the three months ended March 31, 2021, purchases from our five largest suppliers amounted to RMB20.6 million, RMB17.1 million, RMB535.1 million and RMB181.6 million, respectively, accounting for 43.3%, 50.2%, 61.8% and 61.3% of our total purchases in these respective same periods. Shenzhen Hot Zone Network Technology Co., Ltd., Guangzhou Jodo Information and Technology Co., Ltd., and Shenzhen Jishiwu Technology Co., Ltd. are our associate companies in which we have minority equity interest, and they provided game development, online advertising and game development services, respectively, to us. The G-bits Group provided property leasing and administrative services, marketing and promotion services, and game development services to us. Our transaction terms with the G-bits Group and other suppliers mentioned above are comparable to those with Independent Third-Party suppliers.

During the Track Record Period, the G-bits Group was our supplier and customer. It contributed 6.4% and 8.0% of our total purchases in 2019 and 2020, respectively, and 44.8%, 35.6%, 4.7% and 2.5% of our total revenues in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively. See “Business—Our Suppliers” for more information.

SUMMARY

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

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

Summary of Combined Statements of Comprehensive Income

	Year ended December 31,						Three months ended March 31,			
	2018		2019		2020		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>									
	<i>(Unaudited)</i>									
Revenues	98,421	100.0	88,704	100.0	1,226,920	100.0	29,309	100.0	480,586	100.0
Cost of revenues	(21,670)	(22.0)	(19,967)	(22.5)	(284,565)	(23.2)	(5,236)	(17.9)	(112,838)	(23.5)
Gross profit	76,751	78.0	68,737	77.5	942,355	76.8	24,073	82.1	367,748	76.5
Selling and marketing expenses	(13,917)	(14.1)	(16,763)	(18.9)	(559,215)	(45.6)	(4,856)	(16.6)	(182,043)	(37.9)
Research and development expenses	(25,305)	(25.7)	(25,612)	(28.9)	(146,108)	(11.9)	(5,642)	(19.3)	(8,365)	(1.7)
General and administrative expenses	(19,090)	(19.4)	(9,296)	(10.5)	(102,897)	(8.4)	(4,038)	(13.8)	(11,017)	(2.3)
Net impairment losses on financial assets	(657)	(0.7)	(170)	(0.2)	364	0.0	(81)	(0.3)	(27)	0.0
Fair value changes on investments measured at fair value through profit or loss	143	0.1	535	0.6	594	0.0	(78)	(0.3)	(1,017)	(0.2)
Other income	7,042	7.2	6,394	7.2	11,406	1.0	3,339	11.4	1,474	0.3
Other gains/(losses), net	1,262	1.3	1,741	2.0	(27,071)	(2.2)	103	0.4	2,647	0.6
Operating profit	26,229	26.7	25,566	28.8	119,428	9.7	12,820	43.6	169,400	35.3
Finance (costs)/income, net	(98)	(0.1)	(91)	(0.1)	692	0.1	(18)	(0.1)	50	0.0
Share of results of investments accounted for using equity method	145	0.1	(154)	(0.2)	(404)	(0.0)	(101)	(0.3)	2,844	0.6
Losses on impairment of investments accounted for using the equity method	–	–	(2,000)	(2.3)	–	–	–	–	–	–
Changes in the carrying amount of financial instruments issued to investor	–	–	(2,667)	(3.0)	(6,400)	(0.5)	(1,600)	(5.3)	(1,600)	(0.3)
Profit before income tax	26,276	26.7	20,654	23.2	113,316	9.2	11,101	37.9	170,694	35.6
Income tax expenses	(1,416)	(1.4)	(1,029)	(1.1)	(9,577)	(0.8)	(1,728)	(5.9)	(3,877)	(0.9)
Profit for the year/period attributable to equity holders of the Company	24,860	25.3	19,625	22.1	103,739	8.5	9,373	32.0	166,817	34.7
Non-IFRS financial data										
Adjusted net profit for the year/period ⁽¹⁾	38,860	39.5	22,292	25.1	166,156	13.5	13,214	45.1	172,384	35.9

Note:

- (1) Adjusted net profit for the year/period excluded the effects of share-based compensation, changes in the carrying amount of financial instruments issued to investors and [REDACTED]. See “—Non-IFRS Financial Data” for a detailed discussion of our non-IFRS financial data.

SUMMARY

Summary of Combined Statements of Financial Position

	As of December 31,			As of March 31,
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
Total non-current assets	34,259	40,545	106,776	149,758
Total current assets	100,899	189,364	628,045	613,859
Total assets	135,158	229,909	734,821	763,617
Total non-current liabilities	1,685	82,667	95,883	97,583
Total current liabilities	39,679	33,823	424,735	284,900
Total liabilities	41,364	116,490	520,618	382,483
Net current assets	61,220	155,541	203,310	328,959
Total equity and liabilities	135,158	229,909	734,821	763,617

Summary of Combined Statements of Cash Flows

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>				
	<i>(Unaudited)</i>				
Net cash generated from operating activities	40,122	6,801	443,601	550	1,700
Net cash (used in)/generated from investing activities	(23,697)	(80,252)	49,588	18,997	(40,296)
Net cash (used in)/generated from financing activities	(11,267)	78,263	(60,366)	—	—
Net (decrease)/increase in cash and cash equivalents	5,158	4,812	432,823	19,547	(38,596)
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)	90	1,845
Cash and cash equivalents at end of the year/period	21,398	26,092	443,248	45,729	406,497

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates and for the periods indicated. See “Financial Information—Key Financial Ratios” for more information.

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	<i>(Unaudited)</i>				
Profitability ratios					
Gross profit margin	78.0%	77.5%	76.8%	82.1%	76.5%
Net profit margin	25.3%	22.1%	8.5%	32.0%	34.7%
Return on equity	31.3%	18.9%	63.3%	N/A	56.0%
Return on assets	20.6%	10.8%	21.5%	N/A	22.3%
	As of December 31,			As of March 31,	
	2018	2019	2020	2021	
Liquidity ratio					
Current ratio	2.5	5.6	1.5	2.2	

SUMMARY

NON-IFRS FINANCIAL DATA

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

We exclude share-based compensation, changes in the carrying amount of financial instruments issued to investors, and [REDACTED] in calculating adjusted net profit for the period, because they are not directly related to our business operations. These items have caused volatility in our periodic earnings and have little analytical or predictive value. However, the presentation of adjusted net profit 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 for the period has certain limitations. Share-based compensation, changes in the carrying amount of financial instruments issued to investors and [REDACTED] are not reflected in the presentation of adjusted net profit for the period. We compensate for these limitations by providing the relevant disclosure of our share-based compensation, changes in the carrying amount of financial instruments issued to investors and [REDACTED] both in our reconciliations to the IFRS financial measures and in our combined 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 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 for the period may not be comparable to adjusted net profit for the period or other similarly titled measures utilized by other companies, since such other companies may not calculate adjusted net profit 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 for the periods indicated. See “Financial Information—Non-IFRS Financial Data” for more information.

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>				
Profit for the year/period attributable to equity holders of the Company	24,860	19,625	103,739	9,373	166,817
Adjustments:					
Share-based compensation	14,000	–	56,017	2,241	–
Changes in the carrying amount of financial instruments issued to investors	–	2,667	6,400	1,600	1,600
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net profit for the year/period (non-IFRSs)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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

SUMMARY

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 has not declared or paid any dividend during the Track Record Period since the Company was incorporated on March 12, 2021. We do not currently have a dividend policy. The payment and the amount of any future dividends will be at the discretion of our Board and will also depend on factors such as our results of operations, cash flow, capital requirements, general financial condition, contractual restrictions, future prospects and other factors that our Board deems relevant. See “Financial Information—Dividends” for more information.

RISK FACTORS

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

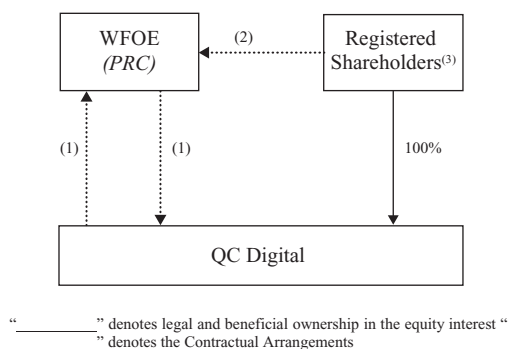
- A small number of games have generated a substantial majority of our revenues. Failure to maintain the success and extend the lifecycle of these games and competition from other games of the same genre with similar content may materially and adversely affect our business and results of operations.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

CONTRACTUAL ARRANGEMENTS

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

SUMMARY

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



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

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

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

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

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

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

OUR CONTROLLING SHAREHOLDERS

Immediately before completion of the [REDACTED] and the [REDACTED], Mr. Yang, our founder and executive Director, through Keiskei Holding Ltd., a company indirectly controlled by Peter Yang Family Trust which was established by Mr. Yang as the settlor, through Yang Family Holding Limited, has an indirect interest in 5,296,696 Ordinary Shares. Immediately before the completion of the [REDACTED] and assuming

SUMMARY

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

CONNECTED TRANSACTIONS

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

[REDACTED]

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

RECENT DEVELOPMENTS

On April 21, 2021, Guangxi Tencent, Alibaba Lingxi and Shanghai Hode entered into a share transfer agreement with G-bits, pursuant to which G-bits transferred 3.37% equity interests in QC Digital to each of Guangxi Tencent, Alibaba Lingxi and Shanghai Hode (namely, 10.11% equity interest in QC Digital in aggregate), at a consideration of RMB101.15 million each (or, RMB303.45 million in aggregate). After this share transfer, the equity investments held by G-bits, Guangxi Tencent, Alibaba Lingxi and Shanghai Hode (collectively, “**April 2021 Investors**”), amounting to 23.10%, 3.37%, 3.37% and 3.37%, respectively, are entitled to preferential rights. According to the agreement, these ordinary shares held by April 2021 Investors will become redeemable by April 2021 Investors under certain events which are out of the control of our Group. Since QC Digital does not have the unconditional right to avoid delivering cash or other financial assets to settle the contractual obligation, we recognized the investments held by April 2021 Investors as a financial liability, which were initially recognized at the present value of the redemption amount. The redemption amount is calculated based on the agreed fixed amount plus an interest of 8% per annum. Although the April 2021 Investors did not contribute consideration in QC Digital during this share transfer, QC Digital agreed with the April 2021 Investors a fixed amount (using as the basis to calculate the redemption amount) of RMB90 million for G-bits, and RMB101.15 million each for Guangxi Tencent, Alibaba Lingxi and Shanghai Hode. After the share transfer, G-bits has equity interests of 23.10% in QC Digital, with preferential rights as disclosed above. On May 14, 2021, to reflect the onshore shareholding structure of QC Digital, 4,739,938 Series A Preferred Shares of our Company were issued to April 2021 Investors’ offshore affiliates. We recognized Series A Preferred Shares as financial liabilities measured at fair value through profit or loss. Upon entering into the Contractual Arrangements on May 26, 2021, shareholders of QC Digital became nominee shareholders and the preferential rights held by April 2021 Investors in QC Digital were canceled accordingly.

SUMMARY

On May 26, 2021, Tencent, Alibaba Qookka, Bilibili Inc. and Boyu (collectively, “**Series B Preferred Shareholders**”) entered into a share purchase agreement with our Company, pursuant to which an aggregate of 1,152,488 convertible redeemable preferred shares of our Company were allotted to the Series B Preferred Shareholders with a consideration of USD62.61 million, equivalent to approximately RMB404 million. We recognized Series B Preferred Shares as financial liabilities measured at fair value through profit or loss.

In May 2021, QC Digital declared and paid a dividend of RMB180 million to its then shareholders.

Save as otherwise disclosed here, our Directors confirm that up to the date of this document, there has been no material adverse change in our financial or trading position since March 31, 2021, the end of the period reported on in the Accountant’s Report set out in Appendix I to this document.

COVID-19 Outbreak: Impact and Response

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

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

[REDACTED]

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

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

SUMMARY

[REDACTED]

[REDACTED]

[REDACTED]

Our [REDACTED] primarily include [REDACTED] paid to legal, accounting and other advisors for services rendered in relation to the [REDACTED]. Assuming full payment of the [REDACTED], the estimated 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 which approximately [REDACTED] was charged to the consolidated statements of profit or loss for the three months ended March 31, 2021 and approximately [REDACTED] was capitalized in the consolidated statements of financial position as of March 31, 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].

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.

“affiliate(s)”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Alibaba”	Alibaba Group Holding Limited, a company incorporated in the Cayman Islands, the ordinary shares of which are listed on the Main Board of the Stock Exchange with the Stock Code: 9988 and its American Depositary Shares (each representing eight ordinary shares) are listed for trading on the New York Stock Exchange under the symbol “BABA”
“Alibaba Lingxi”	Guangzhou Lingxi Interactive Entertainment Limited (廣州靈犀互動娛樂有限公司), a company incorporated under the laws of the PRC with limited liability
“Alibaba Qookka”	Qookka Entertainment Limited (formerly known as Ejoy.com Limited), a company incorporated in Hong Kong with limited liability on February 28, 2012
“Articles”	the articles of association of the Company (as amended from time to time), conditionally adopted on [●], a summary of which is set out in Appendix III to this document
“Audit Committee”	the audit committee of the Board
“Banking Ordinance”	the Banking Ordinance, Chapter 155 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
“Board” or “Board of Directors”	the board of Directors
“Boyu”	Wildlife Willow Limited, a BVI business company incorporated under the laws of BVI
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“Catalog”	the Guidance Catalog of Industries for Encouraged Foreign Investment (2020 Edition) (《鼓勵外商投資產業目錄(2020年版)》)
	[REDACTED]
“Cayman Companies Act”	the Companies Act (As Revised) of the Cayman Islands, Cap. 22 (Law 3 of 1961), as amended or supplemented or otherwise modified from time to time

[REDACTED]

DEFINITIONS

[REDACTED]

“China”, “the PRC” or “mainland China”	the People’s Republic of China excluding, for the purpose of this document, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Company” or “our Company”	Qingci Games Inc. (青瓷游戏有限公司), an exempted company incorporated in the Cayman Islands with limited liability on March 12, 2021
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, WFOE, QC Digital and the Registered Shareholders, details of which are described in the section headed “Contractual Arrangements”
“Controlling Shareholders”	has the meaning ascribed thereto in the Hong Kong Listing Rules and, unless the context otherwise requires, refers to Mr. Yang, Yang Family Holding Limited and Keiskei Holding Ltd., which will cease to be our controlling shareholders immediately after [REDACTED]
“COVID-19”	coronavirus disease 2019, a coronavirus known to cause contagious respiratory illness
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company
“EIT Law”	PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) adopted by the National People’s Congress on March 16, 2007, and became effective on January 1, 2008 and amended on February 24, 2017 and on December 29, 2018
“Extreme Conditions”	Any extreme conditions or events, the occurrence of which will cause interruption to the ordinary course of business operations in Hong Kong and/or that may affect the [REDACTED] or the [REDACTED]
“Foreign Investment Law”	the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) adopted by the National People’s Congress on March 15, 2019 with effect from January 1, 2020

DEFINITIONS

“G-bits” G-bits Network Technology (Xiamen) Co., Ltd. (廈門吉比特網絡技術股份有限公司), a company incorporated in the PRC with limited liability on March 26, 2004 and is listed on the Shanghai Stock Exchange under the stock code: 603444, a substantial shareholder of the Company

“G-bits Group” G-bits and its subsidiaries

“GAPP” and “NPPA” General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署), currently known as National Press and Publication Administration (國家新聞出版署) since March 2018

[REDACTED]

“GPC” Game Publishers Association Publications Committee (GPC) of The China Audio-video and Digital Publishing Association (中國音數協遊戲工委)

[REDACTED]

“Group”, “our Group”, “the Group”, “we”, “us”, or “our” the Company, its subsidiaries and the PRC Consolidated Affiliated Entities from time to time, including where the context otherwise requires, any companies and businesses transferred to our Group as part of the Reorganization (as the case may be)

“HK\$” or “Hong Kong dollar(s)” Hong Kong dollars, the lawful currency of Hong Kong

“HK Kunpan” Hongkong Kunpan Co., Limited (香港坤磐有限公司), a company incorporated in Hong Kong with limited liability on December 16, 2016, and an indirect wholly-owned subsidiary of G-bits

[REDACTED]

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

“Hong Kong dollars” or “HK dollars” or “HK\$” Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

DEFINITIONS

“Hong Kong Takeovers Code” or
“Takeover Codes” the Code on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time

[REDACTED]

“IAS” International Accounting Standards

“IFRSs” International Financial Reporting Standards issued by the International Accounting Standards Board

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

[REDACTED]

DEFINITIONS

“Joint Sponsors”	China International Capital Corporation Hong Kong Securities Limited and CLSA Capital Markets Limited
“Latest Practicable Date”	[June 20, 2021], being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
[REDACTED]	
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“M&A Rules”	the Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), jointly issued by the State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會), the MOFCOM, the SAT, the SAIC, the CSRC and the SAFE on August 8, 2006, effective on September 8, 2006, and subsequently amended on June 22, 2009
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of the Company (as amended from time to time), conditionally adopted on [date], a summary of which is set out in Appendix III to this document
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOC” and “MOCT”	Ministry of Culture of the PRC (中華人民共和國文化部), which is reformed and known as the Ministry of Culture and Tourism (中華人民共和國文化和旅游部) since March 2018
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Huang”	Mr. Huang Zhiqiang (黃智強), an executive Director and chief executive officer of our Company, and our substantial shareholder
“Mr. Lin”	Mr. Lin Yiwei (林意煒), a shareholder of the Company
“Mr. Liu”	Mr. Liu Siming (劉斯銘), an executive Director, chief financial officer and shareholder of the Company
“Mr. Wei”	Mr. Wei Shumu (魏樹木), chief technology officer and shareholder of the Company
“Mr. Yang”	Mr. Yang Xu (楊煦), founder, an executive Director and president of our Company, and our Controlling Shareholder

DEFINITIONS

“Mr. Ye”	Mr. Ye Jiting (葉激艇), a shareholder of the Company
“Mr. Zeng”	Mr. Zeng Xiangshuo (曾祥碩), an executive Director and chief operating officer of the Company
“NDRC”	National Development and Reform Commission (中華人民共和國發展和改革委員會) of the PRC
“Negative List”	Special Administrative Measures for the Access of Foreign Investment (Negative List) (2020 Edition) (外商投資准入特別管理措施(負面清單) (2020年版))
“Nomination Committee”	the nomination committee of our Board
	[REDACTED]
“PRC Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely QC Digital and its respective subsidiaries. For further details of these entities, see “History, Reorganization and Corporate Structure” and “Contractual Arrangements”
“PRC Government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Legal Advisor”	JunHe LLP
“[REDACTED]”	the [REDACTED] in our Company made by the [REDACTED], details of which are set out in the sub-section headed “History, Reorganization and Corporate Structure—[REDACTED]” in this document
“[REDACTED]”	collectively Series A Investors and Series B Investors
“Preferred Shares”	collectively, Series A Preferred Shares and Series B Preferred Shares

DEFINITIONS

[REDACTED]

“QC Chengdu”	QC-Game Digital Technology (Chengdu) Co., Ltd.* (成都青瓷數碼技術有限公司), a company incorporated in the PRC with limited liability on April 15, 2016
“QC Cultural”	QC-Game Cultural Communication (Xiamen) Co., Limited* (廈門青瓷文化傳播有限公司), a company incorporated in the PRC with limited liability on August 12, 2014
“QC Digital”	QC-Game Digital Technology (Xiamen) Co., Ltd* (廈門青瓷數碼技術有限公司), a company incorporated in the PRC with limited liability on March 1, 2012
“QC HK”	QC-Game Digital Technology (HONGKONG) Co., Limited (香港青瓷數碼技術有限公司), a company incorporated in Hong Kong with limited liability on October 10, 2019
“QC HK Limited”	Qingci (HK) Limited (青瓷(香港)有限公司), a company incorporated in Hong Kong with limited liability on April 22, 2021
“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the offshore and onshore reorganization as set out in “History, Reorganization and Corporate Structure—Corporate Reorganization”
“Remuneration Committee”	the remuneration committee of our Board
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
“Series A Investors”	Guangxi Tencent, Alibaba Lingxi and Shanghai Hode
“Series B Investors”	Tencent, Alibaba Qookka, Bilibili Inc. and Boyu
“Series A Preferred Shares”	the series A preferred shares of the Company with par value US\$0.00001 per share, which are currently in issue and held by HK Kunpan, Tencent, Alibaba Qookka and Bilibili Inc.

DEFINITIONS

“Series B Preferred Shares”	the series B preferred shares of the Company with par value US\$0.00001 per share, which are currently in issue and held by Tencent, Alibaba Qookka, Bilibili Inc. and Boyu
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), which is reformed and known as the State Administration of Market Regulation of the PRC (中華人民共和國市場監督管理總局) since March 21, 2018
“SAPPRFT”	State Administration of Press, Publication, Radio, Film and Television of the PRC (中華人民共和國國家新聞出版廣電總局), formerly known as the GAPP (中華人民共和國新聞出版總署) and the State Administration of Radio, Film and Television of the PRC (中華人民共和國國家廣播電影電視總局), which has been reformed and is currently known as the State Administration of Radio and Television of the PRC (中華人民共和國國家廣播電視總局) under the State Council and the NPPA under the Propaganda Department of the Central Committee of the CPC (中共中央宣傳部) since March 2018
“SAT” or “State Administration of Taxation”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	shares in the capital of our Company with a par value of US\$0.00001 each
“Shareholder(s)”	holder(s) of the Shares
	[REDACTED]
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
	[REDACTED]
“subsidiaries”	has the meaning ascribed thereto under the Listing Rules, unless the context otherwise requires
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Track Record Period”	the three financial years ended December 31, 2020 and the three months ended March 31, 2021
	[REDACTED]
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency of the United States

DEFINITIONS

“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
“VAT”	value added tax
“VIE(s)”	Variable interest entity(ies)
“WFOE” or “QC Interactive”	QC Interactive Technology Co., Ltd.* (廈門青瓷互動科技有限公司) a wholly foreign-owned enterprise established in the PRC on May 17, 2021 by QC HK Limited, an indirect wholly-owned subsidiary of our Company

[REDACTED]

“Wofan Qihang”	Xiamen Wofanqihang Venture Capital Partnership (Limited Partnership)* (廈門蝸帆起航創業投資合夥企業 (有限合夥)), a limited partnership established in the PRC on December 11, 2020, a substantial shareholder of the Company
“Xiamen Sealand”	Xiamen Sealand Capital Nuts Venture Investment Partnership (Limited Partnership)* (廈門國海堅果創業投資合夥企業 (有限合夥)), a limited partnership established in the PRC on May 6, 2013, a shareholder of the Company
“%”	per cent

* for identification purposes only

In this document, the terms “associate”, “close associate”, “connected person”, “core connected person”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese included in this document is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them and figures rounded to the nearest thousand, million or billion may not be identical to figures that have been rounded differently to them.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain technical terms used in this document in connection with our business. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“ACG”	a subculture of Greater China particularly referring to Japanese anime, comics and games, or the fictional world or characters created in such work
“active users”	in any given period, (i) active users of a particular game refers to all registered players of such game that entered the game at least once in such period during which the game was in operation; and (ii) active users of all of our games refers to the aggregate of the active users of all of our games in such period during which the games were in operation; a registered player that entered two or more games in such period is counted as two or more active users in such period
“Alipay”	a third-party mobile and online payment platform
“Android”	a mobile operating system developed and maintained by Google LLC. used in smartphones and tablets
“ARPPU”	average revenue per month per paying user, which is calculated by (i) dividing our revenue from a game for a specified period by the total MPUs of such game for that period, or (ii) dividing our total game revenue for a specified period by the aggregate of the total MPUs of all of our games for that period, as applicable. Our calculations of ARPPU did not consider each game’s MPU data before its official launch. However, the revenues we used to calculate ARPPU for each game and for all of our games included revenues generated from the pre-launch testing stage of the games (where applicable) during the Track Record Period, which were immaterial.
“AR technology”	augmented reality technology
“average MAUs”	calculated by dividing (i) the total MAUs of a game, or (ii) the aggregate of the total MAUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MAUs did not consider each game’s data before its official launch.
“average MPUs”	calculated by dividing (i) the MPUs of a game, or (ii) the aggregate of the total MPUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MPUs did not consider each game’s data before its official launch.
“CAGR”	compound annual growth rate
“casual games”	a genre of games that is typically designed with relatively simple but attractive gameplay in minimalistic style such as cartoon, played by users for recreational purposes, and generally has shorter gaming time per play compared to other mobile game genres

GLOSSARY OF TECHNICAL TERMS

“cumulative registered players”	the cumulative number of accounts, which is calculated with reference to the number of accounts registered with our games as of a specified date. Only games that were still in operation as of the Latest Practicable Date are considered in the calculations. It may not represent the exact number of our cumulative registered players as a player may have registered multiple player accounts with any of our games
“Diablo-like adventure”	a genre of games with scenarios which usually consist of dark and evil elements, and have genesis and magic characteristics
“free-to-play”	a business model used in the online game industry, under which users can play games for free, but may need to watch in-game advertisements and pay for virtual items sold in games to enhance their gameplay experience
“Google Play”	a digital distribution platform operated and developed by Google LLC. It serves as both the official app store for the Android operating system, and a digital media store offering music, books, movies, and television programs
“gross billings”	total amount paid by players for in-game purchases during a specified period
“idle games”	a type of casual games, primarily featured by game players being able to play the games for any interval of time to experience the core part of the games, while the games automatically continuing for the rest of the day and progressing the players’ profiles in the games
“iOS”	a mobile operating system developed and maintained by Apple Inc. used exclusively in Apple devices, such as iPhones, iPods and iPads
“iOS App Store”	a digital distribution platform operated and developed by Apple Inc., which is the official app store for the iOS operating system
“IP(s)”	intellectual property(ies)
“KOL”	key opinion leader, a person whose opinions in a certain field are respected and influential to the public
“lifecycle”	the market life of a game, starting from the initial launch and ending on the irreversible and drastic decline of active users and revenue generated
“MAU(s)”	monthly active users, which represents the number of active users during a specified calendar month
“mobile game companies”	companies engaged in mobile game development, publishing or both
“mobile games”	games that are played on mobile devices
“MPU(s)”	monthly paying users, which represents the number of paying players during a specified calendar month

GLOSSARY OF TECHNICAL TERMS

“Mobile Hardcore Alliance”	a mobile internet value-added service organization composed of manufacturers of smartphone, which are OPPO, vivo, Coolpad, Gionee, Lenovo, Huawei, Meizu and Nubia
“official launch date”	the launch date that we announced on our official website
“pan-entertainment”	the development of games, literature, animations and motion pictures, amongst others, based on IPs
“paying player(s)”	a player who pays money for, at least once, in-game purchases in any given period; a player who makes more than one purchase in such period is counted once only
“QingCi Enthusiast(s)”	accumulated players who are connected with us on our official accounts and/or groups on social media platforms; a player connected with us on two or more of our official accounts and/or groups on social media platforms is counted as two or more QingCi Enthusiasts
“QR code”	a machine-readable code consisting of an array of black and white squares, typically used for storing URLs or other information for reading by the camera on a smartphone
“registered player(s)”	as of a particular time point, registered players of a particular game refer to the number of registered accounts of players who played such game for the first time as of such time point; registered players of all of our games refer to the aggregate of the registered players of all of our games as of a specified date; a player account that has been used to enter two or more games is counted as two or more registered players
“rogue-like RPG”	a type of RPG, which allows players to explore and unlock new content by levels in various adventures that embed randomness and surprises through treasure hunt, map discovery and other unpredictable events. Players acquire a sense of excitement during such adventures and a sense of self-achievement as their game avatars grow through their efforts
“RPG”	role-playing games, a genre of games in which a player who assumes the role of a character interacts with each other in an evolving fantasy or fictional world and takes control over character’s actions
“SDKs”	software development kits, typically a set of software development tools that allows the creation of applications for a certain software package, software framework, hardware platform, computer system, video game console, operating system, or similar development platform
“server”	a computer system that provides services to other computing systems over a computer network
“SLG”	simulation games, a genre of games that allows players to control characters and attempt to emulate various activities from real life in the game format

GLOSSARY OF TECHNICAL TERMS

“STG”	shooter games, a genre of games in which game players are engaged in combat with opponents by shooting, and progress through the game by carrying out quests. STGs often test players’ spatial awareness, reflexes, and speed in both single player mode and online multiplayer mode
“Unity3D”	a cross-platform 3D game engine developed by Unity Technologies
“virtual item”	an item, avatar, skill, privilege or other in-game consumable, feature or functionality that game players use to extend their gameplay, enhance or personalize their game environments and accelerate their progress in games
“VR technology”	virtual reality technology
“WeChat Pay”	a third-party mobile payment platform
“weekly player retention rate”	represents the percentage of player accounts that entered a game in the second week after the accounts were registered with the game in a specified week

FORWARD-LOOKING STATEMENTS

We have included in this document forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This document contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. All statements other than statements of historical fact contained in this document, including, without limitation, those regarding our future financial position, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate and any statements preceded by, followed by or that include the words “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would”, “vision”, “aspire”, “target”, “schedules”, “goal”, “outlook” and the negative of these words and other similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain known and unknown risks, uncertainties and assumptions, including but not limited to the risk factors as described in this document. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our ability to successfully implement our business plans and strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and future developments, trends and conditions in the gaming industry and the markets in which we operate or into which we intend to expand;
- our ability to retain senior management and key personnel, and recruit qualified sales staff;
- our future capital needs, capital expenditure plans and our ability to raise capital on commercially acceptable terms;
- the actions of and developments affecting our competitors;
- our financial condition and performance;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in China and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- various business opportunities that we may pursue; and
- all other risks and uncertainties described in the section headed “Risk Factors”.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected, as well as from historical results. Specifically but without limitation, sales could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to the cautionary statements in this section.

In this document, statements of or references to our intentions or those of the Directors are made as of the date of this document. Any such information may change in light of future developments.

All forward-looking statements contained in this document are expressly qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

You should carefully consider all of the information set out in this document before making an [REDACTED] in the Shares, including the risks and uncertainties described below in respect of our business, our industry and the [REDACTED]. Any of the following risks could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In any such an event, the market price of our Shares could decline, and you may lose all or part of your [REDACTED]. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

A small number of games have generated a substantial majority of our revenues. Failure to maintain the success and extend the lifecycle of these games and competition from other games of the same genre with similar content may materially and adversely affect our business and results of operations.

During the Track Record Period, we derived a substantial majority of our revenues from a small number of 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). These landmark games in aggregate contributed over 90% of our total revenues during the Track Record Period. We expect that our existing and future landmark games will continue to generate the majority of our revenues. Should there be (i) any decline in the number of game players of these games, (ii) any failure by us to upgrade, enhance or optimize these games in a timely manner or at all, (iii) any lasting or prolonged server interruption due to network failures or other reasons, or (iv) any other unfavorable changes made to these games, our business, financial condition and results of operations could be materially and adversely affected.

While we plan to launch a number of new games, game editions or updates, we cannot ensure that these games will be popular among players and commercially successful. Additionally, our games are subject to limited lifecycles. Despite our efforts to extend their lifecycles by issuing new editions or updates, we cannot assure you that our landmark games can remain attractive to game players as long as we expect, given that game players change their preferences all the time. Furthermore, the genre, presentation, content and core gameplay of our landmark games are possible to be adopted, imitated or replicated by other game developers. They may leverage better game development technologies, more abundant capital resources and more extensive distribution networks to develop and publish similar games that compete directly with our landmark games. As a result, our player base may be eroded and the level of player engagement with our landmark games may decrease. If our limited number of landmark games become less attractive or if the revenue generated from these games declines in any short or extended period of time for any reason, our business, financial condition and results of operations could be materially and adversely affected.

We may not be successful in developing new games, and if we are unable to effectively control our research and development costs, our results of operations may be materially and adversely affected.

During the Track Record Period, we primarily developed games in-house. As of the Latest Practicable Date, our game portfolio consisted of six games, four of which were developed in-house. At of the same date, our game pipeline included 10 games, four of which were developed in-house, and we own the IP for these self-developed games. The rest of these existing and pipeline games were in-licensed from third-party game developers, mostly companies we invested in to which we provided advice for their game development. We publish and operate the in-licensed games. The continued success of our business will depend on our research and development capabilities. Our ability to develop successful new games will largely depend on our ability to:

- generate ideas that can translate into engaging and commercially successful games;
- interweave our publishing and operation team’s input in our game development process;
- track and adapt to rapidly changing technologies and game industry trends;

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- continuously innovate and capture evolving preferences and demands of game players;
- attract, retain and motivate talented game development personnel;
- organize efficient game testing and minimize launch delays and cost overruns in the development of new games, game editions or updates;
- design effective monetization strategies without degrading the gameplay experience for our players; and
- effectively execute our game development plans.

In addition, in-house development requires a substantial initial investment prior to the launch of a game, as well as a significant commitment of future resources to produce updates and expansion packs. In 2018, 2019, 2020 and the three months ended March 31, 2021, we incurred research and development expenses of RMB25.3 million, RMB25.6 million, RMB146.1 million and RMB8.4 million, respectively. We expect a significant portion of our revenue to continue being derived from games developed in-house in the foreseeable future. However, we cannot assure you that we will be able to continuously develop and roll out new games that are well accepted by the market and that we will be able to effectively control our research and development expenses. Any failure to do so will negatively impact our game portfolio and pipeline and our cost structure, and consequently our results of operations.

Our new games may not be commercially successful if we fail to adapt our games to new trends and attract new game players.

We cannot assure you that the new games we develop or license in will be commercially successful. We operate in a market characterized by rapidly developing technologies, evolving industry standards, frequent new game launches and updates and changing player preferences and demands. The good market reception of our games and our ability to effectively monetize depend in significant part on our ability to adapt to these rapidly changing new trends as well as our ability to continually innovate in response to evolving game player preferences and demands and intense market competition. Any failure on our part to act effectively in any of these areas may materially and adversely affect our business, financial condition and results of operations, and you should not use the success of our existing games as an indication of the future commercial success of any of the games in our pipeline.

Many factors could adversely affect the market reception of our new games, including:

- our ability to anticipate and adapt to future technological developments, evolving industry standards, new business models and evolving player preferences and demands;
- our ability to efficiently operate our games and resolve technical difficulties and player complaints;
- our ability to publish our games efficiently and effectively in compliance with laws and regulations across multiple jurisdictions;
- our ability to plan and organize online and offline marketing and promotional activities; and
- our ability to improve our existing games and differentiate our new games from those offered by our competitors.

Moreover, after the launch of a new game, it may take time for us to assess whether the game will eventually become commercially successful. The length of the growth stage for building up player base and achieving market coverage can be uncertain, and the rise in popularity of new games during the growth stage can

RISK FACTORS

be slow, if it happens at all. If a game fails to be as commercially successful as we expected, we may not be able to realize the failure until several months or even longer after the launch of the game, and we may not be able to come up with solutions to mitigate our loss in a timely and effective manner. The situation may worsen when the growth stage of a new game coincides with the inevitable recession stage of our old games. All of the above situations may result in a significant loss of game players, and our business, financial condition or results of operations may be materially and adversely affected.

We may not be able to maintain existing players and attract new players or keep our players engaged in our games, and new games may attract players away from our existing games, which could adversely affect our results of operations.

Our business growth depends on our ability to attract new players and retain existing players and keep them engaged with our games. To maintain and expand our player base, we must continue to invest significant resources in research and development to enhance our existing games and timely launch new, high-quality games, game editions or updates. Our game development capability largely depends on our ability to anticipate and effectively respond to changing player interests and preferences and changes in the competitive landscape. Failure to timely launch popular games and keep enhancing our existing games to meet the demands of the players may lead to slower-than-expected increases or even decreases in our player base and the player’s engagement with our games. In addition, we cannot guarantee that our games will continue to maintain their current level of popularity or that rapidly changing industry trends and player preferences will not make our games obsolete over time. Moreover, to attract, retain and engage players, we must also devote significant resources to enhancing our player experience on an on-going basis—including by enhancing the functions and technical and artistic features of our games in a manner that appeals to our demographically diverse players and ensuring the reliability of our game operating systems. In addition, player support, including player service and technical support, is critical to retaining current players and attracting potential players. For example, if we otherwise fail to provide effective player service, our players may be less inclined to play our games or recommend our games to other potential players, and may decide to play games offered by our competitors. Some China-based internet companies have experienced group complaints, sometimes organized by their competitors or people attempting to profit from these complaints. If we face similar group complaints in a short time frame, we may be unable to effectively handle customer service requests from our players. Failure to maintain effective player support could harm our reputation and our ability to grow our play base, which may materially and adversely affect our results of operations.

In addition, our new games may lure players away from our existing games, and erode the player base for those games. This could in turn make the relevant existing games less attractive to other players, who may look at the rankings to decide which games to play, which could result in a decline in revenue from our existing games. Players of our existing games may also spend less purchasing virtual items in our new games than they would have done had they continued playing the existing games.

If we are unable to maintain existing players and attract new players or keep players engaged in our games as a result of the foregoing or otherwise, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our profitability depends largely on the lifecycle of each game, and we cannot guarantee a game’s duration at each lifecycle stage or its revenue-generating capability at each stage.

Our mobile games generally experience several stages in their lifecycles, including (i) the growth stage, during which we build up a player base and achieve market coverage; (ii) the maturity stage, during which the game tends to continuously and steadily generate revenue and the number of game players generally remains stable; and (iii) the recession stage, during which the number of game players and revenue generated by the game decline. Our games generate a significant portion of their revenues from either the growth stage or the maturity stage. However, the lifecycle stages vary from game to game and may not be indicative of a game’s rate of growth and revenue-generating capability. In addition, we cannot assure you for how long a game would stay at each lifecycle stage, or that a game with a shorter maturity stage may generate more revenue than a game with a longer maturity stage.

RISK FACTORS

If we fail to keep up with technological developments or anticipate or successfully adapt our games to new trends, our business prospects and results of operations could be materially and adversely affected.

China’s mobile game industry is evolving rapidly. We need to keep up with new technologies and new standards set by governmental regulations and constantly adapt to new industry trends. We evaluate these changes as they emerge and strive to adapt our business and operations to maintain and strengthen our position in the industry. Any failure to do so may adversely affect our business prospects and results of operations.

The mobile game industry is subject to rapid changes in technologies and standards. We need to anticipate the emergence of new technologies and assess their market acceptance. In addition, some major industry players are creating games that incorporate virtual and/or augmented realities to deliver an immersive gameplay experience. Furthermore, government authorities or industry organizations may adopt new standards that apply to game development. We will need to continue to invest significant financial resources in product and infrastructure development to keep up with the pace of technological advancements and hence strengthen our player base. However, game development is inherently uncertain, and our significant investment in technology may not generate expected benefits. If we fall behind in adopting new technologies or standards, our existing games may lose popularity and our newly developed games may not be well received by our players. In addition, we may incur significant cost overruns in game testing, optimization and publication, which would have an adverse impact on our results of operations and profitability.

Moreover, our ability to plan for game development, distribution and promotional activities will be significantly affected by our ability to anticipate and adapt to industry trends, including rapid changes in demographics, tastes and preferences of our existing and prospective players, game content trends and distribution models. In addition, although mobile games are becoming increasingly popular in China, there is no assurance that they will continue to sustain their popularity. Other forms of entertainment may emerge and become popular at the expense of mobile games. Any decline in the growth of the mobile game industry in China or in the popularity of mobile games in general, or our games in particular, would harm our business and prospects.

A vast majority of our revenue is derived from sales of in-game virtual items, and failure to monetize effectively through this virtual item-based revenue model may adversely affect our business.

Our games are currently in the mobile application form and are primarily free to download and play. We believe that this freemium model helps to attract a wide audience of players and increase the potential paying users because they feel less burdened when no fee is required to start a game and they have discretion regarding in-game purchases.

In 2018, 2019 and 2020 and the three months ended March 31, 2021, our average MPUs were 163 thousand, 114 thousand, 495 thousand and 782 thousand, respectively, representing 9.6%, 9.2%, 14.4% and 21.1%, respectively, of the average MAUs for the same periods. As a result, the numbers of our cumulative registered players and active players do not necessarily indicate our actual and potential revenue-generating capabilities. Our sustainable revenue growth depends in part on our ability to effectively encourage more gamers to make or increase their in-game virtual item purchases. However, spending in our games is discretionary, and gamers, especially the ones attracted by the freemium model, can be sensitive to the price of the virtual items. Consequently, we have made great efforts in marketing in-game virtual items and carefully assess the pricing of these items to optimize user monetization, but these efforts may not be as effective as we anticipate. We might also fail to identify and introduce new and popular virtual items and price them appropriately.

In addition, while ARPPU of our mobile games increased from RMB47 in 2018 to RMB60 in 2019 and further to RMB206 in 2020 and RMB205 in the three months ended March 31, 2021, we cannot assure you that this virtual item-based revenue model will continue to be commercially viable. There can be no assurance that gamers will continue to accept this model. New revenue models may emerge given the rapidly evolving game industry and competitive landscape, which may force our transition into the new models and cause us to experience difficulties in effectively adjusting to these new models, or at all. As a result, our business, results of operations and prospects may be materially and adversely affected.

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We also need to provide easy, fast and safe payment solutions to our game players to facilitate in-game purchases and prevent our game players from being discouraged or inconvenienced by complicated online payment processing procedures. We cannot assure you that our third-party payment service providers will operate consistently in an efficient way, and any interruption of their payment services could affect the monetization of our game player base, which in turn could adversely affect our revenue and profitability. See “—We rely on third-party online payment channels for payment collection. Any interruption of their services or unintended leakage of confidential information may materially and adversely affect our reputation and business” for more information on our cooperation with third-party online payment channels.

The mobile games industry in which we operate is rapidly changing, and our growth prospects could suffer if the industry does not develop as anticipated.

We derive a substantial majority of our revenue in China. Therefore, our business operation is mainly subject to the overall prosperity of China’s mobile game industry, which may fluctuate significantly from time to time. In recent years, we have witnessed rapid industry evolution driven by the increasing popularity and constant technological upgrades of smartphones, the introduction of new business models, the development of player preferences, market entry by new competitors and the adoption of new strategies by existing competitors. We expect these trends to continue, and we must continue to adapt our strategy to successfully compete in the industry. Numerous technologies and business models at varying stages of development, such as tablets and other mobile internet handsets involving new mobile technologies, could render certain current technologies or applications that we are using obsolete. Accordingly, it is difficult to accurately predict player acceptance of new technologies and business models and their demand for our various existing and future games and the future size, composition and growth of this industry.

According to Frost & Sullivan, China’s mobile game market grew from RMB97.2 billion in 2016 to RMB239.6 billion in 2020, representing a CAGR of 25.3%. Given the limited history and rapidly evolving nature of this market in China, the historical growth rate may not be sustained and is subject to various factors beyond our control, including the general economic conditions, people’s leisure time and spending, and changes and uncertainties of relevant laws, rules and regulations, none of which can be predicted with certainty. See “Industry Overview” for more information on the development of China’s mobile game industry. Any fluctuation or downturn in the overall development of China’s mobile game industry may reduce demand for our games and thus materially and adversely affect our business and results of operations.

The markets in which we operate are highly competitive. If we are unable to compete effectively against our competitors, our game player base, market share and profitability may be materially and adversely affected.

China’s mobile game industry is, and is expected to remain, highly competitive. According to Frost & Sullivan, in China’s mobile game market, the top five market players collectively held a market share of 72.5%, and the top two market players dominated the market with their aggregate market share of 60.4%, as measured by revenue in 2020. The mobile game markets outside mainland China that we are expanding into, such as the markets in Hong Kong, Macau, Taiwan, Japan, South Korea, Southeast Asia, Europe and the U.S., may also be highly competitive. Our competitors may have more diversified game portfolios, greater brand recognition, stronger relationships with third-party publishers or distributors, larger game player bases, longer operating histories or greater financial, technological or marketing resources. As a result, they may be able to respond more quickly and effectively to new or changing opportunities, technologies, regulatory requirements or game player demands than we do. As competition intensifies, we may need to devote more research and development as well as marketing resources and incur higher operating expenses. We may also have to offer more incentives to our game players and third-party game developers, publishers, studios and distributors, which could adversely affect our profitability. All of these make it difficult to evaluate our business prospects. If we fail to compete cost-effectively or at all, our market share could decline and our results of operations could be materially and adversely affected.

RISK FACTORS

We in-license games from certain third-party developers. Any loss or deterioration of our relationships with these third-party developers may materially and adversely affect our business and results of operations.

We have in-licensed games from certain third-party game developers which we have made minority equity investments in. Two of our six existing games and six of our 10 pipeline games as of the Latest Practicable Date were in-licensed from these third-party developers. Under our game licensing agreements, we have been granted exclusive licenses to publish and operate the licensed games, which has been a significant revenue source for us. See “Business—Our Business Processes—Game Developing—Game Licensing” for a summary of the terms of the game licensing agreements. We cannot assure you, however, that we will be able to maintain stable business relationships with all of the third-party game developers or that we would be able to continue licensing in games from them. For example, our competitors may offer them more favorable conditions in exchange for exclusive licenses, and the third-party developers may decide or be forced to discontinue their game development business. Additionally, any failure on our part, including failing to properly operate and monetize their games and safeguard their intellectual properties, may adversely affect our business relationship with them.

We use third parties to publish, distribute or operate certain of our games in designated markets, and any termination or deterioration of our relationships with, or under-performance of, these third parties may result in a loss of players and revenue.

We work with third-party publishers to publish, promote and operate certain of our games in designated markets. In addition, we cooperate with major game distribution channels such as iOS App Store, Google Play, TapTap, Bilibili, Huawei AppGallery, OPPO App Market, VIVO App Store, and Xiaomi App Store to distribute certain of our games. Our amicable and stable relationships with, and the competency and performance of, these third parties are crucial to our business. In particular, given that we are expanding into overseas markets, including Hong Kong, Macau, Taiwan, Japan, South Korea, Southeast Asia, Europe and the U.S., we value our relationships with local publishing, distribution or operating partners and their capabilities and resources. Our largest publisher accounted for 44.8%, 35.6%, 4.7% and 2.5% of our total revenues in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively. Our business may be materially and adversely affected if our third-party game publishers, distributors (such as the widely used app stores) or operators discontinue or limit our access to their platforms, establish more favorable relationships with one or more of our competitors, fail to effectively promote our games or otherwise fulfill their contractual obligations, experience deterioration in operations or underperformance, or fail to obtain or maintain the licenses required to publish or distribute our games.

Disputes with our game publishers, distributors or operators, such as disputes relating to game intellectual property, liability limitations, risk allocation or revenue sharing arrangements, may also arise from time to time. We cannot guarantee that we will be able to resolve these disputes amicably or at all. Besides, some publishers may also develop and publish their own games. We are therefore subject to direct competition and potential conflicts of interest with these publishers. If our collaboration with a major game publisher, distributor or operator fails or deteriorates for any reason, we may be unable to find a replacement in a timely manner or at all, and the distribution of our games may be adversely affected. Any failure to maintain a stable business relationship with a sufficient number of popular platforms could cause a decrease in downloads of our games, which would have a material adverse effect on our business and results of operations.

In addition, we have benefited from certain of our game publishing and distribution channels. If any of them experience deterioration in operations or underperformance, such as losing their market position or otherwise falling out of favor with game players, or encountering any other factors that cause their game player base to stagnate or even shrink, we may need to identify alternatives for publishing, promoting and distributing our games, which, if available at all, would consume considerable resources and could adversely affect our business.

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Any restriction on access to the Internet or major distribution channels, such as iOS App Store and Google Play, or failure to maintain relationships with the distribution channels, could lead to a loss or slow the growth of our game players.

Our game players need to access the Internet and major game distribution channels such as iOS App Store, Google Play, TapTap, Bilibili, Huawei AppGallery, OPPO App Market, VIVO App Store, and Xiaomi App Store, to download our games. Laws and regulations or government authorities may block or limit the access to the Internet generally or these platforms for reasons of security, confidentiality, data privacy or other concerns, and there is no assurance that we will be able to maintain stable relationships with these platforms. For example, Google Play has become inaccessible in China. If the distribution channels operate in a way that contravenes applicable laws and regulations or if government authorities identify potential issues raising concerns of negative social impact, these platforms may face temporary or prolonged suspension of operations, and we may be unable to continue our relationships with these channels. Any restriction on access to the Internet in general or these distribution channels or the failure to maintain relationship with these distribution channels could lead to a loss or slower the growth of our game players, and as a result, our business, results of operations and prospects may be materially and adversely affected.

Any failure or significant interruption in our technology infrastructure or any flaws in our games, including programming errors or defects in our games, undetected by us and other game developers, could harm our reputation or decrease market acceptance of our games.

We may experience technology infrastructure disruptions, outages and other large-scale performance problems due to a variety of factors, including technology infrastructure changes, human or software errors, hardware failure, capacity constraints due to an unusually large number of game players accessing our games simultaneously, computer viruses and denial of service, fraud and security attacks, whether these disruptions, outages or other problems are caused by ourselves or by third-party service providers. In addition, we may fail to timely monitor and report these disruptions. As our game players increase and our player-generated data continues to grow, we may be required to expand and adapt our technology infrastructure to support our game players and maintain reliable storing, processing and analysis of the data. It may become increasingly difficult and costly to maintain and improve the performance of our services to game players, especially during peak usage times, as game traffic increases. The disruptions, outages or other problems might make some or all of our systems or data unavailable or prevent us from efficiently providing services to our game players. If game players are unable to access our services in a timely manner, or at all, gameplay experience of our game players may be compromised, and the game players may seek games from our competitors to meet their needs and may not play our games as often in the future, or at all. This may materially and adversely affect our ability to retain or grow our game player base or maintain the level of game player engagement and/or perception of our games.

In addition, our games are subject to frequent updates, and may contain bugs or flaws that can only become apparent when the updates are accessed by a number of game players, especially when we launch updates under a tight schedule. If the programming bugs affect the gameplay experience of our game players severely, or we cannot resolve the bugs in a timely manner for any reason, we may lose some of our game players, and the reputation of our games may be harmed. Any of the above factors could may adversely affect our business and results of operations

We rely in significant part upon effective interoperation with mobile operating systems, networks and mobile devices whose standards we do not control.

We make our games available across a variety of mobile operating systems and devices. We are dependent on the interoperability of our games with popular mobile devices and mobile operating systems that we do not control, such as Android and iOS. Any changes in these mobile operating systems or devices that reduce the functionality of our games or give preferential treatment to competing games may negatively affect the gameplay experience of our game players or divert our game players to our competitors. In addition, to deliver high-quality games, it is important that our games work well across a range of mobile operating systems, networks, mobile devices and standards that we do not control. If it becomes difficult for our game players to access and play our games, our game player growth and game player engagement could be harmed. Furthermore, if the number of platforms for which we develop or adjust our games increases, which is typically seen in the dynamic and fragmented mobile internet market in China, it will result in an increase in our costs and expenses. Any of the above factors could adversely affect our business and results of operations.

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The successful operation of our business depends on the performance and reliability of the Internet infrastructure and telecommunications networks in China.

With a substantial majority of our operations (including the development and operations of our games) based in China, we rely on wireless and landline telecommunications networks in China to manage game player accounts and player-generated data, facilitate data transmission and communications, and monitor the overall operational status of our games. The national networks in China are connected to the Internet through international gateways controlled by the PRC government, which are the only channels through which a game player in China can connect to the Internet. These international gateways may not match with the continued growth in Internet traffic and game players’ evolving demand in China. We cannot assure you that the development of information infrastructure and telecommunications networks in China will be adequate to support our operations and growth, especially when our games may need to accommodate more game players as we grow our business. In addition, in the event of any infrastructure disruption or failure, we may not be able to access alternative networks and services timely, or at all, which could have a material adverse effect on our business, results of operations and prospects.

Our exploration of additional revenue sources may not be successful.

Although we anticipate that our revenues generated from the sales of in-game virtual items will continue to constitute a substantial majority of our future revenues, we are exploring additional revenue sources as well, which may not be successful. For example, we commenced our information service business in 2018. In 2018, 2019, 2020 and the three months ended March 31, 2021, we derived 0.0%, 2.0%, 6.1% and 2.1%, respectively, of our total revenues from our information services, representing our performance-based in-game marketing and promotion services to advertisers or their agents who promote their customers’ products and services in our games to players. Our ability to generate and maintain significant advertising revenue will depend on a number of factors, including:

- the development of a large player base possessing demographic characteristics attractive to advertisers;
- competition in online advertising prices in similar and alternative channels;
- ability to optimize advertising strategies in our games without significantly affecting gameplay experience; and
- relationship with advertising distribution, delivery and tracking platforms.

In addition, changes in government regulations and policies could restrict or curtail our online advertising services. The acceptance of the Internet as a medium for advertising also depends on the development of a measurement standard. No standards have been widely accepted for the measurement of the effectiveness of online advertising. Industry-wide standards may not develop sufficiently to support the Internet as an effective advertising medium. If these standards do not develop, advertisers may choose not to advertise on the Internet in general or through our media platforms.

Competition in the online advertising industry in China is intense with numerous competitors. We have undertaken various measures to grow our advertising business and cater to changes in the needs of our advertising service customers. However, we cannot assure you that any of these strategies will be successful in improving the financial results of our advertising business.

We are also exploring the possibility of commercializing our game IPs into game peripheral products to diversify our revenue sources and enhance our market recognition. Revenue from these products was immaterial during the Track Record Period.

Despite our best efforts, our diversification initiatives may not succeed and may divert our management’s attention, subject us to additional costs and liabilities or result in diversion of our resources. As a result, our business, results of operations and prospects may be materially and adversely affected.

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We may fail to expand into new genres or types of games to keep up with industry trends or increase our profitability, which could adversely affect growth prospects.

Although our existing game portfolio comprises mostly idle games (a type of casual games) or rogue-like RPGs, we are expanding to include other genres and types of games, such as parkour, SLG (including tower defense and others), ACT, STG and ACT RPG. To operate games in a new genre or type, we must either develop the games by ourselves, or identify and obtain licenses for games with high monetization potential from third-party game developers. Because new genres of games tend to require technologies we are less familiar with, our game development may encounter technical difficulties, budget overruns and delays. If and when the games are licensed in, we will also depend on these developers to provide technical support and develop updates and expansion packs to sustain players’ interest and attract new players. We may not be able to successfully establish relationships with high-quality game developers and obtain licenses to their games, and we cannot guarantee that the games will eventually become commercially successful. Expansion into new genres or types of mobile games may also present operating and marketing challenges that are different from those for our existing games. In addition, we face competition from existing players within these markets who may have more experience and resources.

Players’ violations of our game policies, such as sales and purchases of virtual items used in our games through unauthorized third parties, unauthorized character enhancements and other hacking or dishonest activities may degrade our players’ gameplay experience and adversely affect our business growth.

We have established game policies against unauthorized and inappropriate game player behavior. Under these policies, we disallow and disable sale of in-game virtual items among players, and we discourage our players’ gifting, lease, sale or transfer of game accounts to other players. However, from time to time, unauthorized transactions are arranged through third-party channels or platforms which we are not able to monitor or control. Any of these unauthorized purchase and sale could impede our revenue and profit growth by (i) creating downward pressure on the prices we charge game players for our virtual items, (ii) increasing costs we incur to develop technological measures to curtail unauthorized transactions, (iii) increasing game player service costs to comfort dissatisfied game players and (iv) increase our administrative costs related to resolving user disputes and complaints related to the virtual items and accounts. In addition, transactions through unauthorized third-party channels may involve fraud that is beyond our control, and we may face potential claims from our game players in connection with their losses resulting from third parties’ fraudulent activities. These claims, regardless of merit, may harm our reputation, divert our management’s attention and cause additional expenses in defending against these claims.

Furthermore, third parties may develop cheating systems that enable game players to exploit vulnerabilities in our games or obtain unfair advantages over other game players, such as by enabling unauthorized character enhancements and other hacking or dishonest activities. These cheating systems may harm the experience of players who play fairly and may disrupt the virtual economies of our games. In addition, unrelated third parties may attempt to scam our players with fake offers for virtual goods or other game benefits. We have taken measures to discover and prevent these practices and activities. However, if we fail to discover or prevent these cheating and scamming activities timely and effectively, our operations may be disrupted, our reputation may be damaged and our game players may quit our games. These consequences in turn may cause losses of our revenue from paying players, increase our cost of developing technological measures to combat these cheating activities, result in legal claims against us relating to the decrease in value of our virtual items, and increase our cost of game player services to comfort dissatisfied game players.

We rely on our data analysis capabilities. Any inability to access and capture accurate data may materially and adversely affect our ability to develop and implement appropriate business strategies.

We process large volumes of data related to our games. We have developed a proprietary technology program with strong data analysis capabilities that integrate and track our mobile game business operations, including payment channel management, player research and game services.

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By utilizing sophisticated algorithms, we are able to analyze player preference of a particular kind of games so that we can adjust our game development and operation strategies accordingly. For example, while purchasing user traffic by means of advertisement placements, we are able to identify and focus on the particular groups of viewers who tend to be more interested in our game at issue. This allows us to maximize our cost efficiency and enhance the attractiveness of our games, design virtual items that are desirable to mobile users in China and other locations where we operate, and properly deploy and price the virtual items to enhance our monetization. Moreover, our servers and the SDK modules embedded in our mobile game applications jointly support various functions within our games, including analysis of player and game data, central management of player accounts, account security, payment gateway connectivity, player communication and cross-promotion functions.

Any systems failure or compromise of our ability to process and analyze large volumes of player data could significantly limit our ability to optimize player experience of our games and develop appropriate business strategies, which may materially and adversely affect our business prospects and results of operations.

We rely on assumptions and estimates to calculate certain operating metrics, and inaccuracies in such metrics may harm our reputation and adversely affect our business.

Certain operating metrics, such as MAU, MPU, ARPPU, cumulative registered users, number of followers on social media platforms and other player community related metrics, in this document are calculated using our internal data that have not been independently verified by third parties. While these numbers are based on what we believe to be reasonable calculations for the applicable periods of measurement, there are inherent challenges in measuring usage and user engagement across our large user base. In addition, our operating metrics are derived and calculated based on different assumptions and estimates, and you should be cautious of such assumptions and estimates when assessing our operating performance.

We cannot assure you about the indicative value of our operating metrics. They are derived and calculated based on various assumptions and estimates, which may differ from estimates published by third parties or from similarly titled metrics used by our competitors due to differences in data availability, sources and methodology. Any material inaccurate data analytics may lead to inappropriate operational and strategic decisions. If third parties do not perceive our user metrics to be accurate representations of our user base or user engagement, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and third parties may be less willing to allocate their resources or spending to us, which could adversely affect our business and operating results.

Our global expansion, including distribution of our games to the overseas markets, could subject us to additional business, political, regulatory, operational, financial and economic risks, any of which could increase our costs and hinder such growth.

While a substantial majority of our operations are in China, we have been expanding into overseas markets. Expanding our business overseas exposes us to a number of risks, including:

- our ability to localize games and adapt them to local preferences without compromising their content;
- our ability to protect our intellectual property rights overseas and manage the related costs;
- our ability to prudently implement our business strategies and manage the expansion;
- our ability to effectively control our costs associated with doing and expanding business in foreign jurisdictions; and
- difficulty in identifying appropriate partners, such as distribution and publishing partners, and establishing and maintaining good cooperation relationships with them.

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These and other risks associated with international activities could also significantly affect our financial condition and operating results. We cannot assure you that our employees, contractors, or agents will not violate our policies or the laws and regulations in jurisdictions where we operate or our games are distributed. Any these violations could materially and adversely affect our financial condition or operating results.

Changes in international trade policies and barriers to trade or the emergence of a trade war may have an adverse effect on our business and expansion plans.

In recent years, international market conditions and the international regulatory environment have been increasingly affected by competition among countries and geopolitical frictions. Changes in international trade policies, barriers to trade or the emergence of a trade war could adversely affect the financial and economic conditions in China and other jurisdictions in which we operate, as well as our international and cross-border operations, our financial condition and results of operations.

A trade war has persisted between the United States and the PRC. The government of the United States has sought to blacklist certain PRC technology companies, which would make it difficult for those companies to conduct business with enterprises in the United States. Among the blacklisted PRC technology companies, some are PRC mobile phone manufacturers which utilize major game distribution channels such as Google Play. To comply with the government directives of the United States, some of the U.S. distribution channels have suspended certain software and technical services to relevant PRC mobile phone manufacturers, which would prevent the users of those mobile phones from accessing those distribution channels. If the trade war continues to intensify, further restriction of access to the distribution channels on those PRC mobile phone manufacturers may result in a loss or slower the growth of our game players; accordingly our business and expansion plans could be adversely affected.

Unsanctioned use of our services in specific jurisdictions may give rise to regulatory risks

Internet-based business is generally not bounded, which means game players from all over the world can access our games and we do not restrict access from any specific jurisdiction unless the local regulators so require. Generally, a game player in mainland China is required to provide proof of identity such as an identification number when applying for a player account, or represent that he/she is not barred from receiving our services under PRC laws and local regulations. Depending on the distribution channel through which the player acquires the game, either the third-party distribution channel or we ourselves will perform identity checks. To date, we are not aware of any regulatory regime, nor have we received any notice from any local regulators or major distribution channels, which requires us to restrict access to, or take down, our games in any specific jurisdiction. Although we do not believe that the mere fact that our games are accessible in a particular jurisdiction necessarily subjects us to the local laws and regulations, we cannot assure you that the local regulators share the same understanding. As a result, if the local regulators in any specific jurisdiction place access restrictions to our games, any unsanctioned use of our services by local players may subject us to regulatory risk, including monetary penalties or injunctions, which may adversely affect our business operations. For example, we have implemented measures to prevent the game players from using fake identity for our games in China, including by matching the ID number with the documented legal name of the purported player. However, we do not perform identity checks in overseas markets that are served by third-party publishers we engage. We cannot assure you that all game players have provided genuine identification information or that we will not be subject to fines or legal or administrative proceedings.

In addition, the United States and other jurisdictions or organizations, including the European Union and the United Nations, have, through executive orders, passing of legislation or other governmental means, implemented measures that impose economic sanctions against certain countries or jurisdictions, or against targeted industry sectors, groups of companies or persons, and/or organizations within these countries or jurisdictions. Currently, we do not and also do not plan to operate in jurisdictions that are subject to comprehensive international sanctions, and we do not have third-party game publishers in comprehensively sanctioned jurisdictions. However, it is possible that our games could be accessed in such comprehensively sanctioned jurisdictions or by sanctioned persons. We cannot predict the interpretation or implementation of

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government policies in the United States at the federal, state or local levels or any policy of the European Union, the United Nations and other applicable jurisdictions with respect to any current or future activities by us, our affiliates or third-party publishers in countries subject to international sanctions and with sanctioned persons. As a result, we cannot assure you that our future business will be free of risk under sanctions implemented in these jurisdictions or that we will conform our business to the expectations and requirements of the authorities of the U.S. or any other government or organization that, with or without jurisdiction over our business, assert the right to impose sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the authorities of the United States, the European Union, the United Nations or any other governmental entity were to determine that any of our activities constitutes a violation of the sanctions they impose or provide a basis for a sanctions designation of us. In addition, as many sanction programs are constantly evolving, new requirements or restrictions could come into effect, which might increase scrutiny of our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable.

Any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies, including privacy concerns relating to unauthorized use of game player information by us or third parties, could damage our reputation, adversely affect our game player base or engagement, or subject us to governmental regulation and other legal obligations.

We collect, store, transmit and process a large volume of personally identifiable information and other player-generated data, and almost all of our player-generated-content is stored on servers maintained by third parties. Therefore, we face risks inherent in handling and transferring a large volume of data and in protecting the security of these data. We may be exposed to risks of security breaches or unauthorized access to or cyber-attacks on our systems or the data we store, software bugs, system errors or other technical deficiencies, mistakes or malfeasance of our employees or contractors, vulnerabilities of our vendors and service providers, or other cybersecurity-related vulnerabilities. We have adopted rigorous measures to reduce the cross-border transfer of player data, established stringent guidelines and deployed corresponding software to protect the security of, and against unauthorized access to, our systems, as well as the security of personal data and proprietary information. However, it is possible that our security controls and other security practices may not prevent the improper access to or disclosure of personal data or proprietary information. For example, a party who is able to circumvent these security measures could misappropriate proprietary information or cause interruptions in our operations, and our information systems may become unavailable or fail to perform as anticipated for other various reasons, including viruses, loss of power or human error. Any system failure or security breach that results in the release of, or unauthorized access to, personal data, could result in loss or misuse of these data, impairment of our technological infrastructure, interruptions to the services we provide, diminished players’ gameplay experience, loss of player confidence and trust in our products, harm to our reputation, significant legal and financial exposure and potential lawsuits brought by private individuals or enforcement actions by regulators, increased costs and loss of revenue. Consequently, we may be required to expend significant capital and other resources to prevent these security breaches or to alleviate problems caused by these breaches. The perception that we cannot adequately protect our players’ privacy may also cause us to lose our current players or deter potential players from playing our mobile games that require the collection of player data.

Additionally, since we conduct our business primarily on mobile devices, our business operation may be harmed by players’ concerns over playing games on their mobile devices. For instance, malware has been disguised as popular mobile games on Android devices. Some malware will subscribe to paid services without player consent, resulting in fraudulent charges to players. We cannot assure you that our security measures will prevent security breaches or that players’ interest in playing mobile games would continue if we experienced problems with malware. Failure to prevent security breaches or players’ concerns over mobile device malware may have a material adverse effect on our business, prospects, financial condition and results of operations.

We are subject to laws and regulations of China and other countries and regions relating to the collection, use, retention, disclosure and transfer of personally identifiable information and player-generated data. The intent of these laws and regulations is to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. Given that we are expanding the distribution of our games to overseas markets, including Hong Kong, Macau, Taiwan, Southeast Asia, Japan, South Korea, Europe and the

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U.S., we are or will be subject to corresponding legislation and regulation in these jurisdictions. Data protection laws and regulations or privacy policies in China and in these overseas markets continue to develop and may vary from jurisdiction to jurisdiction and we need to comply with emerging and changing international requirements. For example, the Cyber Security Law of the PRC (中華人民共和國網絡安全法), which came into effect on June 1, 2017, requires certain authorization or consent from internet users prior to collection, use or disclosure of their personal data as well as protection of the security of the personal data of such users. The Regulation on Cyber Protection of Children’s Personal Information (兒童個人信息網絡保護規定) issued by the Cyberspace Administration of China (中華人民共和國國家互聯網信息辦公室) (the “CAC”), which took effect on October 1, 2019, requires that internet operators who collect, store, use, transfer and disclose personal information of children under the age of 14 must establish special rules and user agreements for the protection of children’s personal information, inform the children’s guardians in a noticeable and clear manner and obtain the consent of the children’s guardians. Furthermore, the Data Security Law of the People’s Republic of China (中華人民共和國數據安全法), which was promulgated by the Standing Committee of the National People’s Congress on June 10, 2021 and will take effect on September 1, 2021, requires that data collection must be conducted in a legitimate and proper manner and for the purpose of data protection, data processing activities must be conducted on the basis of the graded protection system for cybersecurity. Our games published in the United States make us subject to the Children’s Online Privacy Protection Act, or COPPA, which regulates the collection of information online from children under the age of 13, and the Federal Trade Commission Act, which prohibits unfair or deceptive actions both online and offline and has been applied to data security and online privacy regulation. In addition, the California Consumer Privacy Act that became effective on January 1, 2020, or the CCPA, creates new data privacy rights for users and new operational requirements for businesses. The CCPA gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing (and sales of personal data) and receive detailed information about how their personal information is used. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation.

In addition, as we have players based in Europe and we plan to also distribute our games to Europe in the future, the European General Data Protection Regulation, or GDPR, which took effect in May 2018, may also apply to us. The GDPR imposes stringent obligations and operational requirements on companies that receive or process personal data of residents of the European Union (the “EU”), including, for example, requiring expanded disclosures to data subjects about how their personal data is to be used, limitations on retention of information, mandatory data breach notification requirements, and higher standards for data controllers to demonstrate that they have obtained either valid consent or have another legal basis in place to justify their data processing activities. The GDPR also places restrictions on transfers of personal data outside of the European Economic Area to countries which have not been deemed “adequate” by the European Commission (including the United States and the PRC, among others). Moreover, the GDPR enhances the rights of data subjects, who may, for example, request access to their personal data, the deletion and amendment of their personal data, or to have their personal data transferred to another service provider. The GDPR has resulted, and will continue to result, in significantly greater compliance burdens and costs for companies with users or operations in the EU. Under the GDPR, data protection supervisory authorities are given various enforcement powers, including levying fines of up to 20 million Euros or up to 4% of an organization’s annual worldwide turnover, whichever is greater, for the preceding financial year, for non-compliance. Data subjects also have the right to be compensated for damages suffered as a result of a controller or processor’s non-compliance with the GDPR. While the GDPR provides a more harmonized approach to data protection regulation across the EU member states, it also gives EU member states certain areas of discretion and therefore laws and regulations in relation to certain data processing activities may differ for each member state, which could further limit our ability to use and share personal data and could require localized changes to our game operations.

Furthermore, we may need to comply with regulations in other territories that may impose further onerous compliance requirements, such as data localization, which prohibits companies from storing data relating to resident individuals in data centers outside the jurisdiction. The proliferation of these laws within jurisdictions and countries in which we operate may result in conflicting and contradictory requirements. To ensure our compliance with all these requirements, we may need to put in place additional mechanisms and incur substantial costs. Any failure or perceived failure by us to comply with or to accurately anticipate the application, interpretation or legislative expansion of any privacy policies or regulatory requirements could result in

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proceedings or actions against us by government authorities or others. These proceedings or actions may subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and severely disrupt our business.

We may not be successful in enhancing our brand recognition, and any negative publicity, regardless of veracity, may harm our brand and the games we publish.

We have built our brand in the mobile game industry, which is critical to our business operations and continuous efforts to increase our game players and enhance our recognition among our business partners. Our business and financial performance is highly dependent on the strength and the market perception of our brand and the games we publish.

Additionally, any negative publicity, regardless of their veracity, involving us, our management, employees, games, game players, business partners or our industry may harm our brand and hence the games we publish. In particular, given the nature of the mobile game industry, we are more exposed and susceptible to negative publicity. We may not be able to defuse any negative publicity about us, our employees or our games to the satisfaction of our game players and business partners. Negative publicity about our brand may also require us to engage in defensive media campaigns and legal actions, which may increase our marketing or legal expenses and divert our management’s attention and may materially and adversely affect our brand image, our business, financial condition and results of operations.

We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.

We regard our proprietary domain names, copyrights, trademarks, trade secrets and other IP rights to be critical to our business operation. We rely on a combination of copyright, trademark and trade secret laws, as well as confidentiality and licensing agreements and other methods to protect our intellectual property rights. However, the protection of intellectual property rights in China may not be as effective as those in the United States or other countries. Some players may illegally modify our games so that they can obtain our in-game virtual items for free. Reverse engineering, unauthorized copying or other misappropriation of our technologies, or unauthorized access of our games could enable third parties to benefit from our technologies or games without compensating us. Moreover, unauthorized use of our technology could enable our competitors to offer products and services that are comparable to or better than ours, which could harm our business and competitive position. Monitoring unauthorized use of intellectual property is difficult and costly, and the steps we or our business partners have taken may not fully prevent the infringement or misappropriation of our intellectual property rights or unauthorized use of our brand or games. From time to time, we may have to enforce our intellectual property rights and brand through litigation, which may result in substantial costs and diversion of resources and management attention.

We may be subject to claims by third parties for intellectual property rights infringements, which could cause us to incur significant legal expenses and prevent us from promoting our products and services.

Due to the nature of our business as a game developer, we are subject to legal proceedings and claims relating to the intellectual property rights from time to time in the ordinary course of our business. There are inherent uncertainties associated with legal proceedings. If the court rules against us, we may be obliged to cease operation of certain of our games, which may in turn have a material adverse effect on our financial condition and results of operations.

Any these proceedings or actions or claims, with or without merit, could be costly and distract our management from day-to-day operations. If we fail to successfully defend against these claims or do not prevail in such proceedings, we may be prohibited from using the relevant intellectual property rights, subject to fines and penalties, or be required to modify, optimize or cease operating the games, or satisfy indemnification obligations that we have with some of our game players, or enter into royalty or licensing arrangements with licensing fees or be forced to develop alternatives. Any royalty or licensing arrangements that we seek in these

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circumstances may not be available to us on commercially reasonable terms or at all. Moreover, we may incur substantial legal expenses in defending against these third-party infringement claims, regardless of their merits. Our exposure to infringement actions may increase when we rely on third-party intellectual property providers as our only source of verifying the origin and ownership of the intellectual property. This exposure to liability could result in disruptions in our business that could materially and adversely affect our results of operations.

In addition, some of our employees were previously employed by other companies, including our current and potential competitors. We also intend to hire additional personnel to enrich our talent pool. If these employees are involved in our research and development of technologies similar to work products at their former employers, we may become subject to claims that these employees or we have appropriated proprietary information or intellectual property of these employees’ former employers. If we fail to successfully defend such claims against us, we may be exposed to liabilities which could have a material adverse effect on our business and reputation.

For further details regarding risks relating to legal proceedings, see “—Risks Relating to Our Business and Industry—We may become a party to legal or administrative proceedings or regulatory inquiries, which could result in an unfavorable outcome and have an adverse effect on our business, financial condition, results of operations and cash flows.”

We may be held liable for inappropriate online communications or content made by our players.

Our game players are encouraged to communicate with each other through our in-game platforms. While most game players share their gameplay experience or information about promotional activities on these platforms, some may engage in illegal, obscene or incendiary conversations that may result in a negative impact among other players. Although we screen certain words according to lists maintained by ourselves or provided by the relevant government authorities, we cannot assure you that all the sensitive information contained in our game players’ conversations can be identified. This information or content may be deemed unlawful under applicable laws and regulations, and government authorities may require us to discontinue or restrict certain features, services or games that would have led, or may lead, to these events or terminate contracts with responsible service providers. We may incur significant costs in investigating and defending ourselves for claims or penalties caused by the improperly-disseminated information, and our business, financial condition, results of operation and prospects may be materially and adversely affected.

We may become a party to legal or administrative proceedings or regulatory inquiries, which could result in an unfavorable outcome and have an adverse effect on our business, financial condition, results of operations and cash flows.

We may be subject to various legal and administrative proceedings, regulatory inquiries and claims that arise in the ordinary course of our business. Agreements entered into by us sometimes include indemnification provisions which may subject us to costs and damages in the event of a claim against an indemnified third party. In particular, we may be subject to various intellectual property claims, including patent, copyright and trademark disputes, relating to intellectual property used in our games. We cannot assure you that we will not be involved in any such legal or administrative proceedings in the future and we may face increasing regulatory inquiries during the growth of our business. If one or more legal or administrative matters, including ongoing ones, are resolved against us, or an indemnified third party seeks certain amounts in excess of our management’s expectations, or certain injunctions are granted to prevent us from operating our games, our business and financial condition could be materially and adversely affected. As a result, we could be subject to significant compensatory or punitive monetary damages, disgorgement of revenue or profits, remedial corporate measures, cessation of business operation, injunctive relief or specific performance against us that could materially and adversely affect our financial condition and operating results.

Our failure to comply with laws and regulations as they change from time to time could materially and adversely affect our business, financial condition and results of operations.

Our business operations are subject to a variety of laws and regulations in China and other jurisdictions, affecting various aspects of our operations, including ownership structure, requisite licenses, marketing strategy,

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game stories, customer relationships and intellectual property. Local laws or regulations in overseas markets where we distribute our games may also be applicable to us. See “Regulatory Overview” for more information on relevant laws and regulations. In the event that we fail to comply with these laws and regulations and material fines and/or proceedings are made against us by regulatory authorities and/or affected parties, our business, financial condition and results of operations may be materially and adversely affected.

The promulgation of new laws and regulations that restrict or otherwise unfavorably affect the ability or manner in which we operate would require us to adopt certain changes to ensure compliance, and could reduce demand for our services, reduce our revenue, increase our costs, adversely affect our profitability and/or subject us to additional liabilities. For example, in May 2019, the general office of MOCT released the Notice on Adjusting the Scope of Examination and Approval regarding the Internet Culture Operation License to Further Regulate the Approval Work (關於調整《網絡文化經營許可證》審批範圍進一步規範審批工作的通知), which specifies that the MOCT no longer assumes the responsibility for the administration of the online game industry and no longer approves or issues the Internet Culture Operation Licenses within the business scope of “operating online games via the internet,” “operating online games via the internet (including the issuance of virtual currencies used for online games)” or “conducting trade of virtual currencies used for online games via the internet.” On July 10, 2019, the MOCT issued the Decision on the Abolition of the Interim Measures for the Administration of Online Games and the Administrative Measures for Tourism Development Plan (關於廢止《網絡游戲管理暫行辦法》和《旅游發展規劃管理辦法》的決定) (the “Abolition Decision”), which specifies that the Online Game Measures were abolished by the MOCT on July 10, 2019. However, it is still unclear as to whether the supervision responsibility of the MOCT will be transferred to another governmental department or, if so, whether such governmental department will raise similar or new supervision requirements for the operation of online games. Therefore, considerable uncertainties exist regarding the interpretation and implementation of existing and future laws and regulations governing our business activities.

Our failure to obtain, renew or retain requisite licenses, permits or approvals may adversely affect our ability to conduct our business.

Our mobile game operation and our sale of peripheral products require us obtain and maintain applicable licenses and approvals such as the ICP License, and Internet Culture Operation License to support our lawful operation. These licenses, permits or approvals are subject to regular government review or renewal. Although we did not have incidents of material non-compliance with respect to the licenses during the Track Record Period, we cannot assure you that we can successfully obtain, update or renew all the required licenses, permits and approvals in a timely manner, which may subject us to various penalties such as imposition of fines, discontinuation or restriction of our operations, and confiscation of illegally obtained revenue. In addition, we cannot assure you that our third-party publishers or distributors have obtained and will timely renew required licenses, permits or approvals for publishing or operating our games. Any penalties arising from violations of applicable laws may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

The Internet Culture Operation License held by QC Cultural expired in March 2021 and the Internet Culture Operation License held by QC Digital will expire in August 2021. Since (i) the MOCT has ceased to assume the responsibility for the administration of the online game industry and no longer approves or issues the Internet Culture Operation Licenses regarding online games since May 2019 and (ii) as of the Latest Practicable Date, no laws, regulations or official guidelines have been promulgated to specify which governmental authority would undertake such supervision responsibility, whether and how our Internet Culture Operation Licenses can be renewed are subject to new laws and regulations and supervision requirements by new PRC regulatory authorities in the future. Therefore, our PRC Legal Advisor consulted with Fujian Provincial Department of Culture and Tourism (福建省文化和旅游廳) in June 2021, which provided oral confirmation that it is not necessary for an enterprise to obtain Internet Culture Operating Licenses to operate online game operation business. We will closely monitor the latest regulatory developments and make every effort to comply with any new regulations and policies.

Furthermore, we and our third-party publishers or distributors might be required to seek additional licenses, authorizations or approvals from relevant regulators, the granting of which may be dependent on us meeting

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certain capital and other requirements and our games may be subject to additional regulation and oversight, such as reporting to regulators, all of which could significantly increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the jurisdictions in which we operate regarding these activities may lessen the growth of online game services and impair our business.

We rely on third-party online payment channels for payment collection. Any interruption of their services or unintended leakage of confidential information may materially and adversely affect our reputation and business.

We rely on major third-party payment channels, such as Alipay and WeChat Pay, to facilitate and collect game players’ payment for in-game virtual items. We are subject to various risks and uncertainties associated with these third-party online payment channels. Any interruption in their payment services could adversely affect our payment collection, and in turn, our revenue.

In all online payment transactions through third-party payment channels, secured transmission of players’ confidential information, including credit card and bank account numbers, personal information and billing addresses, over public networks, is essential for maintaining player confidence. We do not have control over the security measures of the third-party payment channels, and their security measures may not be adequate at present or may not be adequate with the expected increased usage of online payment systems. We could be exposed to litigation and potential liabilities if we fail to safeguard players’ confidential information, which could harm our reputation and our ability to attract or retain players and may have a material adverse effect on our business.

Furthermore, our payment channels are subject to various laws and regulations regulating electronic funds transfers and virtual currencies, which could change or be reinterpreted in a way that will adversely affect their compliance. If our payment channels experience any non-compliance incidents, they may be subject to fines and higher transaction fees and even lose their ability to accept online payments from our players, which in turn would materially and adversely affect our ability to monetize our game player base.

We are subject to credit risk associated with our trade receivables. Any payment delays or defaults from the third-party game publishers, distribution channels and advertising customers may materially and adversely affect our cash flow and results of operations.

We receive sales proceeds collected from our game players by third-party game publishers and distribution channels through third-party payment channels, and we also have amounts due from advertising customers. We generally offer credit terms ranging from 30 to 60 days to the game publishers, distribution channels and advertising customers, and our cash flow may be materially and adversely affected by any deterioration in their credit quality. We assess the credit quality of the third-party game publishers, distribution channels and payment channels based on their track record and other factors. We also monitor our outstanding trade receivables regularly. However, we cannot guarantee collection of amounts due in a timely manner. If our business partners delay or default on their payments, for reasons including non-payment or requests for refund by game players, deterioration or termination of our relationship with these business partners or a general decrease in their business, we may not be able to fully recover the outstanding amounts due from them and we may have to make provision for impairment, write off the relevant receivables and/or incur legal costs to enforce our rights. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our trade receivables amounted to RMB13.9 million, RMB10.2 million, RMB121.5 million and RMB165.3 million, respectively. We made allowance for impairment of trade receivables of RMB656 thousand, RMB717 thousand, RMB232 thousand and RMB287 thousand as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. See “Financial Information—Discussion of Selected Items from Our Combined Statements of Financial Position—Trade Receivables” for an aging analysis of our trade receivables. Our business, financial condition and results of operations may be materially and adversely affected if significant trade receivables are not settled on time, or at all.

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Our rapid growth during the Track Record Period may not be indicative of our future growth, and our limited operating history makes it difficult to evaluate our growth prospects and future financial results.

We started our game development, publishing and operation business in 2012. We further expand our footprint to the overseas markets beginning from 2016 by publishing games offshore ourselves and cooperating with third-party publishers. Our revenue generated from mainland China amounted to RMB67.0 million, RMB62.7 million, RMB1,178.9 million and RMB468.8 million in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively, while our revenue generated from outside mainland China amounted to RMB31.4 million, RMB26.0 million, RMB48.0 million and RMB11.8 million in the same respective periods.

Our history of operations and track record growth, particularly in the overseas markets, is limited. Therefore, our historical growth should not be considered indicative of our future performance as the revenue contribution from our games may not be sustainable. As of the Latest Practicable Date, a majority of the mobile games in operation were idle games (a type of casual games) or rogue-like RPGs. However, we cannot guarantee that these genres and types of games will remain popular among players or that we will be able to continuously identify engaging materials as the underlying stories for our games.

Also, we face various risks and uncertainties as a mobile-centric game developer and publisher. For example, we may not be able to continuously identify, develop, license and upgrade games that are suitable for rapidly evolving mobile devices and platforms in a timely and cost-effectively manner, or at all. In addition, each mobile device manufacturer or mobile platform provider may establish unique technological requirements or restrictive terms and conditions on their devices or platforms for game developers. We may fail to keep pace with the evolving mobile devices and platforms, especially immediately after these new devices and platforms are launched or upgraded. We may also need to allocate significant resources to create, support and maintain our games for them to function as intended on new mobile devices and platforms.

We may need additional capital and may fail to raise capital in a timely manner or on commercially acceptable terms, or at all.

To grow our business and remain competitive, we may require additional capital. Our ability to obtain additional capital is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for capital raising activities by companies offering internet and mobile products and services; and
- economic, political and other conditions in China and internationally.

We may be unable to obtain additional capital in a timely manner or on acceptable terms or at all. In addition, our future capital needs and other business reasons could require us to sell additional equity or debt securities or obtain a credit facility or other sources of fund. The sale of additional equity or equity-linked securities could result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our shareholders.

We rely on our senior management and certain other key employees for our success. If we are unable to retain or motivate them or hire additional qualified personnel, we may be unable to grow effectively.

We have and will continue relying on the continued efforts of our senior management team and other key employees for our success. In particular, we rely on the expertise and experience of core members of our senior management team, particularly Mr. Yang Xu (our Chairman and Chief Executive Officer), who have formulated our strategies and been instrumental to our success. The loss of any of our senior management members or our

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other key employees could impair our ability to operate and impede the execution of our business strategy. We may not be able to replace these persons within a reasonable period of time or with another person of equivalent expertise and experience, in which case our business may be severely disrupted and our results of operations may be impaired.

In addition, our continued success will also depend on our ability to attract and retain qualified and experienced management and technical personnel to manage our existing operations and future growth. Qualified talent is scarce and in high demand and, as a result, competition for talent is intense. If any of our executive officers or key employees join a competitor or form a competing company, we may lose know-how, trade secrets, business partners and key professionals and staff. Furthermore, we may need to offer higher compensation and other benefits to attract and retain key personnel in the future, which could increase our compensation expenses. We may not be able to recruit or retain sufficient talent to support the growth of our business.

We have limited insurance coverage, which could expose us to significant costs and business disruption.

We maintain various insurance policies to safeguard against risks and unexpected events. However, as the insurance industry in China is still in an early stage of development, insurance companies in China currently offer limited business-related insurance products. We do not maintain business interruption insurance, key-man life insurance, or insurance policies covering our network infrastructure or information technology systems. Any disruption in our network infrastructure or business operations, litigation or natural disaster may result in our incurring substantial costs and the diversion of our resources. Our insurance coverage may not be sufficient to compensate us for any loss and there is no certainty that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

We may enter into strategic acquisitions, licensing arrangements and partnerships or make strategic investments, which may not be successful and may have a material adverse effect on our business.

Although we did not have specific plans as of the Latest Practicable Date, we may in the future acquire or invest in other game developers, content providers or publishers that can enhance our game-related sourcing, development and operational capabilities. These acquisitions and investments may require us to develop expertise in new areas, manage new business relationships and attract new types of game players. We may also experience difficulties integrating any these investments, acquisitions or partnerships into our existing business and operations, which may require significant attention from our management and result in a diversion of resources from our existing business. Besides, acquired or invested assets or businesses may not generate financial results as expected and could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business.

Our Controlling Shareholders have substantial influence over us, and their interests may not be aligned with the interests of our other Shareholders.

Our Controlling Shareholders have substantial influence over our business, including matters relating to our management, policies and decisions regarding mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of Directors and other significant corporate actions. Immediately following the completion of the [REDACTED] and assuming the [REDACTED] is not exercised, our Controlling Shareholders will hold [REDACTED] of the issued share capital of our Company. Therefore, Mr. Yang, Yang Family Holding Limited and Keiskei Holding Ltd. will cease to be our Controlling Shareholders after the [REDACTED]. However, Mr. Yang, through Keiskei Holding Ltd., will remain as our single largest shareholder. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These events may occur even if they are opposed

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other Shareholders. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

Our business, financial condition and results of operations may be materially and adversely affected by epidemics, natural disasters, acts of war or terrorism or any other catastrophes.

Areas or regions where we operate may be exposed to the outbreak of epidemics, including the COVID-19, swine influenza, avian influenza, middle east respiratory syndrome (MERS-CoV) and severe acute respiratory syndrome (SARS-CoV). These epidemic outbreaks may affect us in various ways, including limiting the availability of resources essential for our business’s development. Besides, government authorities may adopt certain hygienic measures, including quarantines or closures of our offices, travel and transportation restrictions, and import and export restrictions. Any of the above circumstances may materially slow down regional or national economic development and may have a material adverse effect on our business operations. In addition, peoples’ willingness of and demand for entertainment consumption may be affected during epidemics and by the corresponding containment measures and potential economic slowdowns.

Since December 2019, the COVID-19 has become widespread in China and around the world. In March 2020, the World Health Organization declared the spread of COVID-19 a pandemic after characterizing it as a public health emergency of international concern in January 2020. Since the beginning of 2020, China has taken various restrictive measures to contain the spread of COVID-19, such as quarantines, travel restrictions and home office policies. These measures delayed resumption of business operations in the first quarter of 2020. After the Chinese New Year vacation, some of our employees had to work remotely. Besides, COVID-19 is spreading throughout the world and has adversely affected overall economic development. Though the COVID-19 pandemic has generally been under control in a large part of China, there has been resurgence of the pandemic from time to time. Because the situation of COVID-19 is very fluid, we cannot predict whether or when the spread of COVID-19 may resurge in various parts of China or the world. Despite that China and many other countries are administering vaccines for their residents, it remains unclear whether and when the vaccines can effectively contain the spread of the pandemic over the world. Our business, results of operations, financial conditions and prospects may be materially and adversely affected if another wave of the COVID-19 pandemic or epidemic of another disease occur.

Similarly, natural disasters, acts of war, terrorist activity, threats of war or terrorist activity, social unrest and the corresponding heightened travel security measures instituted in response, as well as geopolitical uncertainty and international conflict and tension, may affect regional and national economic development in areas where we operate. As a result, our business, financial condition and results of operations may be materially and adversely affected.

In addition, we may not be adequately prepared in terms of contingency planning or have recovery measures in place to deal with a major incident or crisis. As a result, our operational continuity and our reputation may be materially and adversely affected.

Certain of our subsidiaries have not made all necessary contributions to the social insurance and housing provident fund, which could subject us to penalties, including fines and court enforcement.

In accordance with the relevant laws and regulations on social security, employers in the PRC are required to make contributions to various social insurance (including medical, pension, unemployment, work-related injury and maternity insurance) and housing provident fund for their employees. We have in the past failed to make adequate social insurance and housing provident fund contributions for our employees. We have made provisions for potential liabilities related to this situation in our financial statements during the Track Record Period. Our PRC Legal Advisor has advised us that, pursuant to relevant PRC laws and regulations, we may be required to pay all outstanding social insurance contributions within a prescribed period, with late fees at a daily rate of 0.05% of the outstanding amount, accruing from the date when the social insurance contributions were

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due. If this payment is not made within the stipulated period, the competent authority may further impose a fine of one to three times of the overdue amount on us. In addition, pursuant to relevant PRC laws and regulations, in case of a failure to pay the full amount of housing provident fund, the housing provident fund management center may require us to pay the outstanding amount within a prescribed period. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. If these enforcement actions were taken by relevant authorities, our financial position and results of operation could be materially and adversely affected.

We may acquire or invest in complementary businesses, including third-party game developers from whom we licensed certain games and other upstream or downstream industry players, and we may not be able to realize our anticipated returns on these investments.

As part of our business strategy, we intend to see out high-quality companies for acquisition or investments, including third-party game developers and other upstream or downstream industry players. We believe that strategic investments and acquisitions can help us to more effectively consolidate our market position, respond to industry trends, and achieve our goals for growth. However, these acquisitions and investments involve uncertainties and risks, including:

- accurately evaluating potential acquisition targets and identifying acquisition targets with operations complementary to our existing operations;
- potential competition and conflicts of interest resulting from the investments and acquisitions that we make directly and those that we make indirectly through strategic partners;
- potential ongoing financial obligations and unforeseen or hidden liabilities;
- retaining key employees and maintaining key business relationships with partners of the businesses we acquire;
- failure to achieve intended objectives, benefits or revenue enhancement;
- costs and difficulties of integrating acquired businesses and managing a larger business;
- the need to integrate an acquired company’s accounting, management information, human resources and other administrative systems to permit effective management and timely reporting;
- the possibility that, before the acquisition or investment, we will not discover important facts during due diligence that could have a material adverse impact on the value of the businesses we acquire or invest in;
- significant accounting charges resulting from the completion and integration of a sizeable acquisition and increased capital expenditures;
- the possibility that a change of control of a company we acquire triggers a termination of contractual or intellectual property rights important to the operation of its business; and
- diversion of resources and management attention.

Our failure to address these risks successfully may have a material adverse effect on our financial condition, results of operations, cost structure and risk profile. In addition, any such acquisition or investment may require a significant amount of capital investment, which would reduce the amount of cash available for working capital or capital expenditures. Furthermore, if we use our equity securities to pay for acquisitions, we may dilute the value of our Shares. Our Shareholders may not have the opportunity to review, vote on or evaluate future acquisitions or investments. If we borrow funds to finance acquisitions, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends.

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Fluctuation of the operational results of the associates we invested in may adversely affect our financial position.

We have strategically invested in and collaborated with a number of mobile game developers and other industry players with significant growth potential or potential to create synergies with our business. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our investments accounted for using the equity method were RMB5.5 million, RMB12.1 million, RMB11.7 million and RMB15.0 million, respectively. Under the equity method, the performance of our invested companies will affect our statements of comprehensive income. We recorded share of losses of investments accounted for using equity method of RMB154 thousand and RMB404 thousand in 2019 and 2020, respectively. We recorded share of profits of investments accounted for using equity method of RMB145 thousand and RMB2.8 million in 2018 and the three months ended March 31, 2021, respectively. Even if profits or losses were reported under the equity method for our investments in associates, no cash inflow may be recognized from these investments until the associates declare dividends. In addition, investments in associates are not as liquid as other investment products and could be subject to impairment. For example, we recorded impairment of RMB2.0 million in 2019 for an associate company that was wound up. As a result of these factors, our results of operations could be negatively affected by the underperformance of our associate companies that we invested in.

Our financial assets/(liabilities) at fair value through profit or loss are subject to uncertainties in accounting estimates. Fluctuations in the changes in fair value of these assets and liabilities would affect our financial results.

We have invested in, and intend to continue to selectively invest in, businesses, assets and technologies that complement our existing business and may make other financial investments. We recorded financial assets at fair value through profit or loss of RMB16.2 million, RMB32.5 million, RMB79.1 million and RMB119.7 million as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively, and we recorded financial liabilities at fair value through profit or loss of RMB1.6 million as of March 31, 2021. These financial assets/(liabilities) included (i) equity investments in unlisted companies and in private equity funds as limited partners without significant influence, and (ii) investments in derivative instruments, and (iii) investments in funds that invest primarily in publicly-traded companies. See Notes 8, 18 and 23 to the Accountant’s Report in Appendix I to this document for further details. The fair value changes in our financial assets/(liabilities) measured at fair value through profit or loss may negatively affect our financial performance. We recorded fair value gains on financial assets/(liability) measured at fair value through profit or loss of RMB143 thousand, RMB535 thousand and RMB594 thousand in 2018, 2019 and 2020, respectively, and fair value losses on financial assets/(liability) of RMB1.0 million in the three months ended March 31, 2021, representing changes in the fair value of our abovementioned financial assets/(liability). Furthermore, the valuations of our investments require the use of unobservable inputs, judgments and estimates, such as risk-free rate, expected volatility, discount rate for lack of marketability and market multiples which in turn could negatively affect our financial conditions and results.

We may not fully recover our deferred tax assets, which may affect our financial positions in the future.

We recorded deferred tax assets of RMB3.8 million, RMB3.4 million, RMB2.6 million and RMB2.4 million, respectively, as of December 31, 2018, 2019, 2020 and March 31, 2021. For each reporting period, we evaluate our deferred tax assets to determine whether it is probable that they will be realized. In determining whether it is probable that the deferred tax assets will be realized, we assess the likelihood that we will be able to recover our deferred tax assets using historical levels of income, estimates of future income, future reversal of existing taxable temporary differences, taxable income in carryback years and tax planning strategies. See Note 2.19 to the Accountant’s Report in Appendix I to this document for further details on our accounting policy with respect to deferred tax assets. Such determination requires significant judgment from our management on the tax treatment of certain transactions as well as assessment on the probability, timing and adequacy of future taxable profits for the deferred tax assets to be recovered. If such judgments turn out to be incorrect or imprecise, we may need to adjust our tax provisions accordingly. Furthermore, we cannot predict any future movements in our deferred tax assets and to what extent they may affect our financial position in the future. Any of these events may have a material adverse effect on our business, financial condition and results of operation.

RISK FACTORS

Our platform contains open source software, which may pose particular risk to our proprietary software and services in a manner that negatively affects our business.

We use open source software in our mobile games and will continue to use open source software in the future. There is a risk that open source software licenses could be construed in a manner that impose unanticipated conditions or restrictions on our ability to provide our services. Additionally, we may face claims from third parties claiming ownership, or demanding release, of the open source software or derivative works that we developed using such software. These claims could result in litigation and could require us to make our software source code freely available, purchase a costly license or cease offering the implicated services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional technology and product development resources, and we may not be able to complete it successfully.

RISKS RELATED TO OUR CONTRACTUAL ARRANGEMENTS

If the PRC government finds that our Contractual Arrangements are not in compliance with applicable PRC laws and regulations, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our PRC Consolidated Affiliated Entities.

Foreign ownership of certain of our businesses is subject to restrictions or prohibitions under current PRC laws and regulations, including value-added telecommunication services, internet cultural services and other related businesses. In particular, under the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020 Edition) (外商投資准入特別管理措施(負面清單)(2020年版)) and the Notice of the GAPP, the State Copyright Administration and National Anti-Pornography and Anti-Illegal Publications Working Group Office on Implementing the “Regulation on Three Provisions” of the State Council and the Interpretations Edited by the SCOPSR to Further Strengthen the Pre-Approval of Online Games and the Approval and Management of Imported Online Games (新聞出版總署、國家版權局、全國“掃黃打非”工作小組辦公室關於貫徹落實國務院《“三定”規定》和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知), our game operation business involves provision of internet information service that constitutes value-added telecommunications services business, a foreign investment restricted business, and internet cultural services business, a foreign investment prohibited business.

We are a Cayman Islands exempted company and our WFOE, QC Interactive, is considered as a foreign-invested enterprise. Accordingly, it is not eligible to provide value-added telecommunication services, internet cultural services or provide certain other restricted services related to our businesses. As a result, we will conduct such business activities through our PRC Consolidated Affiliated Entities in the PRC, including QC Digital and QC Cultural.

QC Digital is 37.12% owned by Mr. Yang, 4.51% owned by Mr. Huang, 1.85% owned by Mr. Wei, 0.31% owned by Mr. Liu, 0.06% owned by Mr. Zeng, 9.03% owned by Mr. Ye, 0.50% owned by Mr. Lin, 23.10% owned by G-bits, 3.41% owned by Xiamen Sealand, 10.00% owned by Wofan Qihang, 3.37% owned by Guangxi Tencent, and 3.37% owned by Alibaba Lingxi and 3.37% owned by Shanghai Hode. Mr. Yang, Mr. Huang, Mr. Wei, Mr. Liu, Mr. Zeng, Mr. Ye and Mr. Lin are PRC citizens. We entered into a series of Contractual Arrangements with QC Digital and its Registered Shareholders, which enable us to:

- exercise effective control over QC Digital;
- receive substantially all of the economic benefits of QC Digital; and
- have an exclusive option to purchase all or part of the equity interests and assets in QC Digital when and to the extent permitted by PRC law.

Because of these Contractual Arrangements, we are the primary beneficiary of QC Digital and hence consolidate its financial results as our PRC Consolidated Affiliated Entity. For a detailed discussion of these Contractual Arrangements, see “Contractual Arrangements.”

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In the opinion of our PRC Legal Advisor, (i) each of the agreements under the Contractual Arrangements is governed by PRC laws and has been executed properly by each party; (ii) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto, enforceable under applicable PRC laws and regulations, except for certain clauses regarding the remedies that may be awarded by the arbitration tribunal and the power of courts of competent jurisdictions to grant interim remedies in support of the arbitration and liquidation arrangements concerning QC Digital, and clauses on the formation of liquidation committee upon the winding up of QC Digital; and (iii) none of the agreements under the Contractual Arrangements is in violation of any articles of association of our WFOE and QC Digital. However, our PRC Legal Advisor has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules; accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC Legal Advisor. It is uncertain whether any other new PRC laws or regulations relating to consolidated affiliated entity structures will be adopted or if adopted, what they would provide. If we or our PRC Consolidated Affiliated Entities are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

- revoking the business and operating licenses of such entity;
- discontinuing or restricting the conduct of any transactions between our PRC subsidiary and PRC Consolidated Affiliated Entities;
- imposing fines, confiscating the income from our PRC Consolidated Affiliated Entities, or imposing other requirements with which we or our PRC Consolidated Affiliated Entities may not be able to comply;
- requiring us to restructure our ownership structure or operations, including terminating the Contractual Arrangements with our PRC Consolidated Affiliated Entities and deregistering the equity pledges of our PRC Consolidated Affiliated Entities, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our PRC Consolidated Affiliated Entities; or
- restricting or prohibiting our use of the proceeds of any of our financing outside China to finance the business and operations of our PRC Consolidated Affiliated Entities.

The imposition of any of these penalties would result in a material adverse effect on our ability to conduct our business. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of our PRC Consolidated Affiliated Entities in our combined financial statements, if the PRC government authorities were to find our legal structure and Contractual Arrangements to be in violation of PRC laws and regulations. If the imposition of any of these government actions causes us to lose our right to direct the activities of our PRC Consolidated Affiliated Entities or our right to receive substantially all the economic benefits and residual returns from our PRC Consolidated Affiliated Entities and we are unable to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of our PRC Consolidated Affiliated Entities in our combined financial statements. Either of these results, or any other significant penalties that might be imposed on us in this event, would have a material adverse effect on our financial condition and results of operations.

Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. QC Digital or its shareholders may fail to perform their obligations under our Contractual Arrangements.

We have relied and expect to continue to rely on Contractual Arrangements with QC Digital and its shareholders to operate part of our retail pharmacy business. These Contractual Arrangements may not be as effective as direct ownership in providing us with control over our PRC Consolidated Affiliated Entities.

If we had direct ownership of our PRC Consolidated Affiliated Entities, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of such entity, which in turn could effect

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changes, subject to any applicable fiduciary obligations, at the management level. However, under the current Contractual Arrangements, we rely on the performance by QC Digital and its shareholders of their obligations under the contracts to exercise control over our PRC Consolidated Affiliated Entities. However, the shareholders of QC Digital may not act in the best interests of our Company or may not perform its obligations under these contracts. These risks exist throughout the period in which we intend to operate our business through the Contractual Arrangements with QC Digital. We may replace the shareholders of QC Digital at any time pursuant to our Contractual Arrangements with QC Digital and its shareholders. However, if any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. Therefore, our Contractual Arrangements with QC Digital may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

Any failure by QC Digital or its shareholders to perform their obligations under our Contractual Arrangements with them would have a material adverse effect on our business.

If QC Digital or its shareholders fail to perform their respective obligations under the Contractual Arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective. For example, if the shareholders of QC Digital were to refuse to transfer their equity interest in QC Digital to us or our designee when we exercise the purchase option pursuant to these Contractual Arrangements, or if they were otherwise to act in bad faith toward us, we may have to take legal actions to compel them to perform their contractual obligations.

All the agreements under our Contractual Arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a consolidated affiliated entity should be interpreted or enforced under PRC law, and as a result, it may be difficult to predict how an arbitration panel would view such contractual arrangements. Consequently, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Additionally, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay.

Our PRC Consolidated Affiliated Entities hold certain of our important licenses and permits, including the ICP License and Internet Culture Operation License, to operate our business. In the event we are unable to enforce our Contractual Arrangements, we may not be able to exert effective control over our PRC Consolidated Affiliated Entities, and our ability to conduct these businesses may be negatively affected, which may have a material adverse effect on our financial condition and results of operations.

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

On March 15, 2019, the NPC promulgated the Foreign Investment Law or the FIL, which has become effective on January 1, 2020 and replaced the outgoing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law of the PRC (中華人民共和國中外合資經營企業法), the Sino-foreign Cooperative Joint Venture Enterprise Law of the PRC (中華人民共和國中外合作經營企業法) and the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法), as well their implementation rules and ancillary regulations, or the Outgoing FIE Laws.

Meanwhile, the Implementation Rules to the PRC Foreign Investment Law (中華人民共和國外商投資法實施條例) came into effect as of January 1, 2020, which clarified and elaborated the relevant provisions of the Foreign

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Investment Law. However, uncertainties still exist in relation to interpretation and implementation of the FIL, especially in regard to the nature of consolidated affiliated entity contractual arrangements and specific rules regulating the organization form of foreign-invested enterprises within the five-year transition period. FIL does not define contractual arrangements as a form of foreign investment explicitly, it has a catch-all provision under the definition of “foreign investment,” which includes investments made by foreign investors in the PRC through other means as provided by laws and regulations or rules issued by the State Council. However, we cannot assure you that future laws and regulations will not provide for contractual arrangements as a form of foreign investment. Therefore, there can be no assurance that our control over our PRC Consolidated Affiliated Entities through Contractual Arrangements will not be deemed as foreign investment in the future. In the event that any possible implementing regulations of the FIL or any other future laws or regulations deem contractual arrangements as a way of foreign investment, or if any of our operations through contractual arrangements is classified in the “restricted” or “prohibited” industry in the future “negative list” under the FIL, our Contractual Arrangements may be deemed as invalid and illegal, and we may be required to unwind the Contractual Arrangements and/or dispose of any affected business. Also, if future laws or regulations mandate further actions to be taken with respect to existing Contractual Arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Furthermore, under the FIL, foreign investors and foreign invested enterprises may be held liable for failing to report investment information in accordance with the requirements.

We may lose the ability to use and enjoy assets held by any of our PRC Consolidated Affiliated Entities that are material to our business operations if it goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

Our PRC Consolidated Entities hold assets and licenses that are material to our business operations. The Contractual Arrangements with QC Digital contain terms that specifically obligate its shareholders to ensure the valid existence of QC Digital and that QC Digital may not be voluntarily liquidated. However, should the shareholders breach this obligation and voluntarily liquidate QC Digital, or should QC Digital or any other PRC Consolidated Entities declare bankruptcy, all or part of their licenses may be revoked and their assets may become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

Certain terms of the Contractual Arrangements may not be enforceable under PRC laws.

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

The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the equity interests and/or assets of QC Digital, injunctive relief and/or winding up of QC Digital. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in QC Digital in case of disputes. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China. PRC laws do allow the arbitral body to grant an award of transfer of assets of or equity interests in QC Digital in favor of an aggrieved party. Therefore, in the event of breach of any agreements constituting the Contractual

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Arrangements by QC Digital and/or its registered shareholders, and if we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over QC Digital, which could negatively affect our ability to conduct our business.

The shareholders of QC Digital may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

The shareholders of QC Digital may have potential conflicts of interest with us. These shareholders may breach, or cause QC Digital to breach, or refuse to renew, the existing Contractual Arrangements we have with them and QC Digital, which would have a material adverse effect on our ability to effectively control our PRC Consolidated Affiliated Entities and receive substantially all the economic benefits from it. For example, the shareholders may be able to cause our agreements with QC Digital to be performed in a manner adverse to us by, among other things, failing to remit payments due under the Contractual Arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our Company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our Company. If we cannot resolve any conflict of interest or dispute between us and the shareholders of QC Digital, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

If we exercise the option to acquire equity ownership and assets of QC Digital, the ownership or asset transfer may subject us to substantial costs.

Pursuant to the Contractual Arrangements, our WFOE (or its designee) has the exclusive right to purchase all or any part of the equity interests in QC Digital from its shareholders at any time and from time to time in the absolute discretion of WFOE, at the nominal price or the lowest price as permitted under the applicable PRC laws. In addition, our WFOE (or its designee) has the exclusive right, where permitted by PRC law, to purchase from QC Digital all or any portion of its assets, and the purchase price shall be the nominal price or the lowest price as permitted under the applicable PRC laws. The transfer of equity or assets may be subject to the approvals from the State Administration for Market Regulation (“SAMR”) and report submission through the online enterprise registration system to or filings with the MOFCOM, the SAMR and/or their local competent counterparts. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax authorities. The asset transfer price to be received by QC Digital under the Contractual Arrangements may also be subject to enterprise income tax, and these amounts could be substantial..

We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries like our WFOE for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If these subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require our WFOE or any other relevant PRC subsidiary to adjust its taxable income under the contractual arrangements it currently has in place with QC Digital in a manner that would materially and adversely affect its ability to pay dividends and other distributions to us.

Under PRC laws and regulations, our wholly foreign-owned subsidiaries in China may pay dividends only out of their respective accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a PRC enterprise is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve fund, until the aggregate amount of such fund reaches 50% of its registered capital.

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Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

PRC regulation of loans to and direct investments in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans to our PRC subsidiaries and PRC Consolidated Affiliated Entities, or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We are an offshore holding company conducting our operations in China through our PRC subsidiaries and PRC Consolidated Affiliated Entities. We may make loans to our PRC subsidiaries and PRC Consolidated Affiliated Entities subject to the approval from governmental authorities and limitation of amount, or we may make additional capital contributions to our wholly foreign-owned subsidiaries in China.

Any loans to our wholly foreign-owned subsidiaries in China are treated as foreign-invested enterprises under PRC law and therefore are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our wholly foreign-owned subsidiaries in China to finance their activities cannot exceed statutory limits, namely, the difference between its total amount of investment and its registered capital, or certain amount calculated based on elements including capital or net assets and the cross-border financing leverage ratio or the Macro-prudential Management Mode, under relevant PRC laws. The loans must also be registered with the local counterpart of the State Administration of Foreign Exchange, or SAFE, or filed with SAFE in its information system. We may also provide loans to our PRC Consolidated Affiliated Entities or other domestic PRC entities under the Macro-prudential Management Mode. According to the Circular of the PBOC and the State Administration of Foreign Exchange on Adjusting the Macro-prudent Adjustment Parameter for Cross-border Financing issued on March 11, 2020, the limit for the total amount of foreign debt under the Macro-prudential Management Mode is increased to two and a half times from two times of their respective net assets. Moreover, any medium or long-term loan to be provided by us to our PRC Consolidated Affiliated Entities or other domestic PRC entities must also be registered with the NDRC.

We may decide to finance our wholly foreign-owned subsidiaries in China by means of capital contributions. These capital contributions need to go through record-filing procedures with competent administration for market regulation. SAFE issued the Circular on the Management Concerning the Reform of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises (關於改革外商投資企業外匯資金結匯管理方式的通知), or SAFE Circular 19, which took effect on June 1, 2015. SAFE Circular 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC provided that this usage will fall into the scope of business of the foreign-invested enterprise, which will be regarded as the reinvestment of foreign-invested enterprise. In addition, SAFE promulgated the Circular Regarding Further Promotion of the Facilitation of Cross-Border Trade and Investment (關於進一步促進跨境貿易投資便利化的通知) on October 23, 2019, or SAFE Circular 28, pursuant to which non-investment foreign-invested enterprises can use their capital funds to make equity investments in China, provided that such investments do not violate the negative list and the target investment projects are genuine and in compliance with laws. As SAFE Circular 28 is relatively new, its interpretation and implementation in practice are still subject to substantial uncertainties. On April 10, 2020, the SAFE issued the Circular on Optimizing the Administration of Foreign Exchange to Support the Development of Foreign-related Business (國家外匯管理局關於優化外匯管理支持涉外業務發展的通知), pursuant to which eligible enterprises are allowed to make domestic payments using the income under their capital accounts, such as their capital funds, foreign debt and overseas listing, without prior provision of materials evidencing the authenticity for each transaction, provided that the capital usage is authentic and in compliance with the current administrative provisions on use of income under the capital account. The relevant bank must conduct spot checks afterwards in accordance with the relevant requirements.

Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we are not likely to make these loans to the subsidiaries of our wholly foreign-owned subsidiaries in China and our PRC Consolidated Affiliated Entities, each a PRC domestic company. Meanwhile, we are not likely to finance

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the activities of our PRC Consolidated Affiliated Entities by means of capital contributions given the restrictions on foreign investment in the businesses that are currently conducted by our PRC Consolidated Affiliated Entities.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or record-filings on a timely basis, if at all, with respect to future loans to our PRC subsidiaries or any PRC Consolidated Affiliated Entity or future capital contributions by us to our wholly foreign-owned subsidiaries in China. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiaries or PRC Consolidated Affiliated Entities when needed. If we fail to complete such registrations or record-filings, our ability to use foreign currency, including the [REDACTED] we received from our [REDACTED], and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

The Contractual Arrangements may subject us to scrutiny by PRC tax authorities and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

Under applicable PRC laws and regulations, transactions among related parties may be subject to audit or challenge by the PRC tax authorities. If the PRC tax authorities deem the transactions among the PRC subsidiary, our PRC Consolidated Affiliated Entities and the Registered Shareholders were not entered into on an arm’s-length basis and resulted in deferral or underpayment in taxes, they may make special tax adjustments which might result in the increase of the PRC Consolidated Affiliated Entities’ tax liabilities. If the tax authorities conduct special tax adjustments, they might impose interest charges for the underpaid taxes. Our financial position could be adversely affected if our PRC Consolidated Affiliated Entities’ tax liabilities increase or if they are required to pay interest charge.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Any regulatory changes in the approval and registration process of new online games by the PRC government may adversely affect our business.

The official launch and monetization of mobile games in the PRC is subject to the preapproval from, registration with, and issuance of game publication numbers by the NPPA. Historically, the NPPA at the national level suspended approval of game registration and issuance of publication numbers for online games in March 2018 and resumed to issue game publication numbers by batches periodically beginning in December 2018. As the regulatory authorities have received a large number of game registration applications which are to be reviewed, it may take some time for all of the existing game registration applications to complete the process and obtain game publication numbers. Therefore, there is great uncertainty as to when we will be able to complete game registrations and obtain the game publication numbers for our pipeline games under application and other pipeline games in a timely manner, or at all. If we fail to register our games with or obtain preapprovals from the NPPA, none of them can be successfully launched and monetized in China as scheduled, or at all, and they may be ordered to be suspended or cease operation, which could materially and adversely impact our ability to introduce new games and our business growth and prospects. In addition, we may be subject to administrative penalties for any games we operated without obtaining requisite preapprovals from the NPPA.

Further, the game registration process may be suspended, amended or affected by other changes in the regulatory environment in the future, which may materially and adversely affect our results of operations and financial condition. Moreover, according to the Notice of the General Office of the General Administration of Press, Publication, Radio, Film and Television on the Administration of Mobile Game Publishing Services (國家新聞出版廣電總局辦公廳關於移動遊戲出版服務管理的通知) issued by the SAPPRFT in May 2016, which became effective in July 2016 (the “Mobile Game Notice”), the upgraded works and new expansion packs of a mobile game of which the publication has been approved (which means that the story lines, task contents, map form, personal characters, role characteristics, and interactive functions, among others, have been significantly changed, and an additional name is used, namely, a subtitle is added with the name of the game remaining

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unchanged, or a modifier is added before the name of the game or a digit is used after the name of the game to show the change of the version for promotion and publicity) will be deemed as new works, and in accordance with the provisions of Mobile Game Notice, undergo corresponding approval formalities in accordance with their respective categories. We cannot assure you that regulators will not take a stricter view on updates and enhancements of games in the future, which may result in extra work and costs for us to file or renew applications for these updates and enhancements and may delay the launch of the updates and enhancements, which may materially and adversely affect our results of operations.

Regulation and censorship of information disseminated over the Internet and wireless telecommunication networks in the PRC may adversely affect our business, and the publishing channels with which we cooperate may be liable for information displayed on, retrieved from, or linked to their platforms.

The PRC government has enacted laws and regulations governing Internet access and the distribution of news and other contents, as well as products and services, through the Internet. Certain types of information are not allowed to be disseminated through the Internet. For example, the MIIT and other competent government authorities have promulgated regulations that prohibit games from being distributed through the Internet if the games contain content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of China, or compromise state security or secrets. If any of our games is deemed to violate any of these content restrictions, we would not be able to obtain or maintain the necessary government approval to continue our game offerings and/or could be subject to penalties, including confiscation of income, fines or suspension of business, which would materially and adversely affect our business, financial condition and results of operations. We may also be subject to potential liability for unlawful actions of our game players or for content we distribute that is deemed inappropriate. We may be required to delete content that violates PRC laws and report content that we suspect to be in violation of PRC laws, also we may incur significant costs in investigating and defending ourselves for claims or penalties caused by the improperly-disseminated information, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Restrictions on virtual currency and virtual items may adversely affect our current business model.

Our revenue is mainly derived from sales of in-game virtual items, which are regulated pursuant to the PRC laws and regulations on virtual currency of online games. The Notice on Strengthening Administration of Virtual Currency of Online Games (關於加強網絡游戲虛擬貨幣管理工作的通知), which was jointly issued by the MOC and MOFCOM in 2009, have imposed various restrictions on virtual currency, and requirements and obligations on online game operators with respect to the virtual currency used in their games, including (i) virtual currency may only be provided to users in exchange for payment in legal currency and may be only used to pay for virtual items and services of the issuer of the currency, and online game operators are required to keep transaction data records for no less than 180 days; (ii) online game operators are prohibited from providing lucky draws or lotteries that are conducted on the condition that participants contribute cash or virtual currency in exchange for game props or virtual currencies; and (iii) companies involved with virtual currency in China must be issuers or trading platforms, and may not operate simultaneously as both issuers and trading platforms. We are required to tailor our business model carefully, including designing and operating our database to maintain user information for the minimum required period, in order to comply with the PRC laws and regulations, including the foregoing notice. Failure to do so may result in an adverse impact on our business and results of operations.

Currently there is no law or regulation specifically governing virtual asset property rights and, therefore, it is unclear what liabilities, if any, mobile game operators may have in respect of virtual assets.

During the course of playing mobile games, some virtual assets, such as special equipment, player experience levels and other features of our players' game characters, are acquired and accumulated. These virtual assets can be important to players and have monetary value. In practice, virtual assets can be lost for various reasons, often through unauthorized use of the game account of one player by another player and occasionally through data loss caused by a delay of network service, a network crash or hacking activities. On May 28, 2020, the PRC Civil Code (中華人民共和國民法典) was enacted, effective on January 1, 2021, pursuant to which,

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ownership of data and virtual assets are civil rights protected by laws. However, there is currently no PRC law or regulation specifically governing virtual asset property rights. As a result, there is uncertainty as to who is the legal owner of virtual assets, whether and how the ownership of virtual assets is protected by law, and whether an operator of mobile games such as us would have any liability to players or other interested parties (whether in contract, tort or otherwise) for the loss of virtual assets. Based on judgments by PRC courts regarding the liabilities of game operators for loss of virtual assets by players, the courts have generally required the game operators to provide well-developed securities systems to protect such virtual assets owned by players, and have required some game operators to return the virtual items or be liable for the loss and damage incurred therefrom if the online game operators have been determined to be in default or held liable for infringement of players’ rights. In case of a loss of virtual assets, we may be sued by our players and held liable for damages, which may negatively affect our reputation and business, financial condition and results of operations. We had not been involved in any virtual assets related lawsuits as of the Latest Practicable Date. However, we cannot assure you that these lawsuits will not be brought against us in the future.

The PRC laws and regulations governing the playing time and players’ age of online games may materially and adversely affect our business and operations.

On July 1, 2011, eight PRC government authorities, including the GAPP, the Ministry of Education, the MIIT and five others, jointly promulgated the Notice on Initializing the Verification of Real-name Registration for Anti-addiction System on Online Games (關於啓動網絡游戲防沉迷實名驗證工作的通知), or the Real-name Registration Notice, which took effect on October 1, 2011. The Real-name Registration Notice requires relevant authorities to strengthen the implementation of the anti-addiction system and real-name registration in online games but excluding mobile games. On July 25, 2014, the SAPPRFT issued the Notice on the Further Launch of Verification of Real-name Registration for Anti-Fatigue System on Internet Games (國家新聞出版廣電總局辦公廳關於深入開展網絡游戲防沉迷實名驗證工作的通知), which took effect on October 1, 2014, stating that, in view of some of the hardware and functionality limitations inherent in mobile devices, anti-fatigue system requirements applicable to internet games do not currently apply to mobile games. On May 24, 2016, the SAPPRFT issued the Notice on Regulation of Mobile Game Publication Services (國家新聞出版廣電總局辦公廳關於移動游戲出版服務管理的通知), which became effective on July 1, 2016. Under this notice, mobile games are subject to the Real-name Registration Notice unless the mobile game to be published does not concern, among others, themes such as politics, military, nations and religions, belongs to the class of casual puzzle domestic mobile games without plots or with simple plots and is not authorized by overseas copyright owners. In August 2018, PRC regulators issued the Implementation Program on Comprehensive Prevention and Control of Juveniles Myopia (綜合防控兒童青少年近視實施方案), proposing to control the number of new online games, explore the age-appropriate prompting system in line with the national conditions and take measures to restrict the amount of time children spend on playing online games. On October 25, 2019, the NPPA issued the Notice on Preventing Minors from Indulging in Online Games (國家新聞出版署關於防止未成年人沉迷網絡游戲的通知) which became effective on November 1, 2019 and has imposed a number of restrictions on mobile games including the time and duration where minors can spend on mobile games as well as the purchase amount one can spend in these mobile games. On March 30, 2021, the General Office of MOE released the Notice on Further Strengthening the Sleep Management of Primary and Secondary School Students (關於進一步加強中小學生睡眠管理工作的通知), which further stipulates the time slot for playing online games by minors, and moreover, requires local education authorities, jointly with the competent local authorities, to effectively strengthen the administration of online games, and conduct supervision by technical means to ensure no game service is provided for minors during a specific timeframe. We cannot assure you that our anti-addiction system and real name registration system will be regarded as sufficient by PRC government authorities. Should the relevant government authorities find us not satisfying the requirements, they may order us to rectify, and our relevant licenses or approvals could be revoked, which may adversely affect our business operations and financial condition.

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which legal cases have limited value as precedents. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of

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legislation over the past three decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. Our WFOE and PRC Consolidated Affiliated Entities are subject to various PRC laws and regulations generally applicable to companies in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties.

In particular, PRC laws and regulations concerning Internet-related industries and the mobile game industry are developing and evolving. Although we have taken measures to comply with the laws and regulations that are applicable to our business operations and avoid conducting any non-compliant activities under the applicable laws and regulations, the PRC governmental authorities may promulgate new laws and regulations regulating internet-related industries and the mobile game industry in the future. We cannot assure you that our practice would not be deemed to violate any new PRC laws or regulations relating to internet-related industries and the mobile game industry. Moreover, developments in internet-related industries and the mobile game industry may lead to changes in PRC laws, regulations and policies or in the interpretation and application of existing laws, regulations and policies that may restrict our business operations, which could materially and adversely affect our business and results of operations.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and other legal proceedings and the level of legal protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. These uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in the PRC could materially and adversely affect our business and impede our ability to continue our operations.

PRC economic, political and social conditions as well as government policies could adversely affect our business and prospects.

Our business, prospects, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in the PRC and by continued economic growth in the PRC as a whole.

The PRC economy differs from the economies of most developed countries in many respects, including the degree of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in the PRC are still owned by the government or state-owned enterprises. In addition, the PRC government continues to play a significant role in regulating industrial development by imposing industrial policies. The PRC government also exercises significant control over the economic growth in the PRC through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the PRC government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity

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in the PRC and, since 2012, the PRC economy has slowed down. Any prolonged slowdown in the PRC economy may reduce the demand for our services and may materially and adversely affect our business and results of operations

Inflation in the PRC could materially and adversely affect our profitability and growth.

Economic growth in the PRC has, in the past, been accompanied by periods of high inflation, and the PRC government has implemented various policies from time to time to control inflation, including imposing various corrective measures designed to restrict the availability of credit or regulate growth. High inflation in the future may cause the PRC government to once again impose controls on credit and/or price of commodities, or to take other actions, which could inhibit economic activities in the PRC. Any action on the part of the PRC government that seeks to control credit and/or price of commodities may adversely affect our business operations, causing negative impact on our profitability and growth.

The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

PRC regulations and rules concerning mergers and acquisitions including the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) the transaction involves factors that have or may have impact on the national economic security, or (iii) the transaction will lead to a change in control of a domestic enterprise which holds famous trademarks or PRC time-honored brands. Moreover, the Anti-Monopoly Law of the PRC (《中華人民共和國反壟斷法》) requires that the anti-trust governmental authority shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. The Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知》) issued by the General Office of the State Council that became effective in March 2011 specifies that a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns. Further, MOFCOM promulgated the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度的規定》), effective in September 2011. Under the foregoing MOFCOM regulations, MOFCOM will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If MOFCOM decides that a specific merger or acquisition is subject to a security review, it will submit it to the Inter-Ministerial Panel, an authority headed by the NDRC and MOFCOM, under the leadership of the State Council, to carry out security review. The foregoing regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. There is no explicit provision or official interpretation stating that the merging or acquisition of a company engaged in the mobile games business requires security review. On December 19, 2020, the NDRC and the MOFCOM jointly promulgated the Measures on the Security Review of Foreign Investment (《外商投資安全審查辦法》), effective on January 18, 2021, setting forth provisions concerning the security review mechanism on foreign investment, including the types of investments subject to review, review scopes and procedures, among others. The Office of the Working Mechanism of the Security Review of Foreign Investment (外商投資安全審查工作機制辦公室) (the “**Office of the Working Mechanism**”) will be established under the NDRC, who will lead the task together with the MOFCOM. Foreign investor or relevant parties in China must declare the security review to the Office of the Working Mechanism prior to the investments in, among other industries, important cultural products and services, important information technology and internet products and services and other important fields relating to national security, and obtain control in the target enterprise. See “Regulatory Overview—Regulations Related to Foreign Investment in the PRC. In the future, we may grow our business by acquiring complementary businesses.

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Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts or other relevant government agencies may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, the MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise. A resident enterprise will be subject to the enterprise income tax on its global income at the rate of 25% and a withholding tax rate of 10% to dividends paid by it to a foreign enterprise, unless the jurisdiction of the foreign investor’s tax residence has a tax treaty with the PRC that provides for preferential tax treatment. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, production, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued the Circular on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (關於境外注冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知)(“Circular 82”), which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in the PRC. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore-incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We are a holding company incorporated under the laws of the Cayman Islands and as such rely on dividends and other distributions on equity from our PRC subsidiaries to satisfy part of our liquidity requirements. We believe none of our entities outside of the PRC is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” As all of our management members are based in the PRC, it remains unclear how the tax residency rule will apply to our case. If the PRC tax authorities determine that we or any of our subsidiaries outside of the PRC is a PRC resident enterprise for PRC enterprise income tax purposes, then we or this subsidiary could be subject to PRC tax at a rate of 25% on our or its world-wide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realized on the sale or other disposition of our ordinary Shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether non-PRC shareholders of our Company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your [REDACTED] in our Shares.

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Additionally, pursuant to the Arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, or the Double Tax Avoidance Arrangement and relevant PRC tax laws on the interpretation of the Arrangement, a preferential withholding tax rate of 5% may apply if the PRC enterprise is at least 25% held by the Hong Kong enterprise for at least 12 consecutive months prior to distribution of the dividends and certain other conditions, such as the beneficial ownership requirement, are met. Furthermore, under the Measures for Non-resident Taxpayers’ Enjoyment of Treaty Benefits (非居民納稅人享受協定待遇管理辦法), which became effective in January 2020, the applicant for the preferential withholding rate is required to maintain a record with its in-charge tax authority and submit, gather and retain all the requisite application materials. No government approval for the application is required, although the relevant tax authorities may subsequently challenge the applicability of the preferential withholding rate. There can be no assurance that our determination regarding our qualification to enjoy the preferential tax treatment will not be challenged by the relevant PRC tax authority or that we will be able to complete the necessary filings with the relevant PRC tax authority and enjoy the preferential withholding tax rate under the Double Taxation Arrangement with respect to dividends to be paid by our PRC subsidiaries to our Company.

Fluctuations in exchange rates could result in foreign currency exchange losses.

The value of RMB against Hong Kong dollars, U.S. dollars and other currencies fluctuates is subject to changes resulting from the PRC government’s policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between RMB and Hong Kong dollars, U.S. dollars or other currencies in the future. In addition, the People’s Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals.

As we expand our operations in China and overseas markets, we expect to incur more expenditures and generate more revenue denominated in RMB and U.S. dollars. Also, all of our players’ payments through Apple, including payments incurred in China, are settled in U.S. dollar even though it is not the local currency. Therefore, fluctuations in RMB against U.S. dollars could impact our results of operations. For example, we recorded net foreign exchange gains of RMB1.2 million, RMB1.7 million and RMB2.6 million in 2018, 2019 and the three months ended March 31, 2021, respectively, and net foreign exchange losses of RMB24.7 million in 2020. Moreover, the [REDACTED] from the [REDACTED] will be received in Hong Kong dollars. As a result, any appreciation of RMB against Hong Kong dollars may result in the decrease in the value of our [REDACTED] from the [REDACTED]. Conversely, any depreciation of the RMB may adversely affect the value of, and any dividends payable on, the Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable cost. Furthermore, we are also currently required to obtain the approval of the State Administration of Foreign Exchange, or SAFE, before converting significant sums of foreign currencies into RMB. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, the Shares in foreign currency terms.

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

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under our current corporate structure, our Company in the Cayman Islands relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from the SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by the beneficial owners of our company who are PRC residents. However, approval from or registration with

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appropriate governmental authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies.

In light of the flood of capital outflows of the PRC in 2016 due to the weakening of RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and substantial vetting processes are put in place by the SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access to foreign currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiaries and our PRC subsidiaries’ ability to distribute profits to us, if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange and other regulations.

The SAFE has promulgated several regulations that require PRC residents and entities to register with and obtain approval from local branches of the SAFE in connection with their direct or indirect offshore investment activities. The Circular 37 was promulgated by the SAFE in July 2014 which requires PRC residents or entities to register with the SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. These regulations apply to our Shareholders who are PRC residents or entities and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents or entities who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies are required to register those investments. In addition, any PRC resident or entity who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing its profits and the proceeds from any reduction in capital, share transfer or liquidation to its offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We have requested PRC residents and entities holding direct or indirect interests in our Company to our knowledge to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. However, we may not be fully informed of the identities of all our Shareholders or beneficial owners who are PRC residents and, therefore, we may not be able to identify all our Shareholders or beneficial owners who are PRC residents or entities to ensure their compliance with Circular 37 or other related regulations. In addition, we cannot provide any assurance that all of our Shareholders and beneficial owners who are PRC residents or entities will comply with our request to make, obtain or update any applicable registrations or comply with other requirements required by Circular 37 or other related regulations, including applicable NDRC and MOFCOM regulations, in a timely manner. Failure by any such Shareholders to comply with Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas or cross-border investment activities, limit our subsidiaries’ ability to make distributions, pay dividends or other payments to us or affect our ownership structure, which could materially and adversely affect our business and prospects.

The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

According to the Announcement of the SAT on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises, or SAT Circular 7, promulgated by the SAT in February

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2015 and further revised in October and December 2017, if a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly through the transfer of the equity interests of an offshore holding company without a reasonable commercial purpose, the PRC tax authorities have the power to reassess the nature of the transaction and treat the indirect equity transfer as a direct transfer. As a result, the gain derived from such transfer, i.e., the transfer price minus the cost of equity, will be subject to PRC withholding tax at a rate of up to 10%. Under the terms of SAT Circular 7, a transfer that meets all of the following circumstances shall be directly deemed as having no reasonable commercial purposes: (i) over 75% of the value of the equity interests of the offshore holding company is directly or indirectly derived from PRC taxable properties; (ii) at any time during the year before the indirect transfer, over 90% of the total properties of the offshore holding company are investments within PRC territory, or in the year before the indirect transfer, over 90% of the offshore holding company’s revenue is directly or indirectly derived from PRC territory; (iii) the function performed and risks assumed by the offshore holding company are insufficient to substantiate its corporate existence; and (iv) the foreign income tax imposed on the indirect transfer is lower than the PRC tax imposed on the direct transfer of the PRC taxable properties.

We face uncertainties as to the reporting and other implications of certain future transactions where PRC taxable assets are involved, such as offshore restructuring and sale of the shares in our offshore subsidiaries. We and our non-PRC resident investors may be subject to filing obligations in such transactions, under SAT Circular 7. For transfers of shares in our Company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist with the filing under SAT Circular 7. As a result, we may be required to expend valuable resources to comply with SAT Circular 7 or to request that the relevant transferors from whom we purchase taxable assets comply with these circulars, or to establish that our Company should not be taxed under these circumstances, which may have a material adverse effect on our business, financial condition and results of operations.

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.

We have been granted certain governmental subsidies and tax preferences. 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 (the “**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 RMB1.3 million in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively. In addition, we received discretionary subsidies of RMB5.0 million, RMB3.8 million, RMB7.7 million and RMB1.5 million in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively, which were provided to us by local governments to support our R&D activities and in recognition of our contribution to local economic development. Our preferential tax treatment and government subsidies are subject to review by the government and may be adjusted or revoked in the future. In addition, the timing, amount and criteria of government subsidies are determined within the discretion of the local government authorities and cannot be predicted with certainty. We cannot assure you of the continued availability of the preferential tax treatment or government subsidies currently enjoyed by us. The discontinuation, reduction or delay of these preferential tax treatment and government subsidies could materially and adversely affect our business, financial condition and results of operations.

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It may be difficult to effect service of process upon us or our Directors or senior management who reside in China or to enforce non-PRC court judgments against them in China.

A majority of the members of the board of directors and substantially all of our senior management members reside in the PRC, and a substantial part of our assets and the assets of such persons are located in the PRC. Accordingly, it may be difficult for investors to effect service of process on any of these persons or to enforce judgments obtained outside of the PRC against us or any of these persons. On July 14, 2006, the PRC Supreme Court and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland China and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), or the Arrangement, which came into effect on August 1, 2008. Under this Arrangement, where any designated people’s court of the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people’s court of the PRC or Hong Kong court for recognition and enforcement of the judgment. On January 18, 2019, the PRC Supreme Court and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排), or the New Arrangement, which seeks to establish a mechanism with greater clarity and certainty for recognition and enforcement of judgments in wider range of civil and commercial matters between Hong Kong and the PRC. The New Arrangement discontinued the requirement for a choice of court agreement for bilateral recognition and enforcement. The New Arrangement will only take effect after the promulgation of a judicial interpretation by the Supreme Court and the completion of the relevant legislative procedures in the Hong Kong. The New Arrangement will, upon its effectiveness, supersede the Arrangement. Therefore, before the New Arrangement comes into effect it may be difficult or impossible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute do not agree to enter into a choice of court agreement.

The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts in many developed countries, including the Cayman Islands, the United States and the United Kingdom. Therefore, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

In addition, because there are no clear statutory and judicial interpretations or guidance on a PRC court’s jurisdiction over cases brought under foreign securities laws, it may be difficult for [REDACTED] to bring an original action in a PRC court against us or our Directors or senior management members who reside in the PRC based on the liability provisions of non-PRC securities laws. Even if any [REDACTED] is successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render this [REDACTED] unable to enforce a judgment against our assets or the assets of our directors and officers.

RISKS RELATING TO THE [REDACTED]

There has been no prior [REDACTED] market for the Shares, and the liquidity and [REDACTED] of our Shares may be volatile.

Prior to the [REDACTED], there has been [REDACTED] market for our Shares. The [REDACTED] for our Shares was the result of negotiations between our Company and the [REDACTED] (for themselves and on behalf of the [REDACTED]) and the [REDACTED] may differ significantly from the [REDACTED] for our Shares following the [REDACTED]. We have applied for [REDACTED] on the Stock Exchange. There is no assurance that the [REDACTED] will result in the development of an active, liquid [REDACTED] trading market for our Shares.

RISK FACTORS

The price at which our Shares will trade after the [REDACTED] will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts’ estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- assessments of our management, our past and present operations, and the prospects for, and timing of, our future revenue and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of [REDACTED] companies that are engaged in business activities similar to ours; general market sentiment regarding the entertainment industry and companies;
- changes in laws and regulations in China;
- our ability to compete effectively in the market; and
- political, economic, financial and social developments in China and worldwide.

In addition, the [REDACTED] has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies [REDACTED]. As a result, [REDACTED] in our Shares may experience volatility in the [REDACTED] of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

[REDACTED] will experience immediate dilution and may experience further dilution in the future.

As the [REDACTED] of our Shares is higher than the [REDACTED] immediately prior to the [REDACTED], purchasers of our Shares in the [REDACTED] will experience an immediate dilution in [REDACTED]. Our existing Shareholders will receive an increase in the [REDACTED] per share of their shares. In addition, holders of our Shares may experience further dilution of their interest if the [REDACTED] exercise the [REDACTED]. If we grant any stock options or other share-based compensation in the future, that may result in an increase in our issued share capital, which in turn may result in a dilution of our shareholders’ shareholding interest and a reduction in earnings per Share. Moreover, we may consider [REDACTED] Shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. Holders of our Shares may experience further dilution in terms of the net tangible asset value per share if we issue additional Shares in the future at a price that is lower than the net tangible asset value per share.

The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors and executive officers, could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and Shareholders, or the perception or anticipation of such sales, could adversely impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate. While we currently are not aware of any intention of Shareholders to dispose of significant amounts of their Shares, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

RISK FACTORS

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

The [REDACTED] for our Shares may be affected by research reports about us or our business published by the industry or securities analysts. The [REDACTED] of our Shares would possibly decline if one or more analysts who cover us downgrade our Shares or publish negative opinions about us regardless of the accuracy of the information. We may lose visibility in the financial markets if one or more of these analysts cease coverage of us or fail to regularly publish reports on us, which could cause the [REDACTED] or [REDACTED] of our Shares to decline.

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

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

Our management has significant discretion as to how we will use the [REDACTED] of the [REDACTED], which you may not necessarily agree with.

Our management may spend the [REDACTED] from the [REDACTED] in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the [REDACTED] from the [REDACTED] for purposes including (i) expanding our game portfolio and investing in our game R&D capabilities and related technologies, (ii) expanding our business in the overseas markets, (iii) strengthening our game publishing and operation capabilities in China’s mobile game market and the market recognition of our “QingCi” brand and our IPs, (iv) pursuing strategic investments in and acquisitions of upstream and downstream companies along the mobile game industry chain, and (v) working capital and general corporate purposes. See “Future Plans and [REDACTED]” for more information on our [REDACTED]. However, our management will have discretion as to the actual application of our [REDACTED]. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the [REDACTED] from this [REDACTED].

We may not be able to distribute dividends to our Shareholders.

We cannot assure you when and in what form dividends will be paid on our Shares after the [REDACTED]. The declaration and distribution of dividends is at the discretion of the Board, and our ability to pay dividends or make other distributions to our Shareholders is subject to various factors, including our results of operations, cash flow, capital requirements, general financial condition, contractual restrictions, future prospects and other factors that our Board deems relevant. We may not be able to have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable. As a result of the above, we cannot assure you that we will make can make dividend payments on our Shares in the future.

You may experience difficulties in enforcing your Shareholder rights because we are incorporated in the Cayman Islands. Cayman Islands law is different from the law of Hong Kong and other jurisdictions and may not provide the same protections to minority shareholders.

We are an exempted company incorporated in the Cayman Islands with limited liability, and the law of the Cayman Islands differs in some respects from that of Hong Kong, the U.S. or other jurisdictions where [REDACTED] may be located.

RISK FACTORS

Our corporate affairs are governed by our Memorandum and Articles, the Cayman Companies Act and common law of the Cayman Islands. The rights of Shareholders to take legal action against our Directors and us, and actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our Directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in Hong Kong, China, the United States or other jurisdictions where [REDACTED] may be located. In particular, the Cayman Islands have a less developed body of securities laws and provide significantly less protection to [REDACTED].

As a result of all of the above, our [REDACTED] may have more difficulty in protecting their interests through actions against our management, Directors or major Shareholders than would shareholders of a Hong Kong company, a United States company or companies incorporated in other jurisdictions. For example, the Cayman Islands does not have a statutory equivalent of section 724 of the Companies Ordinance, which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of the company’s affairs.

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various publicly available official sources and various independent third-party sources, including the industry expert reports, contained in this document.

This document, particularly the sections headed “Business” and “Industry Overview,” contains information and statistics relating to the entertainment market. The information and statistics have been derived from a third-party report commissioned by us and publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of these source materials. The information has not been independently verified by us, the [REDACTED], the Sponsors, the [REDACTED], [REDACTED], [REDACTED] or any other party involved in the [REDACTED], and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics included in this document being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. You should consider carefully the importance placed on such information or statistics.

You should read the entire document carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the [REDACTED].

There may be, subsequent to the date of this document but prior to the completion of the [REDACTED], press and media coverage regarding us and the [REDACTED], which contains, among other things, certain financial information, projections, valuations and other forward-looking information about us and the [REDACTED]. We have not authorized the disclosure of any such information in the press or other media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective [REDACTED] are cautioned to make their [REDACTED] on the basis of the information contained in this document only and should not rely on any other information.

You should rely solely upon the information contained in this document, the [REDACTED] and any formal announcements made by us in Hong Kong in making your [REDACTED] regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or

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RISK FACTORS

other media regarding our Shares, the [REDACTED] or us. By applying to [REDACTED] our Shares in the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the [REDACTED].

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the [REDACTED], we have sought the following waivers from strict compliance with certain provisions of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since we have our principal operations in the PRC, our executive Directors have been and will continue to participate in day-to-day management of our Company in the PRC.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are Mr. Liu and Ms. So Shuk Yi Betty (“**Ms. So**”);
- (b) each of the authorized representatives will have all necessary means to contact all the Directors promptly at all times, as and when the Stock Exchange wishes to contact the Directors on any matters;
- (c) all the Directors who are not ordinarily resident in Hong Kong have or can apply for valid travel documents to visit Hong Kong for business purposes and would be able to meet with the Stock Exchange upon reasonable notice;
- (d) our Company will retain a Hong Kong legal advisor to advise on matters relating to the application of the Listing Rules and other applicable Hong Kong laws and regulations after [REDACTED];
- (e) Red Solar Capital Limited, our compliance advisor, will act as an additional channel of communication with the Stock Exchange; and
- (f) each Director will provide his or her mobile phone numbers, office phone numbers, fax numbers and e-mail address to the Stock Exchange.

JOINT COMPANY SECRETARIES

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

In assessing “relevant experience,” the Stock Exchange will consider the individual’s: (i) length of employment with the issuer and other listed companies and the roles he/she played, (ii) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code, (iii) relevant training taken and/or to be taken in addition to the minimum requirement of taking not less than 15 hours of relevant professional training in each financial year under Rule 3.29 of the Listing Rules, and (iv) professional qualifications in other jurisdictions.

We have appointed Mr. Zhu Chengyin (“**Mr. Zhu**”) and Ms. So as our joint company secretaries (the “**Joint Company Secretaries**”). The Joint Company Secretaries’ biographical information is set out in the section headed

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

“Directors and Senior Management” in this document. Since Mr. Zhu does not possess a qualification stipulated in Rule 3.28 of the Listing Rules, he is not able to solely fulfill the requirements as a company secretary of a [REDACTED] stipulated under Rules 3.28 and 8.17 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules in relation to the appointment of Mr. Zhu as our joint company secretary. In order to provide support to Mr. Zhu, we have appointed Ms. So, an associate member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom, which meets the requirements under Rule 3.28 and 8.17 of the Listing Rules, as our joint company secretary to provide assistance to Mr. Zhu, for a three-year period from the [REDACTED] so as to enable him to acquire the relevant experience (as required under Rule 3.28(2) of the Listing Rules) to duly discharge his duties. Prior to the expiry of such three-year period, the qualifications and experience of Mr. Zhu and the need for on-going assistance of a joint company secretary will be further evaluated by the Company to determine whether the appointment of Mr. Zhu as the company secretary of the Company will satisfy the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules. In addition, Mr. Zhu will also attend no less than 15 hours of relevant professional training courses in each financial year to familiarize himself with the requirements of the Listing Rules and applicable Hong Kong laws and regulations.

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

COMPANIES AND BUSINESS ACQUIRED OR TO BE ACQUIRED AFTER THE TRACK RECORD PERIOD

Pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules, the accountant’s report to be included in a [REDACTED] document must include the income statements and balance sheets of any subsidiary or business acquired, agreed to be acquired or proposed to be acquired since the date to which its latest audited accounts have been made up in respect of each of the three financial years immediately preceding the issue of the [REDACTED] document.

Pursuant to Rule 4.02A(1), acquisitions of business include acquisitions of associates and any equity interest in another company. Pursuant to notes to Rule 4.04(4) of the Listing Rules, the Stock Exchange may consider granting a waiver of the requirements under Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances and subject to certain conditions set out thereunder.

The Stock Exchange will ordinarily grant a waiver in relation to acquisitions of a business or subsidiary subject to the following conditions: (i) the percentage ratio (as defined under Rule 14.04(9) of the Listing Rules) of the acquired or to be acquired business or subsidiary are all less than 5% by reference to the most recent audited financial year of the applicant’s trading record period; (ii) the historical financial information of the acquired or to be acquired business or subsidiary is not available or would be unduly burdensome to obtain or prepare; and (iii) the [REDACTED] document should include at least the information that would be required for a discloseable transaction under Chapter 14 of the Listing Rules on each acquisition.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

During and after the Track Record Period, our Group had made strategic investments in certain entities in the PRC (the “Investments”) in the same industry for the purpose of expanding its business, details of which are set out below.

No.	Name of the target company	Investment amount	Percentage of equity interest acquired/proposed to be acquired	Principal business activities	Status of the Investment
1.	Xiamen Suixiang Internet Technology Co., Ltd. (廈門隨像網絡科技有限公司) (“Xiamen Suixiang”)	RMB1,000,000	20%	Research and development of games	Investment agreement was signed on March 25, 2021. Initial payment of RMB500,000 was paid in May 2021 and the remaining consideration is payable upon the relevant game passing the testing process.
2.	Tianjin Haochuan Cultural Communication Co., Ltd. (天津市好傳文化傳播有限公司) (“Tianjin Haochuan”)	RMB16,000,000	2%	Creation and publication of original comics and animations	Equity transfer agreement was signed on April 25, 2021. Initial payment of RMB8,000,000 was paid in June 2021 and the remaining consideration is expected to be paid by end of 2021.
3.	Beijing Zhijian Lvdong Internet Technology Co., Ltd. (北京指尖律動網絡科技有限公司) (“Beijing Zhijian”)	RMB3,000,000	20%	Research and development of games	Investment agreement was signed on April 25, 2021. Initial payment of RMB1,500,000 was paid in May 2021 and the remaining consideration is expected to be paid by end of 2021.
4.	Chengdu Weimei Interactive Technology Co., Ltd. (成都微美互動科技有限公司) (“Chengdu Weimei”)	RMB7,108,500	20.31% (from 25.33% to 45.64%)	Research and development of games	Equity transfer agreement was signed on May 20, 2021 and consideration has been fully paid by May 31, 2021.

The consideration for each of the above Investments was determined by arm’s length negotiations based on the target company’s business development and prospect. Each of the above investments has been or will be settled in cash, with no guarantee or security given or required. For each of the Investments, consideration is payable after the date of completion on a deferred basis under the respective agreement. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, all of the target companies set out above and their ultimate beneficial owners are third parties independent from our Company and our connected persons.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

We have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with Rules 4.04(2) and 4.04(4) of the Listing Rules in respect of the Investments on the following grounds:

1. *Customary minority investments among industry peers*

Our Company from time to time makes strategic equity investments in sectors relating to its business as customary among industry peers to strengthen the relationship with potential strategic partners. Our Company has conducted a number of minority investments during the Track Record Period.

2. *Immateriality of target companies*

Based on the financial information of the target companies available to us, as compared to that of our Company for the year ended December 31, 2020, being the most recent financial year of the Track Record Period (and with respect to the asset ratio, our Company’s total assets as at March 31, 2021), each of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in relation to the Investments is, individually or in aggregate, below 5%.

Accordingly, our Company considers that the Investments, individually and in aggregate, are immaterial and does not expect them to have any material effect on the business, financial condition or operations of our Group. As such, an exemption from compliance with the requirements under Rules 4.04(2) and 4.04(4) of the Listing Rules would not prejudice the interests of the investing public.

3. *Unavailability of information*

Our Company only holds a minority equity interest or a non-controlling stake in each of the target companies, has shareholder rights which are proportionate to its shareholding interests in the target companies, does not control the respective boards of directors of the target companies and therefore, is not able to exercise any control, nor does it have any significant influence over any of the target companies.

Given that our Group is not able to exercise any control, or have any significant influence, over each of the target companies, our Company is not able to compel or it is not reasonably practicable to request the target companies to cooperate with the audit work in order for our Company to comply with the relevant requirements under Rules 4.04(2) and 4.04(4)(a) of the Listing Rules. Given the number of target companies and the immateriality of the target companies (individually and in aggregate) to the business, financial condition or operations of our Group, it would also be unduly burdensome and would require considerable time and resources for our Company and our reporting accountants to prepare the necessary information and supporting documents for the purpose of disclosure of their audited financial information in this document. In addition, as each of the target companies is a private company, disclosing its financial information could harm its interests and bring it into an unfavorable competitive position.

4. *Alternative disclosure in this document*

We have provided in this section alternative information in connection with the Investments. Such information includes that which would be required for a discloseable transaction under Chapter 14 of the Listing Rules and which the Company’s directors consider to be material, including, for example, description of the target company’s principal business activities, the investment amount, and a statement that whether the target companies and their ultimate beneficial owners are third parties independent from the Company and its connected persons.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Our Company does not expect to use any [REDACTED] from the [REDACTED] to fund such investments.

CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions which would constitute continuing connected transactions of our Company under the Listing Rules following the completion of the [REDACTED]. We have applied to the Stock Exchange for, and the Stock Exchange [has granted] waivers from strict compliance with (where applicable) the announcement, circular and independent shareholders’ approval requirements (as applicable) set out in Chapter 14A of the Listing Rules for such continuing connected transactions. Further details of such continuing connected transactions are set out in the section headed “Connected Transactions” in this document.

AVAILABILITY OF COPIES OF THE DOCUMENT IN PRINTED FORM

Pursuant to Rules 12.04(3), 12.07 and 12.11 of the Listing Rules, our Company is required to make available copies of this document in printed form.

The waiver from the requirements to make available printed copies of this document is in line with recent amendments to the Listing Rules relating to environmental, social and governance (“ESG”) matters. As the Stock Exchange noted on page 1 of its Consultation Conclusions on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules dated December 2019, such amendments relating to ESG matters “echo the increasing international focus on climate change and its impact on business.” Electronic, in lieu of printed, document and [REDACTED] will help mitigate the environmental impact of printing, including the exploitation of precious natural resources such as trees and water, the handling and disposal of hazardous materials, air pollution, among others.

It is noted that in light of the severity of the ongoing COVID-19 pandemic, the provision of a printed document and printed [REDACTED] will elevate the risk of contagion of the virus through printed materials.

While the government of Hong Kong may relax social distancing restrictions as the local COVID-19 situation improves, it is possible that stricter social distancing measures may be necessary later if the number of cases of infection in the territory dramatically increases. In any event, it is impossible to accurately predict the development of the COVID-19 pandemic as of the Latest Practicable Date. In this uncertain environment, an [REDACTED] with a paperless document will reduce the need for prospective [REDACTED] to gather in public, including branches of the [REDACTED] and other designated points of collection, in connection with the [REDACTED].

Our Company proposes to adopt a fully electronic [REDACTED] process for the [REDACTED] and will not provide printed copies of this document or printed copies of any [REDACTED] to the public in relation to the [REDACTED]. Our Company also anticipates that the [REDACTED] will implement enhanced measures to support the [REDACTED], including [increasing its server capacity and making available a telephone hotline to answer [REDACTED] queries in connection with the fully electronic [REDACTED] process]. Our Company will adopt additional communication measures to inform the potential [REDACTED] that they can only [REDACTED] for the [REDACTED] electronically and advertise through the [REDACTED] the electronic methods for [REDACTED] of the [REDACTED].

Our Company also expects to publish the formal notice with respect to its [REDACTED] on the official websites of the Stock Exchange and our Company [and in selected English and Chinese local newspapers], describing the fully electronic [REDACTED] process including the available channels for share subscription and [the enhanced support provided by our Company’s [REDACTED] in relation to the [REDACTED]] and reminding [REDACTED] that no printed document or [REDACTED] will be provided.

Our Company has applied for, and the Stock Exchange [has granted], a waiver from strict compliance with Rules 12.04(3), 12.07 and 12.11 of the Listing Rules in respect of providing copies of this document in printed form based on the specific and prevailing circumstances of our Company.

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INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

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INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

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Principal place of business in Hong Kong	40 th Floor, Dah Sing Financial Centre No. 248 Queen’s Road East Wanchai, Hong Kong
Company’s Website	www.qcplay.com <i>(The information on the Company’s website does not form part of this document)</i>
Joint Company Secretary	Zhu Chengyin (朱承印) 5 th Floor, 4 Wang Hai Road Xiamen Software Park II Xiamen, Fujian Province 361008, PRC So Shuk Yi Betty (蘇淑儀) 40 th Floor, Dah Sing Financial Centre No. 248 Queen’s Road East Wanchai, Hong Kong <i>(an associate of The Hong Kong Institute of Chartered Secretaries and an associate of The Chartered Governance Institute in the United Kingdom)</i>
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Remuneration Committee	Professor Lam Sing Kwong Simon (Chairman) Mr. Zhang Longgen Mr. Yang Xu

CORPORATE INFORMATION

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Mr. Yang Xu (Chairman)

Professor Lam Sing Kwong Simon

Ms. Fang Weijin

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INDUSTRY OVERVIEW

The information presented in this section, including certain facts, statistics and data, is derived from the market research report (the “Frost & Sullivan Report”) prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. (“Frost & Sullivan”), which was commissioned by us, and from various official government publications and other publicly available publications, unless otherwise indicated. We believe that these sources are appropriate for the information in this section and we have taken reasonable care in extracting and reproducing this information. We have no reason to believe that this information is false or misleading in any material respect or that any fact has been omitted that would render this information false or misleading in any material respect. Our Directors confirm that, after making reasonable enquiries, there is no adverse change in the market information, since the date of the Frost & Sullivan Report, that may qualify, contradict or have a material impact on this information. The information presented in this section has not been independently verified by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], or any of our or their respective directors, officers, representatives or advisors or any other person involved in the [REDACTED] (except Frost & Sullivan) and no representation is given as to its accuracy. Accordingly, the information from official and non-official sources contained herein may not be accurate and should not be unduly relied upon.

SOURCE OF INFORMATION

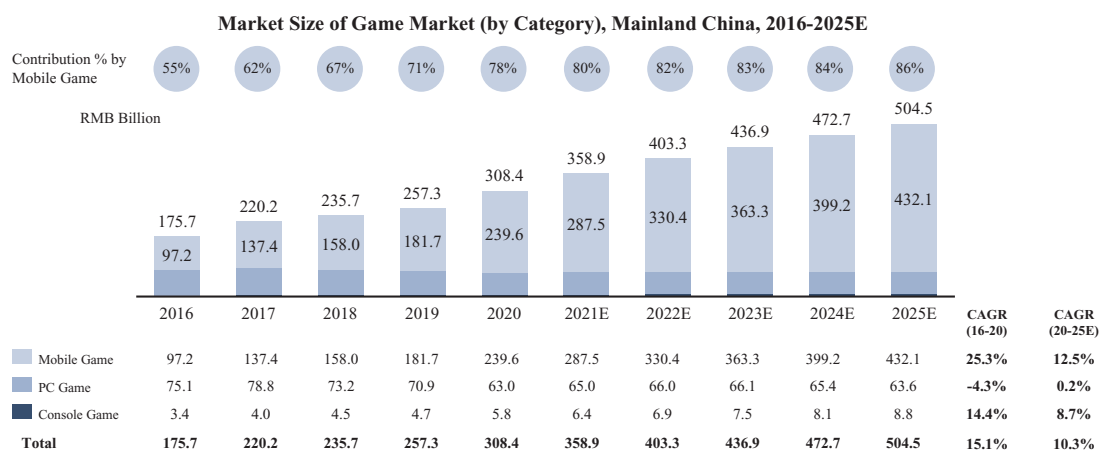
In connection with the [REDACTED], we have commissioned Frost & Sullivan, an independent third party, to conduct research and analysis of the mobile game markets in China and certain overseas markets and produce a relevant industry report. The Frost & Sullivan Report has been prepared by Frost & Sullivan independently. We have agreed to pay Frost & Sullivan a fee of RMB0.6 million for the preparation of this report, which we consider to be in line with market rates for similar reports. Except as otherwise noted, all data and forecasts in this section have been derived from the Frost & Sullivan Report and were based on literature review, expert interview and analysis by Frost & Sullivan. In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan made the following key assumptions: (i) government policies on mobile game industries in China discussed in that report will remain consistent during the forecast period, (ii) the global and China’s mobile game markets will be driven by the factors stated in the Frost & Sullivan Report, and (iii) the COVID-19 pandemic will affect the stability of economy in the short term. In this section, Frost & Sullivan presents certain historical market information for five years (2016 to 2020), which is a longer period than the Track Record Period. We believe this approach provides a more accurate reflection of the trends affecting our industry and markets.

INDUSTRY OVERVIEW

OVERVIEW OF CHINA’S MOBILE GAME MARKET

Introduction to China’s Mobile Game Market

China’s game market has become the largest in the world, with a market size of RMB308.4 billion in 2020. It is expected that China’s game market will further grow to RMB504.5 billion in 2025, representing a CAGR of 10.3% from 2020 to 2025, outpacing the expected CAGR of 7.3% over the same period for the global game market. The following chart shows a breakdown of China’s game market in terms of revenue by game platform utilized and contribution of each mobile game market for the periods indicated.



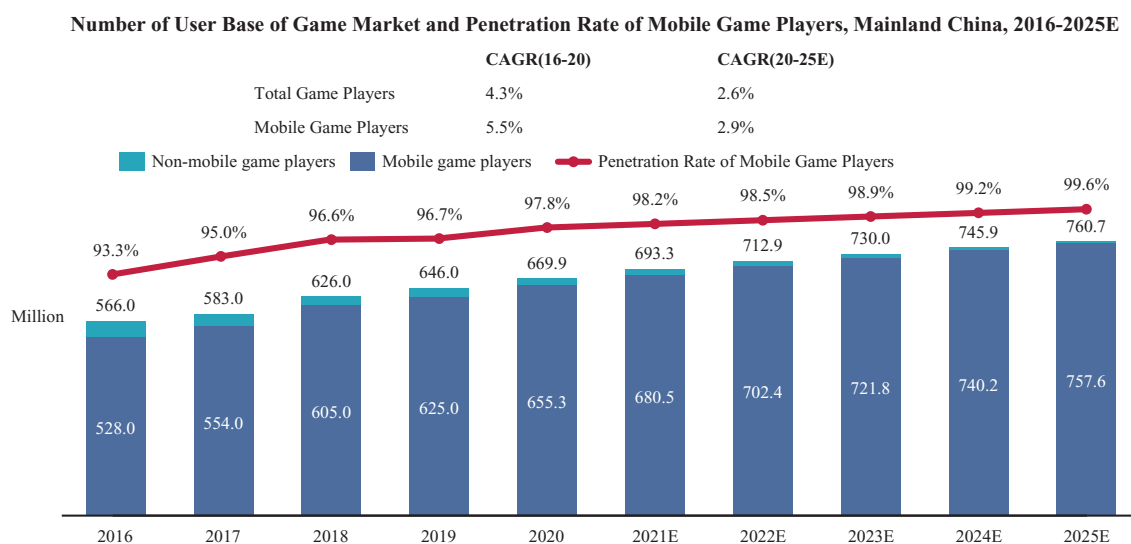
Source: Frost & Sullivan, China Audio-video and Digital Publishing Association

Driven by the evolving mobile communication technologies, the increasing penetration of mobile users and the ensuing shift of entertainment consumption towards mobile devices, China’s mobile game market has become the fastest-growing and a strategically important segment within China’s game market. China’s mobile game market grew rapidly at a CAGR of 25.3% from RMB97.2 billion in 2016 to RMB239.6 billion in 2020 and is expected to reach RMB432.1 billion in 2025, representing a CAGR of 12.5% from 2020 to 2025. The mobile game market size as a percentage of China’s game market size increased from 55.3% in 2016 to 77.7% in 2020 and is expected to further increase to 85.6% in 2025.

Due to the COVID-19 pandemic and the quarantine policies of the governments in China and many other countries, people have spent more time on online entertainment and in-door activities, such as playing mobile phones, which has driven growth of China’s and the global mobile game markets. Accordingly, the size of China’s mobile game market increased by 31.9% from RMB181.7 billion in 2019 to RMB239.6 billion in 2020, and the global mobile game market grew by 23.6% from US\$87.6 billion in 2019 to US\$108.3 billion in 2020.

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China’s game market has a large user base that is continuing to expand, driven by the increasing demand for cultural, leisure and recreational activities and the continuous innovation and development of the game industry. The total number of game players grew from 566.0 million in 2016 to 669.9 million in 2020 and is expected to reach 760.7 million by 2025. The following chart shows the increases in players of China’s game market for the periods indicated. Mobile game players accounted for a substantial majority of China’s game players.



Source: Frost & Sullivan, China Audio-video and Digital Publishing Association

Major Genres of Mobile Games

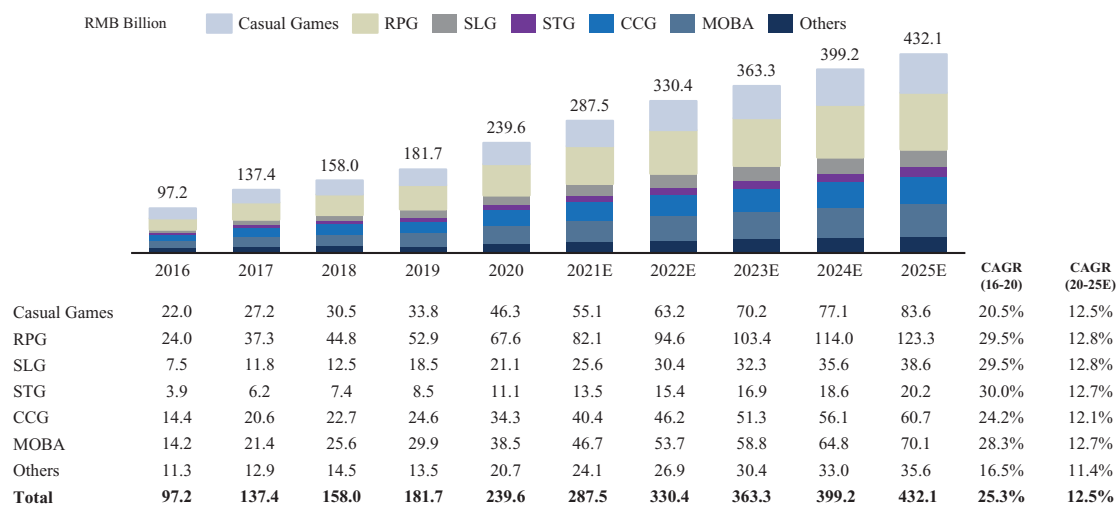
Mobile games generally can be classified into various genres, and a genre may consist of multiple types of games, based on factors including dynamic game rules, play experiences and tools. Set forth below are the major genres and types of mobile games:

- **Casual games:** a genre of games that is typically designed with relatively simple but attractive gameplay in a minimalistic style, such as cartoons, played by users for recreational purposes, and generally have shorter gaming time per play compared to other mobile game genres. Idle games are an important type of casual games;
- **RPG (role-playing games):** a genre of games in which a player assumes the role of a character, interacts with each other in an evolving fantasy or fictional world and takes control over the character’s actions. Types of games under RPG include rogue-like RPG, ACT RPG (a type of RPG that has features of ACT games) and other RPG;
- **SLG (simulation games):** a genre of games that allows players to control characters and attempt to emulate various activities from real life in the game format, such as tower defense;
- **STG (shooter games):** a genre of games in which game players are engaged in combat with opponents by shooting, and progress through the game by carrying out quests. STGs often test players’ spatial awareness, reflexes, and speed in both single player mode and online multiplayer mode;
- **CCG (collectable card games):** also known as trading card games or customizable card games, which are played using specially designed sets of playing cards; and
- **MOBA (multiplayer online battle arena):** also known as ARTS (action real-time strategy), which originated from a sub-genre of real-time strategy in which each player controls a single character, usually on a map in an isometric perspective, as part of a team competing against another team of players.

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The following chart shows the market size of China’s mobile game market in terms of revenue by game genre for the periods indicated.

Market Size of Mobile Games Market in Mainland China, Breakdown by Game Genre, by Revenue, 2016-2025E



Note: Others include ACT (action games), sports games, racing games, etc.

Source: Frost & Sullivan

Casual games and RPG are the two most significant genres in terms of revenue, indicating their strategic importance and market potential. China’s casual games market is expected to grow from RMB46.3 billion in 2020 to RMB83.6 billion in 2025. China’s RPG market is expected to grow from RMB67.6 billion in 2020 to RMB123.3 billion in 2025. In addition, casual games also had the largest user base among all game genres in China in 2020 and is expected to remain the same in 2025.

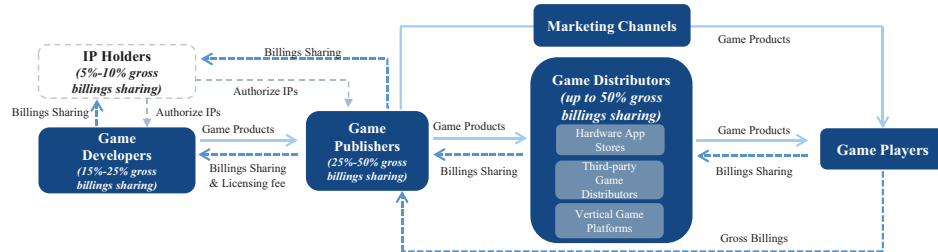
The major genres of mobile game consist of various types based on factors including dynamic game rules, play experiences, and tools. Idle games are often categorized as a type of casual games. Game players are able to play idle games for any interval of time to experience the core part of the game, while the game automatically continues for the rest of the day and progresses the players’ profiles in the game. Given such unique nature, idle games can accommodate more flexibility to combine with elements of other game genres to satisfy increasingly sophisticated players, and to better fit entertainment needs with fragmented leisure time. Idle games experienced booming growth in 2020, and many popular games such as *The Marvelous Snail* (最強蝸牛), *Hundred Scenes of Jiangnan* (江南百景圖) and *AFK Arena* (劍與遠征) came into the market and gained wide popularity. The market size of idle games increased at a CAGR of 38.0% from RMB2.5 billion in 2016 to RMB9.0 billion in 2020, and is expected to further rise to RMB22.7 billion in 2025, representing a CAGR of 20.3% from 2020 to 2025, faster than the overall mobile games market.

Rogue-like RPG is a type of RPG. The rules and design of the games allow players to unlock new content step by step via different adventures. Randomness and surprises through treasure hunt, map discovery and other unpredictable events are embedded in the games, which creates intense, unexpected and exciting experience for the players. In addition, these games give players a sense of achievement as their game avatars grow and excel through their efforts. The market size of rogue-like RPG increased from RMB288 million in 2016 to RMB1.1 billion in 2020, representing a CAGR of 39.2%, benefiting from the overall development of RPG in China’s market and players’ desire for innovative gameplay and novel experiences. Iconic games, such as our *Gumballs & Dungeons* (不思議迷宮) and *Lantern and Dungeon* (提燈與地下城), have achieved great success through ingenious monetization methods, and therefore set the landmark for rogue-like RPGs. More game developers are inspired and expected to follow and enter the rogue-like RPG market according to Frost & Sullivan. The market size of rogue-like RPGs is expected to further rise to RMB4.0 billion in 2025, representing a CAGR of 30.2% from 2020 to 2025.

INDUSTRY OVERVIEW

Industry Value Chain for Mobile Games and Recent Transformation

The major participants of the value chain for China’s mobile game market include IP holders, game developers, game publishers, distribution platforms, payment channels and game players, as illustrated by the following chart.



Source: Frost & Sullivan

- **IP Holders:** typically game developers or publishers who own the intellectual property of mobile games.
- **Game Developers:** game development professionals who are generally responsible for game design and development, pre-launch testing, ongoing post-launch operations and technical support. Some game developers operate proprietary distribution channels as well.
- **Game Publishers:** mainly responsible for the marketing and promotion of the mobile games. Some publishers may be capable of game development.
- **Game Distributors:** include hardware app stores, third-party game distributors and vertical distribution channels, all of which are in charge of the sales and distributions of mobile games to end users.
- **Marketing Channels:** online channels such as Douyin, Kuaishou and other social media platforms, as well as offline channels, all of which can be used to market and promote mobile games.
- **Payment Channels:** mainly online third-party payment service providers such as Alipay, WeChat Pay, UnionPay, VISA, Mastercard, and Apple Pay.

Mobile game distributors (through which players access and download games) in China traditionally mainly consist of two types: hardware app stores of branded mobile phones and third-party app stores. They can be very influential and usually play a decisive role in the successful publication of a mobile game, as they possess a large number of user resources.

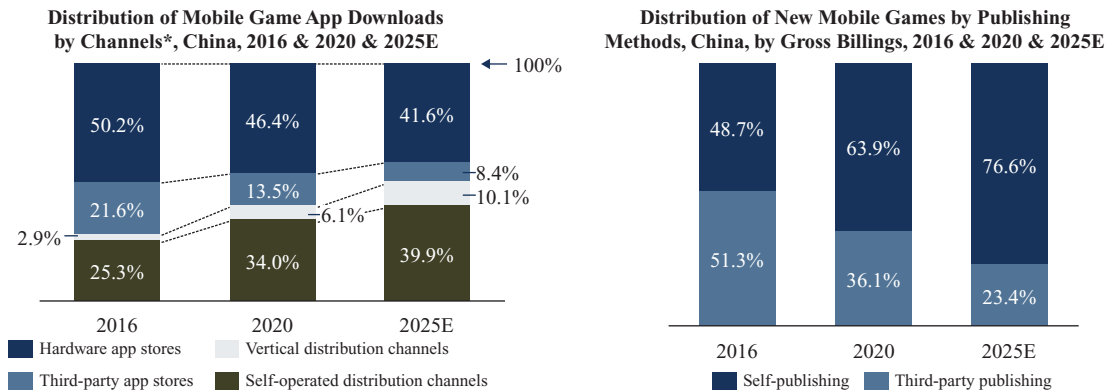
However, in the past few years, other distribution channels have emerged quickly and represented an increasing share of game distribution, including vertical distribution channels such as TapTap and Bilibili, official websites of mobile game developers or publishers. With a large user base or extensive traffic resources but different monetization approaches compared to traditional distributors, these channels provide diversified, accessible and cost-effective options to game developers and publishers, especially small-to-medium sized ones, to suit their needs and reach target players in an efficient way.

Hardware app stores remain the primary channel, but their contribution to the overall mobile game apps channels in terms of number of downloads decreased from 50.2% in 2016 to 46.4% in 2020. In addition, about 28.2% of the mobile game app downloads in China in 2016 were made through channels other than hardware app stores and third-party app stores, which grew to 40.1% in 2020. This trend alleviates the dominance of traditional distributors and their long-standing, demanding revenue sharing mechanism, thus providing a fertile ground for game developers to independently operate and/or publish their own games via cost-effective distribution channels.

In recent years, an increasing number of mobile game developers have chosen to publish the games they developed on their own. They have better understanding of these games and therefore are better at designing the games’ promotion strategies, while traditionally third-party game publishers are in charge of game promotion.

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As more game developers become capable of publishing games, the market has seen increasing integration of mobile game development and publishing. In China, in terms of gross billings, the proportion of self-published new mobile games as a percentage of overall new mobile games increased from around 48.7% in 2016 to around 63.9% in 2020, and is expected to further grow to 76.6% in 2025. The charts below set forth the distribution of mobile game app downloads by channel and by publishing method in China for the periods indicated.



Source: Frost & Sullivan

Note: Hardware app stores include Apple’s App Store, Huawei App Gallery and Oppo App Market; third-party app stores refers to non-hardware app stores, such as 360 and Yingyongbao; and vertical distribution channels refer to professional game platforms and communities such as TapTap and Bilibili.

Player Profile

China’s mobile game players are largely young generation. In 2020, mobile game players in China that are aged 30 or below were approximately 424.5 million, representing approximately 65% of China’s total mobile game players. The rising living and consumption standards have resulted in consumers’ demand for high-quality content of the games. In particular, players of the young generation that are aged 30 or below generally have strong desire for premium content, personal expression and distinctive experiences and they are generally more receptive to games with compelling storylines and renowned IP. They appreciate innovative plots and game rules, as well as spoof elements, and prefer to use their fragmented time to play mobile games. As a result, idle games and rogue-like RPGs with above mentioned features are well-received among the young generation. According to the Frost & Sullivan Survey, based on a total of 3,588 qualified responses, approximately 76% of QingCi Enthusiasts are aged 30 or below, significantly higher than the industry average of 65%.

Lifecycle

The lifecycle of mobile games typically include three stages: growth, maturity and recession. In the growth stage (accounting for up to 30% of the game’s life span), the number of users and revenue generated by the game would experience a rapid growth, as a result of the comprehensive marketing and promotion campaigns at the early growth stage. In the maturity stage (accounting for approximately 50% to 60% of the game’s lifecycle), the game continues to generate revenue, and the user base tends to be stable. In the recession stage (accounting for about 20% of the game’s life span), the game faces loss of substantial active users and significant decrease in revenue as some users might lose their interest in the game.

Casual games are regarded as mid-core or light games, and the lifecycle for casual games (including idle games) is typically around 10 months. RPGs are generally considered as hard-core games, and RPGs (including rogue-like RPGs) typically have a lifecycle of around 12 months. Notably, the top five casual games and the top five RPGs measured by gross billings in China in 2020 have been operating for an average of 54 months and 33 months, respectively, which are much longer than the industry average.

INDUSTRY OVERVIEW

Market Drivers

The growth of China’s mobile game market is attributed to the following drivers:

- **Increasing demand for diversity and quality from game players.** To cater to the diversified market demands, different genres of mobile games have been released in recent years. Games with specialty or higher quality typically attract more game users. Compared with other genres, idle games and rogue-like RPGs have competitive advantages in their creative and high-quality game content and are thus able to attract a large number of players and maintain a stable user base.
- **Increasing consumption and willingness to pay by game players.** As per capita disposable income continues to grow in line with the consumption upgrade trend, players in China are increasingly willing to pay for in-game virtual items. The young generation generally are willing to share game experience with other players on various game community platforms, making these platforms an increasing important gathering place for game players. In addition, they generally respect copyright and are willing to pay for in-game items and game peripheral products, thus making IP a growth focus of the industry. On the other hand, the emerging monetization strategies of mobile game companies, such as the launches of battle passes and seasonal passes, are expected to attract more potential game players.
- **Expanding internet coverage and decreasing communication costs.** 4G network had covered 98% of the administrative villages and broadband had covered 96% of households in China by the end of 2020. The three major telecommunication operators in China have lowered 4G service and broadband charges recently, making mobile Internet and broadband more accessible and affordable for people in rural and remote areas. In the meanwhile, China has managed to cover all prefecture-level cities with 5G network by building approximately 0.6 million 5G base stations in 2020. The deployment of 5G drives up the internet speed. With faster internet connection and expanded internet coverage at affordable prices, mobile games will be accessible to a wider range of people, which is expected to further boost the growth of the mobile game market.
- **Improving game technology to enhance game experience.** AI, VR/AR, holography and other new technologies are currently innovating people’s work and life and have gradually been applied in mobile games, as they are able to create immersive environments and thus provide users with a higher level of interactive experience that makes gameplay more appealing. As these technologies gradually become mature along with the increasing popularity of smart devices, especially wearable devices that act as vectors for technologies, users would be more willing to spend more time playing mobile games, thereby driving the growth of the mobile game market.

Key Success Factors

New entrants to the mobile game market need to manage the following factors to succeed:

- **Brand awareness and user base.** Mobile games that are developed based on popular IPs, such as movies, novels and TV series generally have better chances of being well received by the market and accumulating a large player base in a short period of time. Leveraging our established brand, the marketing and promotion of our mobile games may be more cost-effective. In comparison, for other newly developed mobile games without an existing fan base, it may take longer time and higher marketing investments to attract players.
- **Knowledge of users and the market.** To promote new game genres to meet various player demands, it is essential for mobile game companies to develop good knowledge of ever-changing player preferences, upgrade game versions, launch new game features or adjust distribution strategies timely according to feedback from players. Failure to keep pace with market dynamics may adversely affect new entrants to ramp up their mobile game business.

INDUSTRY OVERVIEW

- Technology know-how.** To develop high-quality mobile games that can attract and retain users and maintain a market-leading position, game developers need to equip themselves with strong R&D capabilities. Game developers rely on advanced technologies that provide a framework to simplify game development, testing and transplantation as well as a team of professional talent to develop games efficiently. However, it may take a long time to establish a professional team or acquire technology know-how for new entrants.
- Acquisition and cultivation of talent.** It is important for game companies, particularly game developers and publishers, to have sufficient talent with in-depth understanding of the game market, player preferences and market trends. Game quality and updates are closely related to the in-house development and innovation capabilities of the game companies and can affect players’ stickiness and willingness to pay. New entrants might find it challenging to acquire sufficient talent and further cultivate and retain the talent in a short period of time.
- Emerging mobile game publishing and distribution methods.** The emerging publishing and distribution methods of mobile games have dramatically influenced the mobile game industry. For instance, some game publishers place advertisements on Douyin, Kuaishou and other emerging live streaming platforms, efficiently attracting a vast number of users of these platforms. As a result, the traffic acquisition costs have largely decreased. In addition, the emergence of TapTap and other vertical distribution channels has forced traditional distribution channels to reduce their share of revenues to remain competitive in the market. The ability to follow and leverage these emerging distribution methods will be important to mobile game companies.

Competitive Landscape

Competition in China’s mobile game market is intense, with a few major market players dominating the market and tens of thousands of mobile game companies competing with each other. In China’s mobile game market, the top five market players collectively held a market share of 72.5% and the top two market players held an aggregate market share of 60.4% in terms of revenue in 2020.

In 2020, we ranked third in China in terms of gross billings from casual games, and ranked second in China in terms of gross billings from idle games.

In the overall RPG market, there are a number of popular RPG with high gross billings. In the rogue-like RPG segment, we ranked second in China in terms of gross billings from self-developed rogue-like RPGs in 2020.

The following tables show the top five mobile game companies in China’s mobile game market in terms of gross billings from self-developed casual games, idle games and rogue-like RPGs, respectively, in 2020.

Ranking of Top Mobile Game Companies (by Gross Billings from Self-developed Casual Games), China, 2020			Ranking of Top Mobile Game Companies (by Gross Billings from Self-developed Idle Game), China, 2020			Ranking of Top Mobile Game Companies (by Gross Billings from Self-developed Rogue-like RPG), China, 2020		
Rank	Company Name	Gross Billings from Self- developed Casual Games in 2020, RMB billion	Rank	Company Name	Gross Billings from Self- developed Idle Games in 2020, RMB billion	Rank	Company Name	Gross Billings from Self- developed Rogue-like RPG in 2020, RMB Million
1	Company A	5.6	1	Company B	4.3	1	Company H	120.0
2	Company B	4.3	2	Our Company	1.4	2	Our Company	73.8
3	Our Company	1.4	3	Company E	0.5	3	Company I	65.5
4	Company C	1.1	4	Company F	0.5	4	Company J	60.3
5	Company D	0.9	5	Company G	0.3	5	Company K	47.9

Source: Frost & Sullivan

INDUSTRY OVERVIEW

OVERVIEW OF CHINA’S MOBILE GAMES GOING OVERSEAS

The trend of increased market scales outside China has a sustained impact on China’s mobile game market. With increasing demand in the overseas mobile game markets, coupled with the decreasing demographic dividend and increasingly intense market competition in China’s mobile game market, market players are turning into markets outside China to seek for growth. Mature markets such as the U.S. and Japan contribute considerable overseas revenue with a large market size, while developing countries such as the Southeast-Asian region also have great foreseeable potential.

Leveraging the deep industry experience and advantages accumulated through intense competition in the Chinese market, strong operation ability of mobile games, especially in player retention and game promotions, as well as game development capabilities and financing and marketing resources, Chinese mobile game companies generally are able to establish meaningful presence and realize relatively high revenue growth in overseas markets. The market share of Chinese mobile games in overseas markets, especially in North America, South Korea, and Japan, has increased significantly in recent years.

The global market of Chinese mobile games (including the China market) experienced stable growth over the past few years, increasing from US\$4.7 billion in 2016 to US\$11.3 billion in 2020, representing a CAGR of 24.5%, and the market is expected to further rise to US\$22.3 billion in 2025, representing at a CAGR of 14.6% from 2020. The following table shows the global market size of Chinese mobile games in major regions outside mainland China by revenue for the periods indicated.

Market Size of Chinese Mobile Games in Major Regions outside of Mainland China, by Revenue, 2016, 2020 and 2025E

<u>Country/Region</u>	<u>2016</u>	<u>2020</u>	<u>2025E</u>	<u>CAGR</u> <u>2016-2020</u>	<u>CAGR</u> <u>2020-2025E</u>
	<i>US\$ in millions</i>				
Hong Kong, Macau and Taiwan	157.5	554.5	876.9	37.0%	9.6%
Southeast Asia	198.2	966.9	1,883.7	48.6%	14.3%
Japan	426.3	2,005.2	3,702.0	47.3%	13.0%
South Korea	194.9	706.3	2,000.6	38.0%	23.1%
United States	319.9	1,609.2	3,434.4	49.8%	16.4%
Europe	310.5	1,372.1	2,691.3	45.0%	14.4%

Source: Frost & Sullivan

Hong Kong, Macau and Taiwan

The mobile game markets in Hong Kong, Macau and Taiwan have grown rapidly in recent years. The aggregate market size increased from US\$770.6 million in 2016 to US\$1.4 billion in 2020 and is expected to further increase to US\$1.9 billion in 2025. The market size of Chinese mobile games in these regions increased from US\$157.5 million in 2016 to US\$554.5 million in 2020 and is expected to reach US\$876.9 million in 2025. The market share of RPGs and casual games is expected to increase from 41.9% and 13.6% in 2020, respectively, to 44.7% and 15.5% in 2025, respectively.

Southeast Asia

The market size of the Southeast Asian mobile game market increased from US\$1.2 billion in 2016 to US\$2.3 billion in 2020, and is expected to further increase to US\$3.7 billion in 2025. The market size of the Chinese mobile games in this region increased from US\$198.2 million in 2016 to US\$1.0 billion in 2020, and is expected to grow to US\$1.9 billion in 2025.

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Japan

The value chain of Japan’s game industry was complete and organized, laying a solid foundation for the smooth shift to the mobile game industry in recent years. From 2016 to 2020, Japan’s mobile game market size increased from US\$5.9 billion to US\$9.8 billion. Its estimated market size in 2025 is US\$15.5 billion. The market size of Chinese mobile games in Japan increased from US\$426.3 million in 2016 to US\$2.0 billion in 2020, which is expected to further rise to US\$3.7 billion in 2025.

South Korea

The mobile game market in South Korea experienced stable development, with the total market size rising from US\$3.9 billion in 2016 to US\$6.3 billion in 2020. Its market size is expected to increase to US\$8.7 billion in 2025. The market of China’s mobile games in South Korea increased from US\$194.9 million in 2016 to US\$706.3 million in 2020, which is expected to further increase to US\$2.0 billion in 2025.

United States

The mobile game market in the U.S. is relatively mature. Its size increased from US\$7.1 billion in 2016 to US\$13.4 billion in 2020, and is expected to further increase to US\$23.8 billion in 2025. The market for Chinese mobile games in the U.S. also expanded rapidly. Its market size increased from US\$319.9 million in 2016 to US\$1.6 billion in 2020 and is expected to reach US\$3.4 billion in 2025.

Europe

The market size of the European mobile game market grew from US\$7.1 billion in 2016 to US\$13.0 billion in 2020, and is expected to further increase to US\$15.9 billion in 2025. The market size of the Chinese mobile games in Europe also increased from US\$310.5 million in 2016 to US\$1.4 billion in 2020, and is expected to grow to US\$2.7 billion in 2025.

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REGULATIONS RELATED TO FOREIGN INVESTMENT IN THE PRC

Foreign Investment Industrial Policy

Investments activities in China by foreign investors are principally governed by the Guidance Catalog for the Encouraged Foreign Investment Industries (2020 Edition) (《鼓勵外商投資產業目錄》(2020年版)) (the “**Catalog**”) and the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020 Edition) (外商投資准入特別管理措施(負面清單)(2020年版)) (the “**Negative List**”), which were both promulgated by the MOFCOM and the NDRC and each became effective on January 27, 2021 and July 23, 2020, respectively. The Negative List sets out the industries in which foreign investments are prohibited or restricted. Foreign investors would not be allowed to make investments in prohibited industries, while foreign investments must satisfy certain conditions stipulated in the Negative List for investment in restricted industries. According to the Negative List and the Catalogue, the proportion of foreign investments in entities engaged in value-added telecommunications business (except for electronic commerce, domestic multi-party communication, store-and-forward, and call center) shall not exceed 50% and the operation of internet culture business (excluding music) remains as prohibited areas for foreign investment.

Foreign Investment Law and the Implementation Measures

On March 15, 2019, the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) (the “**SCNPC**”) enacted the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”), which came into effect on January 1, 2020. The Foreign Investment Law has replaced the previous major laws and regulations governing foreign investment in the PRC, including the Sino-foreign Equity Joint Ventures Enterprise Law of the PRC (《中華人民共和國中外合資經營企業法》), the Sino-foreign Cooperative Enterprise Law of the PRC (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》). According to the Foreign Investment Law, “foreign-invested enterprises” refers to enterprises that are wholly or partly invested by foreign investors and registered under the PRC laws within China, and “foreign investment” refers to any foreign investor’s direct or indirect investment activities in China, including: (i) establishing foreign-invested enterprises in China either individually or jointly with other investors; (ii) obtaining stock shares, equity shares, shares in properties or other similar interests of Chinese domestic enterprises; (iii) investing in new projects in China either individually or jointly with other investors; and (iv) investing through other methods provided by laws, administrative regulations or provisions prescribed by the State Council.

On December 26, 2019, the State Council issued Implementation Regulations for the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the “**Implementation Rules**”) which also came into effect on January 1, 2020, and replaced the Implementing Rules of the Sino-foreign Equity Joint Ventures Enterprise Law of the PRC (《中華人民共和國中外合資經營企業法實施條例》), the Implementing Rules of the Sino-foreign Cooperative Enterprise Law of the PRC (《中華人民共和國中外合作經營企業法實施條例》) and the Implementing Rules of the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法實施條例》). According to the Implementation Rules, in the event of any discrepancy between the Foreign Investment Law, the Implementation Rules and the relevant provisions on foreign investment promulgated prior to January 1, 2020, the Foreign Investment Law and the Implementation Rules shall prevail. The Implementation Rules also set forth that foreign investors that invest in sectors on the Negative List in which foreign investment is restricted shall comply with special management measures with respect to, among others, shareholding and senior management personnel qualification in the Negative List. Pursuant to the Foreign Investment Law and the Implementation Rules, the existing foreign-invested enterprises established prior to the effective date of the Foreign Investment Law are allowed to keep their corporate organization forms for five years from the effectiveness of the Foreign Investment Law before such existing foreign-invested enterprises change their organization forms and organization structures in accordance with the PRC Company Law (《中華人民共和國公司法》), the Partnership Enterprise Law of the PRC (《中華人民共和國合夥企業法》) and other applicable laws.

On December 30, 2019, the MOFCOM and the State Administration for Market Regulation (the “**SAMR**”) jointly promulgated the Measures on Reporting of Foreign Investment Information (《外商投資信息報告辦法》),

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which came into effect on January 1, 2020, and has replaced the Interim Measures for the Administration of Record-filing on the Establishment and Changes in Foreign-Invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》). Foreign investors or foreign-invested enterprises shall submit investment information to the commerce administrative authorities through the Enterprise Registration System (企業登記系統) and the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統).

On December 19, 2020, the NDRC and the MOFCOM jointly promulgated the Measures on the Security Review of Foreign Investment (《外商投資安全審查辦法》), effective on January 18, 2021, setting forth provisions concerning the security review mechanism on foreign investment, including the types of investments subject to review, review scopes and procedures, among others. The Office of the Working Mechanism of the Security Review of Foreign Investment (外商投資安全審查工作機製辦公室) (the “**Office of the Working Mechanism**”) will be established under the NDRC who will lead the task together with the MOFCOM. Foreign investor or relevant parties in China must declare the security review to the Office of the Working Mechanism prior to (i) the investments in the military industry, military industrial supporting and other fields relating to the security of national defense, and investments in areas surrounding military facilities and military industry facilities; and (ii) investments in important agricultural products, important energy and resources, important equipment manufacturing, important infrastructure, important transport services, important cultural products and services, important information technology and Internet products and services, important financial services, key technologies and other important fields relating to national security, and obtain control in the target enterprise. “Control” as contemplated in item (ii) of the preceding sentence exists when the foreign investor (a) holds over 50% equity interests in the target enterprise, (b) has voting rights that can materially impact on the resolutions of the board of directors or shareholders meeting of the target enterprise even when it holds less than 50% equity interests in the target, or (c) has material impact on the target enterprise’s business decisions, human resources, accounting and technology.

REGULATIONS RELATED TO VALUE-ADDED TELECOMMUNICATION SERVICES

Licenses for Value-added Telecommunications Services

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the “**Telecommunications Regulations**”), promulgated by the State Council on September 25, 2000 and last amended on February 6, 2016, provides a regulatory framework for telecommunications services providers in China. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Business (《電信業務分類目錄》), attached to the Telecommunications Regulations, which was promulgated by the Ministry of Information Industry of the PRC (the “**MII**”, which is the predecessor of the MIIT) on February 21, 2003 and last amended on June 6, 2019, information services provided via fixed network, mobile network and Internet fall within value added telecommunications services. According to the Telecommunications Regulations, a commercial telecommunications service provider in China shall obtain an operating license from the MII or its provincial-level counterparts.

On March 1, 2009, the MIIT issued the Administrative Measures for Value-added Telecommunications Business Operation Permit (《電信業務經營許可管理辦法》) (the “**Telecom Permit Measures**”), which was amended on July 3, 2017. The Telecom Permit Measures confirm that there are two types of telecom operating licenses for operators in China, namely, licenses for basic telecommunications services and value-added telecommunications business operation license (the “**VATS License**”). The operation scope of the license will detail the permitted activities of the enterprise to which it was granted. An approved telecommunication services operator shall conduct its business in accordance with the specifications listed in its VATS License. In addition, the holder of a VATS License is required to obtain approval from the original permit-issuing authority in respect of any change to its shareholders.

On September 25, 2000, the State Council promulgated the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the “**Internet Information Measures**”), which was

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amended on January 8, 2011. According to the Internet Information Measures, commercial internet information services provider shall obtain a VATS License with the business scope of internet information service, namely Internet Content Provider License (the “**ICP License**”), from the relevant government authorities before engaging in any commercial internet information services operations within China. The provision of information services through mobile apps is subject to the PRC laws and regulations governing internet information services. Besides, the Internet Information Measures and other relevant measures also ban Internet activities that constitute publication of any content that, among others, propagates obscenity, pornography, gambling and violence, incites the commission of crimes or infringes upon the lawful rights and interests of third parties. If an internet information service provider detects information transmitted on their system that falls within the specifically prohibited scope, such provider must terminate such transmission, delete such information immediately, keep records and report to the governmental authorities in charge. Any internet information service provider’s violation of these requirements will lead to the revocation of its ICP License and, in serious cases, the shutting down of its website.

On June 28, 2016, the State Internet Information Office promulgated the Administrative Provisions on Mobile Internet Application Information Services (《移動互聯網應用程序信息服務管理規定》) (the “**Mobile Application Administrative Provisions**”), which took effect on August 1, 2016, to strengthen the regulation of the mobile application information services. Pursuant to the Mobile Application Administrative Provisions, an internet application program provider must verify a user’s mobile phone number and other identity information under the principle of mandatory real name registration at the back-end and voluntary real name display at the front-end. An internet application program provider must not enable functions that can collect a user’s geographical location information, access user’s contact list, activate the camera or recorder of the user’s mobile smart device or other functions irrelevant to its services, nor is it allowed to conduct bundle installations of irrelevant application programs, unless it has clearly indicated to the user and obtained the user’s consent on such functions and application programs. The Mobile Application Administrative Provisions also provided that the APP Store service providers shall file a report with the related local offices of CAC within 30 days after such services have been rolled out online for operation, and they are responsible for the management over the application providers as follows: (i) shall verify the authenticity, security and legality of application providers, establish the credit management system and file the record according to the category with relevant authorities; (ii) shall urge the application providers to protect users’ information, provide a full description on the way APPs use to obtain and to use users’ information and present the same to the users; (iii) shall urge the application providers to release lawful information contents, establish and perfect the security review mechanism, and designate certain number of professional staff in line with the service scale; and (iv) shall urge the application providers to release lawful applications, respect and protect the intellectual property rights of such application providers. For any application provider who violates any regulatory requirements, the APP Store service providers shall take such measures as warning, suspending the release or withdrawing the applications as the case may be, keep records and report such violation to the relevant competent authorities. In addition, the APP Store service providers shall enter into service agreements with the APP information service providers, formulating the rights and obligations of both parties.

On December 16, 2016, the MIIT promulgated the Interim Measures on the Administration of Pre-Installation and Distribution of Applications for Mobile Smart Terminals (《移動智能終端應用軟件預置和分發管理暫行規定》) (the “**Mobile Application Interim Measures**”), which took effect on July 1, 2017. The Mobile Application Interim Measures requires, among others, that internet information service providers must ensure that a mobile application, as well as its ancillary resource files, configuration files and user data can be uninstalled by a user on a convenient basis, unless it is a basic function software, which refers to a software that supports the normal functioning of hardware and operating system of a mobile smart device.

The content of the internet information is highly regulated in China and pursuant to the Internet Information Measures, the PRC government may shut down the websites of ICP License holders and revoke their ICP Licenses if they produce, reproduce, disseminate or broadcast internet content that contains content that is prohibited by law or administrative regulations. Commercial internet information service operators are also required to monitor their websites. They may not post or disseminate any content that falls within the prohibited categories, and must remove any such content from their websites, save the relevant records and make a report to the relevant governmental authorities.

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Restrictions on Foreign Investment

Foreign direct investment in telecommunications companies in China is governed by the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), which was promulgated by the State Council on December 11, 2001 and last amended February 6, 2016, which requires foreign-invested value-added telecommunications enterprises in China to be established as sino-foreign equity joint ventures, which the foreign investors may acquire up to 50% of the equity interests of such enterprise. In addition, the main foreign investor who invests in a foreign-invested value-added telecommunications enterprises operating the value-added telecommunications business in China must demonstrate a good track record and experience in operating a value-added telecommunications business, provided such investor is a major one among the foreign investors investing in a value-added telecommunications enterprise in China.

On July 13, 2006, the MII released the Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (《關於加強外商投資經營增值電信業務管理的通知》) (the “**MI** Notice”), pursuant to which, domestic telecommunications enterprises were prohibited to rent, transfer or sell a telecommunications business operation license to foreign investors in any form, or provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China. In addition, under the MII Notice, the internet domain names and registered trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (or its shareholders).

REGULATIONS ON ONLINE GAMES PUBLISHING AND OPERATION

Regulatory Authorities

Pursuant to the Notice on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the “Three Provisions” jointly promulgated by the Ministry of Culture (the “**MOC**”), the State Administration of Radio Film and Television (the “**SARFT**”) and the General Administration of Press and Publication (the “**GAPP**”) (中央機構編製委員會辦公室關於印發《中央編辦對文化部、廣電總局、新聞出版總署〈“三定”規定〉中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋》的通知), issued by the State Commission Office for Public Sector Reform (a division of the State Council) and effective on September 7, 2009, the State Administration of Press, Publications, Radio, Film and Television (the “**SAPPRFT**”), the successor of the SARFT and the GAPP, will be responsible for the examination and approval of online games to be uploaded on the internet and that, after the online games are uploaded on the Internet, online games will be administered by the MOC.

Pursuant to the Circular on Implementation of the Newly Revised Interim Measures on the Administration of Internet Culture (關於實施新修訂《互聯網文化管理暫行規定》的通知) issued by the MOC on March 18, 2011, the authorities shall temporarily not accept applications by foreign invested internet information services providers for operation of internet culture businesses (other than music).

Pursuant to the revised Interim Measures on the Administration of Internet Culture (《互聯網文化管理暫行規定》) (the “**Internet Culture Measures**”) issued by the MOC on December 15, 2017, “internet culture products” are defined as including the online games specially produced for internet and games disseminated or distributed through internet, and provision of internet culture products and related services for commercial purpose is subject to the approval of the provincial counterparts of the MOC.

In May 2019, the General Office of the Ministry of Culture and Tourism released the Notice on Adjusting the Scope of Examination and Approval regarding the “Internet Culture Operation License” to Further Regulate the Approval Work (關於調整《網絡文化經營許可證》審批範圍進一步規範審批工作的通知) (the “**Notice of Adjusting Examination Scope**”), which quotes the Regulations on the Function Configuration, Internal Institutions and Staffing of the MOCT (《文化和旅遊部職能配置、內設機構和人員編製規定》) and further specifies that the MOCT no longer assumes the responsibility for administering the industry of online games and

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no longer approves and issues the Internet Culture Operation Licenses within the business scope of “operating online games via the internet,” “operating online games via the internet (including the issuance of virtual currencies used for online games)” and “conducting trade of virtual currencies used for online games via the internet.” On July 10, 2019, the MOCT issued the Decision on the Abolition of the Interim Measures on Administration of Online Games and the Administrative Measures for Tourism Development Plan (關於廢止《網絡遊戲管理暫行辦法》和《旅遊發展規劃管理辦法》的決定) (the “**Abolition Decision**”). The Abolition Decision also cites the Regulations on the Function Configuration, Internal Institutions and Staffing of the Ministry of Culture and Tourism and further abolishes the Interim Measures on Administration of Online Games, which means that the MOCT will no longer regulate the industry of the online games. However, as of the Latest Practicable Date, it is still unclear as to whether the supervision responsibility of the MOCT will be transferred to another governmental department or whether such governmental department will raise similar or new supervision requirements for the operation of online games.

Both the internet publishing services (including the online game publishing) and internet culture operation (including the online game operation) fall within the prohibited categories in the Negative List. The Notice of the GAPP, the State Copyright Administration and National Anti-Pornography and Anti-Illegal Publications Working Group Office on Implementing the “Regulation on Three Provisions” of the State Council and the Interpretations Edited by the SCOPSR to Further Strengthen the Pre-Approval of Online Games and the Approval and Management of Imported Online Games (新聞出版總署、國家版權局、全國“掃黃打非”工作小組辦公室關於貫徹落實國務院《“三定”規定》和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知) (the “**GAPP Notice**”), promulgated by the GAPP, together with the National Copyright Administration and the Office of the National Working Group for Crackdown on Pornographic and Illegal Publications, on September 28, 2009, provides, among other things, that foreign investors are not permitted to invest or engage in online game operations in China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual agreements or providing technical support. Serious violation of the GAPP Notice will result in suspension or revocation of relevant licenses and registrations.

Online Game Examination and Publishing

The Administrative Measures for Internet Publishing Services (《網絡出版服務管理規定》) (the “**Internet Publishing Measures**”) were jointly promulgated by the SAPPRFT and the MIIT on February 4, 2016 and became effective on March 10, 2016. The Internet Publishing Measures imposed a license requirement for “internet publishing services”, which refers to providing internet publications to the public through information networks, and “internet publications” refers to edited, produced or processed digital works that are provided to the public through information network, including, inter alia, games. The license requirement is that an entity shall, for the purpose of engaging in internet publishing services, be approved by publishing authorities and obtain the Internet Publishing Service License (網絡出版服務許可證).

According to the GAPP Notice, no online game without obtaining the prior approval of the GAPP may be published. The GAPP Notice, however, does not explicitly provide for monetary penalties for failure to obtain such prior approval.

According to the Internet Publishing Measures, before publishing an online game, an online publishing service provider shall file an application with the competent provincial counterpart of the SAPPRFT in the place where it is located and the application, if approved, shall be submitted to the SAPPRFT for approval. An online game shall not be launched without the prior approval of the SAPPRFT, otherwise the competent authority may confiscate all illegal income arising therefrom and impose a fine ranging from 5 times to 10 times of such illegal income, if the illegal income is more than RMB10,000, or up to RMB50,000, if the illegal income is not more than RMB10,000.

On May 24, 2016, the SAPPRFT promulgated the Notice on the Administration over Mobile Game Publishing Services (《關於移動遊戲出版服務管理的通知》) (the “**Mobile Game Notice**”), which became

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effective as of July 1, 2016. The Mobile Game Notice provides that game publishing services providers shall be responsible for examining the contents of their games and applying for game publication numbers (遊戲出版物號). An online game shall not be published without the prior approval of the SAPPRFT. For the purpose of the Mobile Game Notice, game publishing services providers refer to online publishing service entities that have obtained the Internet Publishing Service License from the SAPPRFT, with game publishing business included in their scope of business. To apply for publication of domestically-developed mobile games in the leisure and puzzle category that are not related to political, military, national or religious topics or contents and have no or simple story lines, entities, the game publishing service providers shall submit the required documents to competent provincial publishing administrative departments where it is located at least 20 working days prior to the expected date of online publication (public beta). Game publishing service providers applying for publication of domestically-developed mobile games that are not included in the above-mentioned category and mobile games that are authorized by foreign copyright owners shall go through more stringent procedures, including submitting management accounts for content review and testing account for game anti-indulgence system. The game publishing services providers must set up a specific page to display the information approved by the SAPPRFT, including the copyright owner of the game, publishing service provider, approval number, publication number and others, and shall be responsible for examining and recording daily updates of the game. Concerning those mobile games (including pre-installed mobile games) that have been published and operated online before the implementation of this notice, other requirements apply to maintain the publication and operation of such games online, relevant approval procedures would have to be implemented by the game publishing service providers in coordination with the provincial publication administrative departments before October 1, 2016 as required by this notice. Otherwise, these mobile games shall cease to be published or operated online. Given the considerable amount of games that fail to obtain the pre-approval before launching in the industry, the Notice on Extending the Time Limit under the Notice on the Administration over Mobile Game Publishing Services(《關於順延〈關於移動遊戲出版服務管理的通知〉有關工作時限的通知》) promulgated by the SAPPRFT on September 19, 2016 further extended the above time limit for application of pre-approval from October 1, 2016 to December 31, 2016.

The Central Committee of the Communist Party of China issued the Plan for Deepening the Institutional Reform of the Party and State (《深化黨和國家機構改革方案》) and the National People’s Congress adopted the Institutional Reform Plan of the State Council (《國務院機構改革方案》) in March 2018 (collectively, the “**Institutional Reform Plans**”). According to the Institutional Reform Plans, the SAPPRFT was reformed and now known as the NRTA (國家廣播電視總局) which is a division of the State Council and the NPPA (NCA) (國家新聞出版署(國家版權局)) which is now a division of the Propaganda Department of the Central Committee of the CPC (中共中央宣傳部). Concurrently with the implementation of this reformation, the assessment and preapproval on domestic and foreign developed online games by GAPP had been suspended from April 2018 to December 2018 and resumed since December 2018.

Online Game Operation

On February 17, 2011, the MOC issued the revised Interim Provisions on the Administration of Internet Culture (《互聯網文化管理暫行規定》) (the “**Internet Culture Interim Provisions**”), which became effective on April 1, 2011 and was last revised on December 15, 2017 by the MOC. Pursuant to the Internet Culture Interim Provisions, “internet cultural products” are defined as including the online games specially produced for internet and games disseminated or distributed through internet. Provision of internet cultural products and related services for commercial purpose is subject to the approval of the provincial counterparts of the MOC.

On June 3, 2010, the MOC promulgated the Interim Measures on Administration of Online Games (《網絡遊戲管理暫行辦法》) (the “**Online Game Measures**”), which comprehensively regulate the activities related to online game business, including the research and development and production of online games, the operation of online games, the standards for online games content, the issuance of virtual currencies used for online games and virtual currency trading services. All operators of online games, issuers of virtual currency and providers of virtual currency trading services are required to obtain Internet Culture Operation Licenses. The Online Game Measures also requires online game operators to protect the interests of the online game players and specified certain terms that must be included in the service agreements between online game operators and its online game players. The Notice of the MOC on the Implementation of the Interim Measures for the Administration of Online

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Games (文化部關於貫徹實施《網絡遊戲管理暫行辦法》的通知) which was took effect on July 29, 2010 specifies the entities regulated by the Online Game Measures and procedures related to the MOC’s review of the content of online games, and emphasizes the protection of minors playing online games and requests online game operators to promote real-name registration by their game players.

On July 10, 2019, the MOCT issued the Abolition Decision, which specifies that the Online Game Measures was abolished by the MOCT on July 10, 2019.

REGULATIONS ON VIRTUAL CURRENCY AND VIRTUAL ITEMS

On January 25, 2007, the Ministry of Public Security (the “MPS”), the MOC, the MII and the GAPP jointly issued the Notice on Regulating Operation Order of Online Games and Inspection and Prohibition of Gambling via Online Games (《關於規範網絡遊戲經營秩序查禁利用網絡遊戲賭博的通知》). To curtail online games that involve online gambling, the notice (i) prohibits online game operators from charging commissions in the form of virtual currency in connection with winning or losing games, (ii) requires online game operators to impose limits on use of virtual currency in guessing and betting games, (iii) bans the conversion of virtual currency into real currency or property, and (iv) prohibits services that enable game players to transfer virtual currency to other players.

On February 15, 2007, the Notice on Further Strengthening Administration of Internet Cafes and Online Games (《關於進一步加強網吧及網絡遊戲管理工作的通知》) (the “**Online Games Notice**”) was jointly issued by the MOC, the People’s Bank of China and other governmental authorities with the goal of strengthening the administration of virtual currency in online games and to avoid any adverse impact on the PRC economy and financial system. The Online Games Notice imposes strict limits on the total amount of virtual currency issued by online game operators and the amount purchased by individual players and requires a clear division between virtual transactions and real transactions carried out by way of electronic commerce. The Online Games Notice further provides that virtual currency must only be used to purchase virtual items and prohibits any resale of virtual currency.

On June 4, 2009, the MOC and the MOFCOM jointly issued the Notice on Strengthening Administration of Virtual Currency of Online Games (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the “**Virtual Currency Notice**”). According to the Virtual Currency Notice, it defines the meaning of the term “virtual currency” and places a set of restrictions on the trading and issuance of virtual currency. The Virtual Currency Notice also states that online game operators are also not allowed to give out virtual items or virtual currency through lottery-base activities, such as lucky draws, betting or random computer sampling, in exchange for players’ cash or virtual money.

According to the Notice on Regulating the Operations of Online Games and Strengthening Interim and Ex Post Regulation (《關於規範網絡遊戲運營加強事中事後監管工作的通知》) (the “**Interim and Ex Post Supervision Notice**”) promulgated by the MOC on December 1, 2016, and effective from May 1, 2017, the virtual items, purchased by users directly with legal currency, by using the virtual currencies of online games or by exchanging the virtual currencies of online games according to a certain percentage and enabling users to directly exchange for other virtual items or value-added service functions in online games, shall be regulated pursuant to the provisions on virtual currencies of online games. Online game operators shall not provide users with services to exchange virtual currencies into legal currency or physical items. Where it provides users with the option to exchange virtual currencies into physical items of minor value, the contents and value of such physical items shall be in compliance with relevant laws and regulations of the State. The Interim and Ex Post Supervision Notice was abolished by the MOCT on August 19, 2019.

REGULATIONS ON REAL-NAME REGISTRATION AND ANTI-ADDICTION

Pursuant to the Online Game Measures and the Interim and Ex Post Supervision Notice, both of which were abolished on July 10, 2019 and August 19, 2019, respectively, online game operators shall require online game users to register their real names with valid identity documents, keep user’s registration information, and shall not provide recharge or consumer services in-game for online game users who login in as visitors.

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On April 15, 2007, eight PRC government authorities, jointly issued the Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (《關於保護未成年人身心健康實施網絡遊戲防沉迷系統的通知》) (the “**Anti-addiction Notice**”), which requires the implementation of an anti-addiction compliance system by all PRC online game operators in an effort to curb addiction to online games by minors. Under the anti-addiction compliance system, three hours or less of continuous playing by minors, defined as game players under 18 years of age, is considered to be “healthy”, three to five hours is deemed “fatiguing”, and five hours or more is deemed “unhealthy”. Game operators are required to reduce the value of in-game benefits to a game player by half if it discovers that the amount of time a game player spends online has reached the “fatiguing” level, and to zero in the case of the “unhealthy” level.

To identify whether a game player is a minor and thus subject to the anti-addiction compliance system, a real-name registration system should be adopted to require online game players to register their real identity information before playing online games. Pursuant to Notice Regarding Commencement of Authentication of Real Names for Anti-addiction System on Online Games (《關於啟動網絡遊戲防沉迷實名驗證工作的通知》) (the “**Commencement of Real-name Authentication Notice**”) issued by the relevant eight government authorities on July 1, 2011, online game (excluding mobile game) operators must submit the identity information of game players to the National Citizen Identity Information Center, for verification since October 1, 2011, in an effort to prevent minors from using an adult’s ID to play online games. The most severe punishment contemplated by the Commencement of Real-name Authentication Notice requires termination of the operation of the online game if it is found in violation of the Anti-addiction Notice and the Commencement of Real-name Authentication Notice.

On July 25, 2014, the SAPPRFT issued the Notice Regarding Deepening Implementation of Authentication of Real Names for Anti-addiction System on Online Games (《關於深入開展網絡遊戲防沉迷實名驗證工作的通知》) (the “**Implementation of Real-name Authentication Notice**”) and effected on October 1, 2014, which specify that subject to the hardware, technology and other factors, the anti-addiction compliance system applies to all online games excluding mobile games temporarily.

In August 2018, the Ministry of Education, National Health Commission, General Administration of Sport, the Ministry of Finance (the “**MOF**”), Ministry of Human Resources and Social Security, SAMR, GAPP, SARFT issued the Implementation Program on Comprehensive Prevention and Control of Juveniles Myopia (《綜合防控兒童青少年近視實施方案》), proposing to control the number of new online games, explore the age-appropriate prompting system in line with the national conditions and take measures to restrict the amount of time children spend on playing online games. On October 25, 2019, the NPPA issued the Notice on Preventing Minors from Indulging in Online Games (《關於防止未成年人沉迷網絡遊戲的通知》) which took effect on November 1, 2019. The Notice stipulates several requirements on the online game operation, including but not limited to: (i) all online game users shall register their game accounts with valid identity information; (ii) the time slot and duration for playing online games by minors shall be strictly controlled; (iii) the provision of paid services to minors shall be regulated; (iv) the regulation of the industry shall be enhanced and the requirements above shall be requisite for launching, publishing and operating online games; and (v) the development and implementation of an age-appropriate reminding system shall be explored. Online game companies shall analyze the cause of minors’ addiction to games, and alter the content and features of games or game rules resulting in such addiction.

On October 17, 2020, the SCNPC revised and promulgated the Law of the PRC on the Protection of Minors (2020 Revision) (《中華人民共和國未成年人保護法(2020修訂)》), which took effect on June 1, 2021. Law of the PRC on the Protection of Minors (2020 Revision) added a new section entitled “Online Protections” which stipulates a series of provisions to further protect minors’ interests on the internet, among others, (i) online product and service providers are prohibited from providing minors with products and services that would induce minors to indulge, (ii) online service providers for products and services such as online games, live broadcasting, audio-video, and social networking are required to establish special management systems of user duration, access authority and consumption for minors, (iii) online games service providers must request minors to register and log into online games with their valid identity information, (iv) online games service providers must categorize games according to relevant rules and standards, notify users about the appropriate ages for the players of the games, and take technical measures to keep minors from accessing inappropriate online games functions, and

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(v) online games service providers may not provide online games services to minors from 10:00 P.M. to 8:00 A.M. the next day.

On March 30, 2021, the Ministry of Education of the PRC issued the Notice on Further Strengthening Sleep Management of Primary and Secondary School Students (《關於進一步加強中小學生睡眠管理工作的通知》), which further stipulates the time slot for playing online games by minors, and moreover, requires local education authorities, jointly with the competent local authorities, to effectively strengthen the administration of online games, and conduct supervision by technical means to ensure no game service is provided for minors during a specified timeframe.

REGULATIONS RELATING TO ADVERTISEMENT

The Advertisement Law of the PRC (《中華人民共和國廣告法》), which was last amended on October 26, 2018, requires advertisers, advertising operators and advertising distributors to ensure that the content of the advertisements they produce or distribute are true and in full compliance with applicable laws and regulations and the content of the advertisement shall not contain the prohibited information including but not limited to: (i) information harm the dignity or interests of the State or divulge the secrets of the State, (ii) information contain wordings such as “national level” “highest level” and “best”, and (iii) information contain ethnic, racial, religious, sexual discrimination.

On July 4, 2016, the SAIC promulgated the Interim Measures on Internet Advertisement (《互聯網廣告管理暫行辦法》) (the “**Internet Advertisement Measures**”) which became effective on September 1, 2016. The Internet Advertisement Measures regulates any advertisement published on the internet, including but not limited to, through websites, webpage and APPs, in the form of word, picture, audio and video and provides more detailed guidelines to the advertisers, advertising operators and advertising distributors. According to the Internet Advertisement Measures, internet information service providers must stop any person from using their information services to publish illegal advertisements if they are aware of, or should reasonably be aware of, such illegal advertisements even though the internet information service provider merely provides information services and is not involved in the internet advertisement businesses.

GAMES COMMUNITIES AND PLATFORMS

The operators of games communities and platforms shall (i) observe the relevant laws and regulations relating to value-added telecommunication services, (ii) assume the responsibility for management over the games on platforms and especially require game developers and publishers to provide prior approvals from NPPA before the commercial launch of games through platforms; and (iii) observe the relevant provisions on the advertisement; and (iv) observe the Administrative Provisions on Internet Forum and Community Services (《互聯網論壇社區服務管理規定》) released by CAC on August 25, 2017 and effective from October 1, 2017.

According to the Administrative Provisions on Internet Forum and Community Services, providers of the internet forum community services are responsible for the management of platforms, including (i) enter into agreements with users, specifying that users shall not make use of the internet forum community services to publish or disseminate the illegal information and that the service providers shall ban the use of or close the relevant accounts or sections if the users commit serious violation thereof; specifying that the initiators and managers of the forum community sections shall perform the obligations corresponding to their rights and the service providers shall restrict or revoke their management privileges in accordance with the law or agreement and even ban the use of or close the relevant accounts or sections if the initiators or managers violate the laws or agreements or fail to perform responsibilities and obligations properly; (ii) strengthen the management of information disseminated by their users, cease the transmission of the illegal information forthwith, adopt the measures to remove or otherwise dispose of the illegal information, keep relevant records and timely report to the CAC or its local counterparts; and (iii) require users to register accounts by passing the authentication of real identity information pursuant to the principle of “real name at background and discretion at foreground” and record and conduct regular verification of real identity information to section initiators and managers.

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REGULATIONS RELATING TO INFORMATION SECURITY AND CENSORSHIP

On December 13, 2005, the MPS issued the Regulations on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》) (the “**Internet Protection Measures**”) which took effect on March 1, 2006. The Internet Protection Measures require internet service providers to take proper measures including anti-virus, data back-up and other related measures, and to keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days, and detect illegal information, stop transmission of such information, and keep relevant records. Internet services providers are prohibited from unauthorized disclosure of users’ information to any third parties unless such disclosure is required by the laws and regulations. They are further required to establish management systems and take technological measures to safeguard the freedom and secrecy of the users’ correspondences.

Pursuant to Circular of the MPS, the State Secrecy Bureau, the State Cipher Code Administration and the Information Office of the State Council on Printing and Distributing the Administrative Measures for the Graded Protection of Information Security (《信息安全等級保護管理辦法》) promulgated on June 22, 2007, the security protection grade of an information system may be classified into the five grades. To newly build an information system of Grade II or above, its operator or user shall, within 30 days after it is put into operation, handle the record-filing procedures at the local public security organ at the level of municipality divided into districts or above of its locality. The destruction of a Grade III information system will cause material damage to social order and public interests or will cause damage to national security. Entities operating and using Grade III information system shall protect the information system in accordance with relevant good practice and technical standards of the State.

Internet content in China is regulated and restricted from a state security standpoint. The SCNPC enacted the Decisions on the Maintenance of Internet Security (《維護互聯網安全的決定》) on December 28, 2000, which was amended on August 27, 2009, that may subject persons to criminal liabilities in China for any attempt to: (i) gain improper entry to a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information or (v) infringe upon intellectual property rights. In 1997, the MPS issued the Administration Measures on the Security Protection of Computer Information Network with International Connections (《計算機信息網絡國際聯網安全保護管理辦法》), which were amended by the State Council on January 8, 2011 and prohibit using the internet in ways which, among others, result in a leakage of state secrets or a spread of socially destabilizing content. The MPS has supervision and inspection powers in this regard, and relevant local security bureaus may also have jurisdiction. If an ICP License holder violates these measures, the PRC government may revoke its ICP License and shut down its websites.

On December 29, 2011, the MIIT promulgated the Several Provisions on Regulation of the Order of Internet Information Service Market (《規範互聯網信息服務市場秩序若干規定》), which became effective on March 15, 2012. The Provisions stipulate that without the consent of users, internet information service providers shall not collect information relevant to the users that can lead to the recognition of the identity of the users independently or in combination with other information (hereinafter referred to as “**personal information of users**”), nor shall they provide personal information of users to others, unless otherwise provided by laws and administrative regulations. The Provisions also requires that internet information service providers shall properly keep the personal information of users; if the preserved personal information of users is divulged or may possibly be divulged, internet information service providers shall immediately take remedial measures; where such incident causes or may cause serious consequences, they shall immediately report the same to the telecommunications administration authorities that grant them with the internet information service license or filing and cooperate in the investigation and disposal carried out by relevant departments. Failure to comply with such requirements may result in a fine between RMB10,000 and RMB30,000 and an announcement to the public.

The state departments in charge of the supervision and administration of information security shall supervise and administer the graded protection work on information security of the information system of such Grade. On December 28, 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection

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(《關於加強網絡信息保護的決定》) to enhance the legal protection of information security and privacy on the internet.

On July 1, 2015, the SCNPC issued the National Security Law of the PRC (《中華人民共和國國家安全法》), which came into effect on the same day. The National Security Law provides that the state shall safeguard the sovereignty, national security and cyber security and development interests of the state, and that the state shall establish a national security review and supervision system to review, among other things, foreign investment, key technologies, internet and information technology products and services and other important activities that are likely to impact the national security of China.

On June 28, 2016, the CAC promulgated the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》), which became effective on August 1, 2016, providing that mobile Internet application providers are prohibited from engaging in any activity that may endanger national security, disturb social order or infringe the legal rights of third parties, and may not produce, copy, release or disseminate through mobile Internet applications any content prohibited by laws and regulations.

On November 7, 2016, the SCNPC promulgated the Cyber Security Law of the PRC (《中華人民共和國網絡安全法》), which became effective on June 1, 2017, pursuant to which, network operators shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks shall take technical measures and other necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data, and the network operator shall not collect the personal information irrelevant to the services it provides or collect or use the personal information in violation of the provisions of laws or agreements between both parties, and network operators of key information infrastructure shall store within the territory of the PRC all the personal information and important data collected and produced within the territory of the PRC. Their purchase of network products and services that may affect national security shall be subject to national cybersecurity review.

On March 13, 2019, the Office of the Central Cyberspace Affairs Commission (the “OCCAC”) and the SAMR jointly issued the Notice on App Security Certification (《關於開展App安全認證工作的公告》) and the Implementation Rules on Security Certification of Mobile Internet Application (《移動互聯網應用程序(App)安全認證實施細則》), which encourages mobile application operators to voluntarily obtain app security certification, and search engines and app stores are encouraged to recommend certified applications to users.

On April 13, 2020, the CAC, the NDRC, the MIIT, the MPS, the Ministry of State Security, the MOF, the MOFCOM, the People’s Bank of China, the SAMR, the NRTA, the Secrets Bureau, the State Encryption Administration jointly issued the Measures for Cybersecurity Review(《網絡安全審查辦法》), which took effect on June 1, 2020, to provide for more detailed rules regarding cybersecurity review requirements.

REGULATIONS RELATING TO PERSONAL PRIVACY AND DATA PROTECTION

On July 16, 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunications and Internet Users (《電信和互聯網用戶個人信息保護規定》) to regulate the collection and use of users’ personal information in the provision of telecommunications services and internet information services in China and the personal information includes a user’s name, birth date, identification card number, address, phone number, account name, password and other information that can be used for identifying a user. Telecommunications service providers and internet service providers are required to constitute their own rules for the collecting and use of users’ information and they cannot collect or use of user’s information without users’ consent. Telecommunications service providers and internet service providers must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. Telecommunications service providers and internet service providers are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected

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personal information. Telecommunication business operators and internet service providers are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss.

The CAC, the MIIT, the MPS and the SAMR jointly promulgated the Provisions on the Scope of Essential Personal Information for Common Types of Mobile Internet Applications (《常見類型移動互聯網應用程序必要個人信息範圍規定》) effective from June 1, 2015, which clarifies the scope of Essential Personal Information for Common Types of Applications. In addition, internet application (App) operators shall not refuse users to use the basic functions of Apps on the ground that users do not agree to collect unnecessary personal information.

On August 29, 2015, the SCNPC issued the Ninth Amendment to the Criminal Law of the PRC (《中華人民共和國刑法修正案(九)》), which became effective on November 1, 2015. Any internet service provider that fails to comply with obligations related to internet information security administration as required by applicable laws and refuses to rectify upon order shall be subject to criminal penalty for (i) any large-scale dissemination of illegal information; (ii) any severe consequences due to the leakage of the user information; (iii) any serious loss of criminal evidence; or (iv) other severe circumstances. Furthermore, any individual or entity that (i) sells or distributes personal information in a manner which violates relevant regulations, or (ii) steals or illegally obtains any personal information is subject to criminal penalty in severe circumstances.

On May 8, 2017, the Supreme People’s Court and the Supreme People’s Procuratorate released the Interpretations of the Supreme People’s Court and the Supreme People’s Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens’ Personal Information (《最高人民法院、最高人民檢察院關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》) (the “**Personal Information Interpretations**”), effective from June 1, 2017. The Personal Information Interpretations clarify several concepts regarding the crime of “infringement of citizens’ personal information” stipulated by Article 253A of the Criminal Law of the PRC (《中華人民共和國刑法》), including “citizen’s personal information”, “provision”, and “unlawful acquisition”. Also, the Interpretations specify the standards for determining “serious circumstances” and “particularly serious circumstances” of this crime.

On January 23, 2019, the OCCAC, the MIIT and the MPS, and the SAMR jointly issued the Notice on Special Governance of Illegal Collection and Use of Personal Information via Apps (《關於開展App違法違規收集使用個人信息專項治理的公告》), which restates the requirement of legal collection and use of personal information, encourages app operators to conduct security certifications and encourages search engines and app stores to clearly mark and recommend those certified apps. On August 22, 2019, the CAC issued the Regulation on Cyber Protection of Children’s Personal Information (《兒童個人信息網絡保護規定》), effective on October 1, 2019. No organization or individual is allowed to produce, release or disseminate information that infringes upon the personal information security of children under 14. Network operators are required to establish special policies and user agreements to protect children’s personal information, and to appoint special personnel in charge of protecting children’s personal information. Network operators who collect, use, transfer or disclose personal information of children are required to, in a noticeable and clear way, notify and obtain consent from children’s guardians. On November 28, 2019, the CAC, MIIT, the MPS and SAMR jointly issued the Measures to Identify Illegal Collection and Usage of Personal Information by Apps (《APP違法違規收集使用個人信息行為認定方法》), which lists six types of illegal collection and usage of personal information, including “failure to publish rules on the collection and usage of personal information,” “failure to expressly state the purpose, manner and scope of the collection and usage of personal information,” “collecting and using personal information without obtaining consents from users,” “collecting personal information irrelevant to the services provided,” “providing personal information to other parties without obtaining consent” and “failure to provide the function of deleting or correcting personal information as required by law or failure to publish the methods for complaints and reports or other information.”

On May 28, 2020, the National People’s Congress of the PRC approved the PRC Civil Code (《中華人民共和國民法典》), which took effect on January 1, 2021. Pursuant to the PRC Civil Code, the collection, storage, use, process, transmission, provision and disclosure of personal information shall follow the principles of legitimacy, properness and necessity.

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On April 29, 2021, the Legislative Affairs Committee of the NPC has publicly solicited opinions on the PRC Personal Information Protection Law (Draft for Second Deliberation) (《中華人民共和國個人信息保護法(草案二次審議稿)》) (the “**Draft Personal Information Protection Law**”), which sets forth detailed rules on handling personal information and legal responsibilities, including but not limited to the scope of personal information and the ways of processing personal information, the establishment of rules for processing personal information, and the individual’s rights and the processor’s obligations in the processing of personal information. The Draft Personal Information Protection Law also strengthens the punishment for those who illegally process personal information. As of the Latest Practicable Date, the Draft Personal Information Protection Law has not been formally adopted.

According to the Law of the PRC on the Protection of Minors (2020 Revision) (《中華人民共和國未成年人保護法(2020修訂)》), which became effective on June 1, 2021, information processors must follow the principles of legality, legitimacy and necessity when processing personal information of minors via internet, and must obtain consent from minors’ parents or other guardians when processing personal information of minors under age of 14. In addition, internet service providers must promptly alert upon the discovery of publishing private information by minors via the internet and take necessary protective measures.

On June 10, 2021, the Standing Committee of the National People’s Congress issued the Data Security Law of the People’s Republic of China (《中華人民共和國數據安全法》) (the “**Data Security Law**”), which will take effect on September 1, 2021. The Data Security Law clarifies the scope of data to cover a wide range of information records generated from all aspects of production, operation and management of government affairs and enterprises in the process of the gradual transformation of digitalization, and requires that data collection shall be conducted in a legitimate and proper manner, and theft or illegal collection of data is not permitted. Data processors shall establish and improve the whole-process data security management rules, organize and implement data security trainings as well as take appropriate technical measures and other necessary measures to protect data security. In addition, data processing activities shall be conducted on the basis of the graded protection system for cybersecurity. Monitoring of the data processing activities shall be strengthened, and remedial measures shall be taken immediately in case of discovery of risks regarding data security related defects or bugs. In case of data security incidents, responding measures shall be taken immediately, and disclosure to users and report to the competent authorities shall be made in a timely manner.

As we expand our operations internationally, we may be also subject to privacy laws and data security laws of other jurisdictions in which we operate, including the European General Data Protection Regulation (the “**GDPR**”), which came into effect on May 25, 2018. The GDPR increased our burden of regulatory compliance and required us to change certain of our privacy and data security practices in order to achieve compliance. The GDPR introduced stringent operational requirements for processors and controllers of personal data, including, for example, requiring expanded disclosures about how personal information is to be used, limitations on retention of information, mandatory data breach notification requirements, higher standards for data controllers to demonstrate that they have obtained either valid consent or have another legal basis in place to justify their data processing activities, an expansive definition of personal data, high standards for establishing consent to process personal data, rights granted to data subjects to allow them to (among other things) access and rectify their personal data and request that it be deleted or transferred to another service provider, requirements to conduct data protection impact assessments (DPIA) to identify and reduce risks associated with a data processing activity, an obligation to appoint a data protection officer in certain circumstances and requirements to enter into contractual terms with service providers that will process personal data on a controller’s behalf. In light of the recent decision of the Court of Justice of the European Union in Data Protection Commissioner v Facebook Ireland Limited and Maximillian Schrems (C-311/18), there is currently ongoing uncertainty with respect to the legality of certain transfers of personal data from the EEA and the UK to so called ‘third countries’ outside the EEA, including the United States and the PRC. In addition to the increased legal risk in the event of any such transfers, additional costs might also need to be incurred in order to implement necessary safeguards to comply with the GDPR. While the GDPR provides considerable harmonization to data protection regulation across the EU member states, it also gives EU member states certain areas of discretion and therefore laws and regulations in relation to certain data processing activities may differ on a member state by member state basis. Following the UK’s exit from the EU, the UK has the ability to amend its data protection laws (including the UK GDPR) and in the future UK data protection law may deviate from the GDPR. Local deviations across the EU and UK

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could result in limitations on our ability to freely use and share personal data and could require localized changes to our operating model. Under the GDPR, fines of up to Euro 20 million or up to 4% of an organization’s total worldwide annual turnover for the preceding financial year, whichever is higher, may be imposed by data protection supervisory authorities for non-compliance, which significantly increases our potential financial exposure for noncompliance. Additionally, ongoing efforts to comply with the GDPR may require substantial amendments to our procedures and policies, and these changes could impact our business by increasing its operational and compliance costs. Other jurisdictions are similarly introducing or enhancing privacy and data security laws, rules and regulations, which could increase our compliance costs and the risks associated with noncompliance. For example, California enacted the California Consumer Privacy Act (the “CCPA”), which creates new individual privacy rights for California consumers (as defined in the law) and places increased privacy and security obligations on companies handling personal information of consumers or households. The CCPA, which went into effect on January 1, 2020, requires covered companies to provide new disclosure to consumers about such companies’ data collection, use and sharing practices, provide methods for such consumers to access and delete their personal information, with exceptions, as well as allowing consumers to opt-out of certain sales or transfers of their personal information. The CCPA provides for civil penalties for violations and further provides consumers with a new private right of action in the event of a data breach involving certain sensitive information as a result of the business’ failure to implement reasonable security measures. This private right of action may increase the likelihood of, and risks associated with, data breach litigation. The California Attorney General’s enforcement authority under the CCPA became effective July 1, 2020, and it remains unclear how various provisions of the CCPA will be interpreted and enforced. As currently written, the CCPA impacts certain of our business activities and exemplifies the vulnerability of our business to the evolving regulatory environment related to personal information. A ballot initiative from privacy rights advocates intended to augment and expand the CCPA called the California Privacy Rights Act (the “CPRA”) was passed in November 2020 and will take effect in January 2023 (with a look back to January 2022). The CPRA significantly modifies the CCPA, including by imposing additional obligations on covered companies and expanding consumers’ rights with respect to certain sensitive personal information, potentially resulting in further uncertainty and requiring us to incur additional costs and expenses in an effort to comply. The CPRA also creates a new state agency that will be vested with authority to implement and enforce the CCPA and the CPRA. In addition, all 50 states have laws including obligations to provide notification of security breaches of computer databases that contain personal information to affected individuals, state officers and others. Aspects of the CCPA, the CPRA, and other laws and regulations relating to data protection, privacy, and information security, as well as their enforcement, remain unclear, and we may be required to modify our practices in an effort to comply with them.

Regulations regarding data privacy are increasing in number, as well as levels of enforcement, as manifested in increased amounts of fines and the severity of other penalties. We expect that personal privacy and data protection will continue to receive attention and focus from regulators, as well as public scrutiny and attention. While we have adopted certain policies and procedures pursuant to the GDPR, CCPA and other applicable laws relating to personal privacy and data protection, including but not limited to the privacy policy and an internal data protection policy, these policies and procedures may need to be updated as additional information concerning the best practices is made available through guidance from regulators or published enforcement decisions and further detailed policies may need to be adopted in the future in order to ensure our compliance with such laws.

REGULATION RELATING TO FOREIGN EXCHANGE

The principal regulations governing foreign currency exchange in China are the Regulation on the Foreign Exchange Control of PRC (《中華人民共和國外匯管理條例》), promulgated by the State Council on January 29, 1996, came into effect on April 1, 1996, and last amended on August 5, 2008, and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》), promulgated by the People’s Bank of China in June 1996 and came into effect on July 1, 1996, according to which, Renminbi for current account items is freely convertible, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans and investments in securities outside of the PRC, unless the prior approval or record-filing of the SAFE or its local counterpart is obtained.

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On February 15, 2012, the SAFE promulgated the Notice on Foreign Exchange Administration of PRC Residents Participating in Share Incentive Plans of Offshore Listed Companies (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) (the “**Circular 7**”). According to the Circular 7, PRC citizens or non-PRC citizens residing in China for a continuous period of not less than one year (except for foreign diplomatic personnel in China and representatives of international organizations in China) who participate in any share incentive plan of an overseas publicly listed company shall, through the domestic company to which the said company is affiliated, collectively entrust a domestic agency (may be the Chinese affiliate of the overseas publicly listed company which participates in share incentive plan, or other domestic institutions qualified for asset trust business lawfully designated by such company) to handle foreign exchange registration, and entrust an overseas institution to handle issues like exercise of options, purchase and sale of corresponding shares or equity and transfer of corresponding funds. In addition, the domestic agency is required to amend the SAFE registration with respect to the share incentive plan if there is any material change to the share incentive plan.

On July 4, 2014, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular 37**”), for the purpose of simplifying the approval process, and for the promotion of the cross-border investment. The Circular 37 supersedes the former circular commonly known as “Circular 75” (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) promulgated by SAFE on October 21, 2005 and revises and regulates the relevant matters involving foreign exchange registration for round-trip investment. Under the Circular 37, PRC residents shall register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with their legally owned assets or interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a “special purpose vehicle.” The Circular 37 further requires amendment to the registration in the event the change of basic information of the registered offshore special purpose vehicle such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the change of foreign exchange registration formality for offshore investment. At the same time, the SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment (《返程投資外匯管理所涉業務操作指引》) with respect to the procedures for SAFE registration under the Circular 37, which became effective on July 4, 2014 as an attachment to Circular 37. According to the operation guidance, the principle of review has been changed to “the domestic individual resident is only registering the SPV directly established or controlled (first level)”. According to the Circular 13 which became effective on June 1, 2015, banks are required to review and carry out foreign exchange registration under offshore direct investment directly. The SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks.

On February 13, 2015, SAFE promulgated the Notice on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**Circular 13**”) effective from June 1, 2015, which cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. In addition, it simplifies the procedure of registration of foreign exchange and investors shall register with banks to have the registration of foreign exchange under the condition of direct domestic investment and direct overseas investment. However, remedial registration applications made by PRC residents that previously failed to comply with the Circular 13 continue to fall under the jurisdiction of the relevant local branch of the SAFE. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from distributing profits to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

The Circular on Reforming the Management Method regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the

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“Circular 19”), promulgated on March 30, 2015, came into effective on June 1, 2015, and last amended on December 30, 2019, allows foreign-invested enterprises to make equity investments by using RMB fund converted from foreign exchange capital. Under the Circular 19, the foreign exchange capital in the capital account of foreign-invested enterprises upon the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operation needs of the enterprises. The proportion of willingness-based foreign exchange settlement of capital for foreign-invested enterprises is temporarily set at 100%. The SAFE can adjust such proportion in due time based on the circumstances of the international balance of payments. However, Circular 19 and the Circular on Reforming and Regulating the Management Policies on the Settlement of Capital Projects (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), promulgated on June 9, 2016, continues to prohibit foreign-invested enterprises from, among other things, using RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope, investing and financing directly or indirectly in securities and other investments except for bank’s principal-secured products, providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use (except real estate enterprises).

On January 26, 2017, the SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (《關於進一步推進外匯管理改革完善真實合規性審核的通知》) (the “Circular 3”), which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) when bank handles outward remittance of profits equivalent to more than USD50,000 for a domestic institution shall, under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filling records and audited financial statements, and (ii) domestic entities shall hold income to account for previous years’ losses before remitting the profits. Moreover, pursuant to the Circular 3, domestic entities shall make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

On October 23, 2019, the SAFE released the Circular on Further Promoting Cross-border Trade and Investment Facilitation (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》) (the “Circular 28”), according to which besides foreign-invested enterprises engaged in investment business, non-investment foreign-invested enterprises are also permitted to make domestic equity investments with their capital funds in foreign currency provided that such investments do not violate the Negative List and the target investment projects are genuine and in compliance with laws. According to the Circular on Optimizing Administration of Foreign Exchange to Support the Development of Foreign-related Business (《關於優化外匯管理支持涉外業務發展的通知》), issued by the SAFE on April 10, 2020, eligible enterprises are allowed to make domestic payments by using their capital funds, foreign credits and the income under capital accounts of overseas listing, without submitting the evidentiary materials concerning authenticity of such capital for banks in advance; provided that their capital use is authentic and in compliance with administrative regulations on the use of income under capital accounts. The bank in charge shall conduct post spot checking in accordance with the relevant requirements.

REGULATION RELATING TO DIVIDEND DISTRIBUTIONS

The principal laws and regulations regulating the dividend distribution of dividends by foreign invested enterprises in China include the PRC Company Law (《中華人民共和國公司法》) last amended in 2018 and the Foreign Investment Law (《外商投資法》) which became effective on January 1, 2020. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. A PRC company, including foreign-invested enterprise, is required to set aside as general reserves (法定公積金) at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided, and shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

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REGULATIONS RELATED TO TAX

Enterprise Income Tax

According to the Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法》) (the “**EIT Law**”), which was promulgated on March 16, 2007, came into effect on January 1, 2008, and last amended on December 29, 2018, and the Implementation Regulations on the Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》), which was promulgated by the State Council on December 6, 2007, came into effect on January 1, 2008, amended by the State Council on April 23, 2019, and came into effect on the same date, a uniform income tax rate of 25% will be applied to resident enterprises and non-resident enterprises that have established production and operation facilities in China. Besides enterprises established within the PRC, enterprises established in accordance with the laws of other judicial districts whose “de facto management bodies” are within the PRC are considered “resident enterprises” and subject to the uniform 25% enterprise income tax rate for their global income. A non-resident enterprise refers to an entity established under foreign law whose “de facto management bodies” are not within the PRC but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. An income tax rate of 10% will normally be applicable to dividends declared to or any other gains realized on the transfer of shares by non-PRC resident enterprise investors that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) promulgated by the State Administration of Taxation (the “**SAT**”) on April 22, 2009 and last amended on December 29, 2017 sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC.

According to the Arrangement for the Avoidance of Double Taxation and Tax Evasion between Mainland of China and Hong Kong (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) entered into between Mainland China and the HKSAR on August 21, 2006, if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which directly owns 25% or more of the equity interest of the PRC foreign-invested enterprise which pays the dividends and interests, the 10% withholding tax rate applicable under the EIT Law may be lowered to 5% for dividends and 7% for interest payments if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws. However, according to the Notice on the Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated by the STA on February 20, 2009, and came into effect on the same date, if the relevant PRC tax authorities determine, in their discretion, that a company benefits unjustifiably from such reduced income tax rate due to a transaction or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Announcement of the Certain Issues with Respect to the “Beneficial Owner” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》), issued by the STA on February 3, 2018, and effective on April 1, 2018, if an applicant’s business activities do not constitute substantive business activities, it could result in the negative determination of the applicant’s status as a “beneficial owner,” and consequently, the applicant could be precluded from enjoying the abovementioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

Pursuant to the Announcement of the State Administration of Taxation on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises (《國家稅務總局關於國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》) which was promulgated by the SAT on October 17, 2017 and became effective on December 1, 2017, with regard to dividends, bonuses and other equity investment proceeds and interest therefrom, rentals, royalties, property transfer income and other kinds of income earned by non-resident enterprises from inside China, on which enterprise income tax shall be levied, withholding tax at source shall be

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applicable thereto. Entities or individuals that have direct obligations to make relevant payments to non-resident enterprises in accordance with relevant legal provisions or contracts shall be the withholding agents. The withholding agent shall, within seven days from occurrence of the withholding obligation, declare and turn over the withholding tax to the tax authorities in charge at the withholding agent’s location.

According to the EIT Law, the EIT tax rate of a high and new technology enterprise is 15%. Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》), promulgated on April 14, 2008 and amended on January 29, 2016, the certificate of a high and new technology enterprise is valid for three years and may renewed after the inspection of SAT and other relevant authority.

According to the Further Encouraging the Development of Enterprise Income Tax Policy in Software Industry and Integrated Circuit Industry (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》) (the “2012 Policy”) promulgated by the MOF and the SAT on April 20, 2012 and amended on May 4, 2016 and the Notice on Issues concerning Preferential Enterprise Income Tax Policies for Software and Integrated Circuit Industries (《關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知》) (the “2016 Policy”) promulgated by the MOF, the SAT, the NDRC and the MIIT on May 4, 2016, newly established integrated circuit design enterprises and eligible software enterprises shall be exempt from the EIT for the first two years after they make profits, and shall be levied thereon at half of the statutory rate of 25% for the next three years until the expiration of the preferential period. According to the Notice on Enterprise Income Tax Policies for the Integrated Circuit Design and Software Industries (《關於集成電路設計和軟件產業企業所得稅政策的公告》) (the “2019 Policy”) promulgated by the MOF and the SAT on May 17, 2019, legally established and eligible integrated circuit design enterprises and software enterprises shall be exempted from the enterprise income tax for the first and second year after it makes profits and shall be levied thereon at half of the statutory rate of 25% for the third to fifth year until the expiration of the preferential period. The preferential period shall be calculated from the profitable year prior to December 31, 2018. The 2019 Policy further provides that the eligibility criteria set out in 2012 Policy and the 2016 Policy will continue to apply.

Value-added Tax

The Provisional Regulations on Value-added Tax (《增值稅暫行條例》), which was promulgated on December 13, 1993, came into effect on January 1, 1994, last amended on November 19, 2017, and the Detailed Implementing Rules of the Provisional Regulations on Value added Tax (《增值稅暫行條例實施細則》), which was promulgated on December 18, 2008, and amended on October 28, 2011, came into effect on November 1, 2011, set out that all taxpayers selling goods or providing processing, repairing or replacement labor services, sales of services, intangible assets and immovable assets and importing goods in China shall pay a value-added tax.

On November 16, 2011, the MOF and the SAT jointly promulgated the Pilot Plan for Levying Value-Added Tax in lieu of Business Tax (《營業稅改徵增值稅試點方案》). The State Council approved, and the SAT and the MOF officially launched a pilot value-added tax reform program starting from January 1, 2012, or the Pilot Program, applicable to businesses in selected industries. Businesses in the Pilot Program would pay value-added tax instead of business tax. The Pilot Program was initiated in Shanghai, then further applied to 10 additional regions such as Beijing and Guangdong province.

The Measures for the Exemption of Value-Added Tax from Cross-Border Taxable Activities in the Collection of Value-Added Tax in Lieu of Business Tax (for Trial Implementation) (《營業稅改徵增值稅跨境應稅行為增值稅免稅管理辦法(試行)》), which was promulgated on May 6, 2016 by the SAT and revised on June 15, 2018, provides that if a domestic enterprise provides cross-border taxable activities such as professional technology services, technologies transfer, software service etc., the above mentioned cross-border taxable activities shall be exempted from the VAT.

On March 23, 2016, the MOF and the SAT jointly issued the Circular of Full Implementation of Business Tax to Value-added Tax Reform (《關於全面推開營業稅改徵增值稅試點的通知》) which confirms that business tax will be completely replaced by the VAT from May 1, 2016.

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On November 19, 2017, the State Council promulgated the Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-added Tax (《國務院關於廢止〈中華人民共和國營業稅暫行條例〉和修改〈中華人民共和國增值稅暫行條例〉的決定》), according to which, all enterprises and individuals engaged in the sale of goods, the provision of processing, repairing and replacement labor services, sales of services, intangible assets, real property and the importation of goods within the territory of the PRC are the taxpayers of value-added tax. The value-added tax rates generally applicable are simplified as 17%, 11%, 6% and 0%, and the value-added tax rate applicable to the small-scale taxpayers is 3%.

According to the Notice of the MOF and the STA on Adjusting Value added Tax Rates (《財政部、稅務總局關於調整增值稅稅率的通知》), issued on April 4, 2018, and became effective on May 1, 2018, the deduction rates of 17% and 11% applicable to the taxpayers who have value-added tax taxable sales activities or imported goods are adjusted to 16% and 10%, respectively. According to the Notice of the MOF, the STA and the General Administration of Customs on Relevant Policies for Deepening Value Added Tax Reform (《關於深化增值稅改革有關政策的公告》), issued on March 20, 2019, and became effective on April 1, 2019, the value added tax rate was reduced to 13% and 9%, respectively.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

Copyright

China has enacted various laws and regulations relating to the protection of copyright. China is a signatory to some major international conventions on protection of copyright and became a member of the Berne Convention for the Protection of Literary and Artistic Works in October 1992, the Universal Copyright Convention in October 1992, and the Agreement on Trade-Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

The Copyright Law of the PRC (《中華人民共和國著作權法》) (the “**Copyright Law**”), which was promulgated by the SCNPC on September 7, 1990, amended on February 26, 2010, became effective as of April 1, 2010, further amended on November 11, 2020, and will take effect on June 1, 2021. Under the currently effective Copyright Law, Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The purpose of the Copyright Law aims to encourage the creation and dissemination of works which is beneficial for the construction of socialist spiritual civilization and material civilization and promote the development and prosperity of Chinese culture.

Under the Regulation on Protection of the Right to Network Dissemination of Information (《信息網絡傳播權保護條例》) that took effect on July 1, 2006, and was amended on January 30, 2013, it is further provided that an internet information service provider may be held liable under various situations, including if it knows or should reasonably have known a copyright infringement through the internet and the service provider fails to take measures to remove or block or disconnects links to the relevant content or, although not aware of the infringement, the internet information service provider fails to take such measures upon receipt of the copyright holder’s notice of infringement.

Measures on Administrative Protection of Internet Copyright (《互聯網著作權行政保護辦法》), that were promulgated by the MIIT and National Copyright Administration (the “**NCA**”) and took effect on May 30, 2005, provided that an internet information service provider shall take measures to remove the relevant contents, record relevant information after receiving the notice from the copyright owner that some content communicated through internet infringes upon his/its copyright and preserve the copyright owner’s notice for six months. If an internet information service provider (i) has the knowledge of an internet content provider’s tortious act of infringing upon another’s copyright through internet, or (ii) fails to take measures to remove relevant contents after the receipt of the copyright owner’s notice (regardless of the internet information service provider’s knowledge of the copyright infringement act), and if the relevant copyright infringement act harms public interests, then the infringer shall be ordered to stop the tortious act, and may be imposed of confiscation of the illegal proceeds and a fine of not more than three times the illegal business amount; and if the illegal business amount is difficult to be calculated, a fine of not more than RMB100,000 may be imposed.

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The Notice on Regulating Copyright Order of Internet Reproduction (《關於規範網絡轉載版權秩序的通知》), issued by the NCA in April 2015, includes the following four major points: (i) clarify certain important issues related to internet copyrights in existing laws and regulations, including the definition of news, clarify statutory licenses that are not applicable to internet copyrights and prohibit the distortion of title and work intent; (ii) guide the press and media to further improve the internal management of copyrights, especially requesting the press to clarify the copyright sources of their content; (iii) encourage the press and internet media to actively carry out copyright cooperation; and (iv) ask the copyright administrations at all levels to strictly implement copyright supervision.

The Computer Software Copyright Registration Measures (《計算機軟件著作權登記辦法》) (the “**Software Copyright Measures**”), promulgated by the NCA on February 20, 2002, regulate registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The NCA shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Center of China (the “CPCC”) is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyrights applicants which conform to the provisions of both the Software Copyright Measures and the Computer Software Protection Regulations (Revised in 2013) (《計算機軟件保護條例(2013修訂)》).

Provisions of the Supreme People’s Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks (《最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定》), promulgated by the Supreme People’s Court in December 2012 and further revised on December 29, 2020 and took effect on January 1, 2021, stipulate that internet users or internet service providers who provide works, performances or audio-video products, for which others have the right of dissemination through information networks or make these available on any information network without authorization shall be deemed to have infringed upon the right of dissemination through information networks.

Trademark

Trademarks are protected by the Trademark Law of the PRC (《中華人民共和國商標法》) which was promulgated by the SCNPC on August 23, 1982, last amended on April 23, 2019, and took effect on November 1, 2019, as well as the Implementation Regulation of the PRC Trademark Law (《中華人民共和國商標法實施條例》), adopted by the State Council on August 3, 2002, and revised on April 29, 2014. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks. The Trademark Office of National Intellectual Property Administration handles trademark registrations and grants a term of 10 years to registered trademarks commencing from the date of registration and the registered trademarks can be renewable every 10 years where a registered trademark needs to be used after the expiration of its validity term.

Domain Names

Internet domain name registration and related matters are primarily regulated by the Administrative Measures on Internet Domain Names (《中國互聯網域名管理辦法》), issued by MIIT on November 5, 2004 and effective as of December 20, 2004 which was replaced by the Measures on Administration of Internet Domain Names (《互聯網域名管理辦法》) issued by the MIIT on August 24, 2017 and effective as of November 1, 2017. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration. On November 27, 2017, the MIIT issued Circular on Regulating the Use of Domain Names for Internet Information Services (《工業和信息化部關於規範互聯網信息服務使用域名的通知》), effective as of January 1, 2018, pursuant to which an internet access service provider shall, pursuant to requirements stated in the Anti-terrorism Law of the PRC (《中華人民共和國反恐怖主義法》) and the Cyber Security Law of the PRC (《中華人民共和國網絡安全法》), verify the identity of each internet information service provider, and shall not provide services to any internet information service provider that refuses to submit truthful information about its identity.

REGULATORY OVERVIEW

Patent

According to the Patent Law of the PRC (《中華人民共和國專利法》) promulgated by the SCNPC on March 12, 1984, last amended on October 17, 2020 and became effective on June 1, 2021, and the Implementing Rules of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) promulgated by the PRC Patent Bureau Council on January 19, 1985, last amended on January 9, 2010, and effective from February 1, 2010 there are three types of patents in the PRC: invention patents, utility model patents and design patents. The protection period of a patent right for utility model patents and design patents shall be 10 years, both commencing from the filing date. According to the Patent Law of the PRC, any entity or individual that seeks to exploit a patent owned by another party shall enter into a patent license contract with the patent owner concerned and pay patent royalties to the patent owner. Pursuant to the Measures for the Filing of Patent Licensing Contracts (《專利實施許可合同備案辦法》), which was promulgated by the State Intellectual Property Office on June 27, 2011 and became effective from August 1, 2011, the State Intellectual Property Office shall be responsible for filing of patent licensing contracts nationwide and the parties concerned shall complete filing formalities within three months from the effective date of a patent licensing contract.

REGULATIONS RELATED TO LABOR AND SOCIAL SECURITY

According to the Labor Law of PRC (《中華人民共和國勞動法》), which was promulgated by the SCNPC on July 5, 1994, became effective from January 1, 1995, and was last amended on December 29, 2018, the Labor Contract Law of PRC (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on June 29, 2007, last amended on December 28, 2012, and became effective on July 1, 2013, and the Implementation Regulations on Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》), which was promulgated by the State Council and came into effect on September 18, 2008, labor contracts in written form shall be executed to establish labor relationships between employers and employees. In addition, wages cannot be lower than local minimum wage. The employers must establish a system for labor safety and sanitation, strictly abide by State rules and standards, provide education regarding labor safety and sanitation to its employees, provide employees with labor safety and sanitation conditions and necessary protection materials in compliance with State rules and carry out regular health examinations for employees engaged in work involving occupational hazards.

As required under the Regulation of Insurance for Work-related Injury (《工傷保險條例》), amended on December 20, 2010 and came into effect on January 1, 2011, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, the Unemployment Insurance Measures (《失業保險條例》) promulgated on January 22, 1999, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) promulgated on January 22, 1999 and amended on March 24, 2019 and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on July 1, 2011 and amended on December 29, 2018, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance. Enterprises must apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an enterprise fails to pay the required premiums on time or in full amount, the authorities in charge will demand the enterprise to settle the overdue amount within a stipulated time period and impose a daily overdue fine equivalent to 0.05% of the overdue amount. If the overdue amount is still not settled within the stipulated time period, an additional fine with an amount of one to three times of the overdue amount will be imposed. On March 6, 2019, the General Office of the State Council released the Opinions on Comprehensively Promoting the Consolidation of Maternity Insurance and Basic Medical Insurance for Employees (《關於全面推進生育保險和職工基本醫療保險合並實施的意見》) which stipulates main policies and support measures for the promotion of the consolidation of the maternity insurance and basic medical insurance for employees.

REGULATORY OVERVIEW

According to the Regulation on Management of Housing Provident Fund (《住房公積金管理條例》), which was promulgated by the State Council on April 3, 1999 and was last amended on March 24, 2019, enterprises must register with the competent managing center for housing provident funds and, upon the examination by such managing center of housing provident fund, complete procedures for opening an account at the relevant bank for the deposit of employees’ housing provident funds. Employers are required to contribute, on behalf of their employees, to housing provident funds. The payment is required to be made to the special housing accumulation fund account in a bank. Any employer who fails to contribute may be ordered to make good the deficit within a stipulated time limit or applied to a People’s Court for compulsory enforcement by local administrative authorities.

REGULATIONS RELATING TO M&A AND OVERSEAS [REDACTED]

M&A Rules

On August 8, 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, promulgated the Rules on Merger & Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者並購境內企業的規定》) (the “**M&A Rules**”), a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and was revised on June 22, 2009. Foreign investors should comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets. According to Article 11 of the M&A Rules, where a domestic enterprise, or a domestic natural person, through an overseas company established or controlled by it/him/her, acquires a domestic enterprise which is related to or connected with it/him/her, approval from the MOFCOM is required. The M&A Rules, among other things, purport to require that an offshore special vehicle, or a special purpose vehicle, formed for [REDACTED] purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the [REDACTED] and trading of such special purpose vehicle’s securities on an overseas stock exchange.

1997 Red-chip Guidance

On June 20, 1997, the State Council issued the Circular of the State Council Concerning Further Strengthening of the Administration of Share Issuance and Overseas Listing (《關於進一步加強在境外發行股票和上市管理的通知》) (the “**1997 Red-chip Guidance**”), which governs, among other things, the overseas listing of PRC-funded offshore companies. According to 1997 Red-chip Guidance, laws and regulations of the relevant overseas listing venue will be applicable when a non-public PRC-funded offshore company or an offshore listed company controlled by PRC entities applies for the listing and issue of new shares with its overseas assets or domestic assets owned for more than three years through the investment of its overseas assets in the PRC. The PRC entity which controls the PRC-funded offshore company shall obtain the prior consent of the People’s Government of the PRC at the provincial level or the competent authority of the State Council of the PRC for such application of listing and issue of new shares. A non-public PRC-funded offshore company or an offshore listed company controlled by PRC entities with domestic assets owned for less than three years through the investment of overseas asset in the PRC may not apply for overseas listing and issue of new shares except under special circumstances. To apply for overseas listing and issue of new shares under special circumstances, the relevant PRC entity which controls the PRC-funded offshore company shall submit the matter to the CSRC for examination and the State Council Securities Commission for further examination and approval. Upon completion of the listing and issue of new shares, a PRC entity which controls a PRC-funded offshore company shall report to the CSRC for recordation.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

Our history can be traced back to March 2012 when QC Digital was established by Mr. Yang, the founder, chairman and executive Director of our Group. Since our inception, we have become an integrated mobile game developer and publisher in China and overseas with capabilities in publishing and operating high-quality and popular 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). For further details regarding our business, see the section headed “Business” in this document.

Our Company was incorporated in the Cayman Islands on March 12, 2021. As part of the Reorganization and for the purpose of the [REDACTED], our Company became the ultimate holding company of our various subsidiaries and Consolidated Affiliated Entities. See the sub-section headed “– Reorganization” below.

KEY BUSINESS MILESTONES

The following sets out our major business development milestones since our inception and up to the Latest Practicable Date:

Year	Event
2012	<ul style="list-style-type: none">Establishment of QC Digital, commenced the operation of its game operation and development business
2016	<ul style="list-style-type: none">Our mobile game, <i>Yu Gong 3</i> (愚公移山3—智叟的反擊), was officially launched in the PRC in May 2016<i>Gumballs & Dungeons</i> (不思議迷宮), our landmark mobile game that has attracted high popularity overseas and facilitated our expansion into the international market, was officially launched in August 2016<i>Gumballs & Dungeons</i> was launched in the PRC in December 2016
2017	<ul style="list-style-type: none"><i>Gumballs & Dungeons</i> was nominated for the TGA 2017 Best Chinese Game
2018	<ul style="list-style-type: none">Our mobile game, <i>Ares Virus</i> (阿瑞斯病毒), was officially launched in China in August 2018 with over 15 million cumulative registered players as of March 31, 2021 and topped the iOS Paid Games List in China overnight after its official launch and maintained its top 10 ranking for over 30 days<i>Ares Virus</i> was awarded the Wandoujia Design Award—Game of the Year 2018, OPPO’s Best Spark Game 2018, “Best Reputation Game” by MEIZU, “Aurora Award” by Vivo and the “Best Independent Game” by Golden Tea Award
2019	<ul style="list-style-type: none"><i>The Marvelous Snail</i> (最強蝸牛) project has been officially set up.Establishment of QC HK, expanding our Company’s overseas business
2020	<ul style="list-style-type: none">Our landmark mobile game <i>The Marvelous Snail</i> was launched in the PRC in June 2020<i>The Marvelous Snail</i> received favorable feedbacks since its launch with more than RMB400 million gross billings generated within first month of launch and an average MAU of 4.4 million from June to December 2020<i>The Marvelous Snail</i> was launched in Hong Kong, Macau and Taiwan and topped the iOS and Google Play Top 10 Free Games Charts in Hong Kong and Taiwan, and obtained the highest ranking of No. 1 on the Google Play Games List in Hong Kong and iOS Bestseller Games List in Taiwan

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Event
2021	<ul style="list-style-type: none"> • <i>The Marvelous Snail</i> was awarded as the Outstanding Game of the Year for Storyline and Outstanding Game of the Year for Innovative Gameplay by Beijing International Game Innovation Conference and the Players’ Most Anticipated Game by Huawei AppGallery • Nominated by the Game Publishers Association Publications Committee (GPC) of The China Audio-video and Digital Publishing Association (中國音數協遊戲工委)(“GPC”) for China’s Top 10 New Games and China’s Top 10 Games Development Teams • <i>Lantern and Dungeon (提燈與地下城)</i> was launched in March 2021, with the number of active players reaching 1 million on the date it was launched; it was included in the iOS “Today” top games list in China for 38 times

See the section headed “Business—Awards and Recognition” in this document for recognition for the quality and market reception of our games during the Track Record Period.

OUR MAJOR SUBSIDIARIES AND PRC CONSOLIDATED AFFILIATED ENTITIES

As of the Latest Practicable Date, we have three principal operating entities (including two PRC Consolidated Affiliated Entities and one operating subsidiary) which made material contributions to our financial results during the Track Record Period and/or are material to our operation. The corporate details of these principal operating entities are set forth below:

Date of Establishment	Name	Principal Business Activities	Place of Establishment
March 1, 2012	QC Digital	Publication and operation of games through mobile apps and websites	PRC
October 10, 2019	QC HK	Game operation	Hong Kong
August 12, 2014	QC Culture	Publication and operation of games through mobile apps and websites	PRC

For further details of the above subsidiaries, please refer to the section headed “General information, reorganization and basis of presentation” in Appendix I to this document.

QC Digital

Establishment

QC Digital was incorporated in the PRC as a limited liability company on March 1, 2012 with an initial registered capital of RMB1 million. It was founded as to 99% by Mr. Yang and 1% by an Independent Third Party (the “**Initial Shareholder**”), respectively.

Early development

In May 2012, the Initial Shareholder and Mr. Huang, the chief executive officer and an executive Director of our Group, entered into an equity transfer agreement with the Initial Shareholder when Mr. Huang joined QC Digital, pursuant to which the Initial Shareholder transferred his equity interests in QC Digital at a consideration of RMB10,000. The transfer was determined based on arm’s length negotiation and was fully settled on May 22, 2012.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Key shareholding changes of QC Digital prior to Reorganization

Prior to the Reorganization, QC Digital underwent several rounds of key shareholding change as follows:

- 1) To provide further capital for QC Digital’s business development, on August 26, 2013, Xiamen Sealand, an Independent Third Party and an investment fund established as a limited partnership under the laws of the PRC and managed by Xiamen Sealand Capital Nuts Investment Management Co., Ltd. (廈門國海堅果投資管理有限公司), entered into an investment agreement with Mr. Yang, Mr. Huang and QC Digital, pursuant to which, Xiamen Sealand subscribed in cash for 12.50% of the equity interest in QC Digital at the consideration of RMB5 million. The consideration was determined based on arm’s length negotiations between the parties with reference to the then valuation of QC Digital and was fully settled on September 4, 2013. Immediately after the capital injection, QC Digital was held by Mr. Yang, Xiamen Sealand and Mr. Huang as to approximately 86.62%, 12.50% and 0.88% respectively.
- 2) To provide further capital for QC Digital’s business development, on December 4, 2013, G-bits, a limited company incorporated under the laws of the PRC, the shares of which have been listed on the Shanghai Stock Exchange under the stock code: 603444, entered into an investment agreement with Mr. Yang, Xiamen Sealand, Mr. Huang and QC Digital, pursuant to which, G-bits subscribed in cash for 20.00% of the equity interest in QC Digital at the consideration of RMB10 million. The consideration was determined based on arm’s length negotiations between the parties and was fully settled on December 25, 2013. Immediately after the capital injection, QC Digital was held by Mr. Yang, G-bits, Xiamen Sealand and Mr. Huang as to approximately 69.30%, 20.00%, 10.00% and 0.70%, respectively.
- 3) As a shareholding restructuring of QC Digital, on March 1, 2015, pursuant to a share transfer agreement, Mr. Yang transferred approximately 1.53%, 2.23% and 2.00% equity interests in QC Digital to Mr. Huang, Mr. Wei and Mr. Lin, respectively, all being the then employees of the Company. Pursuant to the same share transfer agreement, Mr. Yang transferred approximately 6.72% equity interests in QC Digital to Mr. Ye, an individual investor who is an Independent Third Party, at a consideration of RMB6 million. The consideration was determined based on arm’s length negotiations between the parties and was fully settled in 2015. Upon completion of the share transfers, QC Digital was held by Mr. Yang, G-bits, Xiamen Sealand, Mr. Ye, Mr. Huang, Mr. Wei and Mr. Lin as to approximately 56.82%, 20.00%, 10.00%, 6.72%, 2.23%, 2.23% and 2.00%, respectively.
- 4) To increase the registered capital of QC Digital, on May 20, 2015, Xiamen Zhongke Dexiong Equity Investment Fund Partnership (Limited Partnership)* (廈門中科德興股權投資基金合夥企業 (有限合夥) (formerly known as Xiamen Zhonghang Dexiong Equity Investment Fund Partnership (Limited Partnership) (廈門中航德興股權投資基金合夥企業 (有限合夥))), a limited partnership established in the PRC on March 13, 2015 (“ZKDX”), an Independent Third Party and a professional investment institution established as a limited partnership incorporated under the laws of the PRC, entered into an investment agreement with, among others, Mr. Yang, Xiamen Sealand, QC Digital and Mr. Huang, pursuant to which, ZKDX subscribed in cash for approximately 10.16% of the equity interest in QC Digital at the consideration of RMB14 million. The consideration was determined based on arm’s length negotiations between the parties with reference to the then valuation of QC Digital and was fully settled on May 20, 2015. Immediately after the capital injection, QC Digital was held by Mr. Yang, G-bits, ZKDX, Xiamen Sealand, Mr. Ye, Mr. Huang, Mr. Wei and Mr. Lin as to approximately 51.05%, 17.97%, 10.16%, 8.98%, 6.04%, 2.00%, 2.00% and 1.80%, respectively.
- 5) To provide further capital for QC Digital’s business development, on July 12, 2019, G-bits entered into an investment agreement with, among others, Mr. Yang and QC Digital, pursuant to which, G-bits subscribed in cash to increase its equity interest in QC Digital to approximately 28.91% at the consideration of RMB80 million. The consideration was determined based on arm’s length negotiations between the parties and was fully settled on September 26, 2019. Immediately after the capital

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

injection, QC Digital was held by Mr. Yang, G-bits, ZKDX, Xiamen Sealand, Mr. Ye, Mr. Huang, Mr. Wei and Mr. Lin as to approximately 41.21%, 28.91%, 8.81%, 7.79%, 5.23%, 4.77%, 1.74% and 1.56%, respectively.

- 6) In light of the prospect of QC Digital, on August 14, 2019, G-bits entered into a share transfer agreement with Xiamen Sealand, ZKDX, Mr. Yang, Mr. Huang, Mr. Wei, Mr. Lin, Mr. Ye and QC Digital, pursuant to which G-bits purchased 4.00% equity interest in QC Digital from each of Xiamen Sealand and ZKDX (8.00% in aggregate) for a total consideration of RMB40 million. The considerations were determined based on arm’s length negotiations between the parties and were fully settled on September 5, 2019. Immediately following the share transfers, QC Digital was held by Mr. Yang, G-bits, Mr. Ye, ZKDX, Mr. Huang, Xiamen Sealand, Mr. Wei and Mr. Lin as to approximately 41.21%, 36.91%, 5.23%, 4.81%, 4.77%, 3.79%, 1.74% and 1.56%, respectively.
- 7) In light of the prospect of QC Digital, on May 31, 2020, pursuant to a share transfer agreement, Ms. Wang Yunling (王雲玲) (“**Ms. Wang**”), an individual investor who is an Independent Third Party, purchased all equity interests in QC Digital held by ZKDX (representing 4.81% equity interests in QC Digital) with a total consideration of RMB28 million. The consideration was determined based on arm’s length negotiations between the parties with reference to the amount previously invested into QC Digital and was fully settled on July 13, 2020.
- 8) To optimize the shareholding structure of QC Digital and to incentivize employees, on December 17, 2020, Wofan Qihang, an employee shareholding platform established for the employees of QC Digital, subscribed 10.00% equity interests in QC Digital, increasing the registered share capital of QC Digital to RMB14,270,513. The considerations were determined based on the unaudited net assets of QC Digital at the time of the subscription and were fully settled on December 29, 2020. Immediately following the capital injection, QC Digital was held by Mr. Yang, G-bits, Wofan Qihang, Mr. Ye, Ms. Wang, Mr. Huang, Xiamen Sealand, Mr. Wei and Mr. Lin as to approximately 37.09%, 33.21%, 10.00%, 4.71%, 4.33%, 4.29%, 3.41%, 1.56% and 1.40%, respectively.
- 9) In order to capitalize the return on his investment, on April 19, 2021, Mr. Lin entered into a share transfer agreement with each of Mr. Yang, Mr. Liu, Mr. Huang, Mr. Wei and Mr. Zeng, pursuant to which, Mr. Lin transferred approximately 0.03%, 0.31%, 0.21%, 0.28% and 0.06% equity interests in QC Digital to Mr. Yang, Mr. Liu, Mr. Huang, Mr. Wei, Mr. Zeng, respectively, at a consideration of approximately RMB0.9 million, RMB9.4 million, RMB6.4 million, RMB8.5 million and RMB1.8 million respectively. The considerations were determined based on arm’s length negotiations among the parties and were fully settled on May 19, 2021.
- 10) In light of the prospect of the QC Digital, on April 21, 2021, Guangxi Tencent, Alibaba Lingxi and Shanghai Hode entered into a share transfer agreement with G-bits and QC Digital, pursuant to which each of Guangxi Tencent, Alibaba Lingxi and Shanghai Hode purchased approximately 3.37% equity interests in QC Digital from G-bits (10.11% in aggregate), at a consideration of approximately RMB101.15 million (RMB303.45 million in aggregate) respectively. The consideration was determined based on arm’s length negotiations among the parties and was fully settled on May 12, 2021. Immediately following the share transfers, QC Digital was held by Mr. Yang, G-bits, Mr. Ye, Mr. Huang, Xiamen Sealand, Mr. Wei, Mr. Lin, Ms. Wang, Wofan Qihang, Mr. Liu, Mr. Zeng, Guangxi Tencent, Alibaba Lingxi and Shanghai Hode as to approximately 37.12%, 23.10%, 4.71%, 4.51%, 3.41%, 1.85%, 0.50%, 4.33%, 10.00%, 0.31%, 0.06%, 3.37%, 3.37% and 3.37% respectively.
- 11) In order to capitalize the return on her investment, on May 18, 2021, Ms. Wang entered into a share transfer agreement with Mr. Ye, pursuant to which, Ms. Wang transferred approximately 4.33% equity interests in QC Digital to Mr. Ye, at a consideration of approximately RMB129.76 million. The considerations were determined based on arm’s length negotiations among the parties and were fully settled on May 26, 2021.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Following the shareholding changes as set out above, the shareholding structure of QC Digital was as follows:

<u>Name</u>	<u>Approximate percentage of equity interest in QC Digital</u>
Mr. Yang	37.12%
G-bits	23.10%
Wofan Qihang ⁽¹⁾	10.00%
Mr. Ye	9.03%
Mr. Huang	4.51%
Xiamen Sealand	3.41%
Mr. Wei	1.85%
Mr. Lin	0.50%
Mr. Liu	0.31%
Mr. Zeng	0.06%
Guangxi Tencent	3.37%
Alibaba Lingxi	3.37%
Shanghai Hode	3.37%
Total	<u>100.00%</u>

Note:

- (1) As of the Latest Practicable Date, Wofan Qihang is held as to 67.20% by Mr. Huang, 20.00% by Mr. Liu and 12.80% by Mr. Zeng, respectively. Its general partner is Mr. Huang.
- (2) As of the Latest Practicable Date, Xiamen Sealand is managed by Xiamen Sealand Capital Nuts Investment Management Co., Ltd. (廈門國海堅果投資管理有限公司) which is owned as to 60% by Sealand Innovation Capital Co., Ltd. (國海創新資本投資管理有限公司), a wholly owned subsidiary of Sealand Securities Co., Ltd. (國海證券股份有限公司), a company listed on the Shenzhen Stock Exchange with the stock code: 000750.

QC Cultural

QC Cultural is principally engaged in the publication and operation of games through mobile apps and websites and was jointly founded by Mr. Yang and Mr. Huang in the PRC on August 12, 2014. Shares of QC Cultural were transferred to QC Digital in 2017 pursuant to a share transfer agreement dated on November 20, 2017, entered into by Mr. Huang and QC Digital for a consideration of RMB1 million determined based on the registered capital at the time of transfer and a share transfer agreement dated on the same date, entered into by Mr. Yang and QC Digital for a consideration of RMB9 million determined based on the registered capital at the time of transfer.

QC HK

QC HK is principally engaged in game development and operation and was founded by QC Digital in Hong Kong on October 10, 2019.

On May 7, 2021, all shares in QC HK held by QC Digital have been transferred to Qingci Holding Limited for a consideration of RMB841,263.05 determined based on the net asset value of QC HK as of March 31, 2021.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

PRE-[REDACTED]

Onshore Pre-[REDACTED]

On April 21, 2021, the Series A Investors entered into a share transfer agreement with G-bits and QC Digital, pursuant to which each of Guangxi Tencent, Alibaba Lingxi and Shanghai Hode purchased approximately 3.37% equity interests in QC Digital from G-bits (approximately 10.11% in aggregate), at a consideration of approximately RMB101.15 million (approximately RMB303.45 million in aggregate) respectively. The considerations were determined based on arm’s length negotiations among the parties and were fully settled on May 12, 2021.

Transition from onshore pre-[REDACTED] to offshore pre-[REDACTED]

In contemplation of the [REDACTED] and to reflect the onshore investment by Guangxi Tencent, Alibaba Lingxi and Shanghai Hode at the level of our Company, on May 14, 2021, the Company issued 481,150 Series A Preferred Shares at par value (approximately 3.37% of the then issued share capital of the Company) to each of Tencent, Alibaba Qookka, Bilibili Inc. (the “**Series A Investors’ Affiliates**”), each being an affiliated offshore entity of Guangxi Tencent, Alibaba Lingxi and Shanghai Hode respectively. The Series A Preferred Shares issued were proportionate to the respective onshore investment in QC Digital made by each of the Series A Investors. Details of the issued shares are as follows:

Round	Investor	Date of issuance	Number of Series A Preferred Shares allotted	Number of Shares in respect of the Series A Preferred Shares as of the [REDACTED]	Amount of consideration (RMB million) ⁽²⁾
Series A	Tencent	May 14, 2021	481,150	[REDACTED]	101.15
Series A	Alibaba Qookka	May 14, 2021	481,150	[REDACTED]	101.15
Series A	Bilibili Inc.	May 14, 2021	481,150	[REDACTED]	101.15

Notes:

1. Calculated after taking into account the fact that each Series A Preferred Share shall be converted into one ordinary share of our Company and the number of Shares to be issued pursuant to the [REDACTED] and the [REDACTED] (assuming the [REDACTED] Option is not exercised).
2. The consideration paid by the Series A Investors to G-bits in relation to their onshore investment in QC Digital based on which the approximate price per share (calculated by dividing the amount of consideration paid by the number of Shares in respect of the Series A Preferred Shares as of the [REDACTED]) is [REDACTED], representing a discount of [REDACTED] to the [REDACTED] (assuming that the [REDACTED] is [REDACTED] per Share, being the mid-point of the indicative [REDACTED] of [REDACTED] to [REDACTED] and each Series A Preferred Shares shall be converted into one ordinary Share).

Offshore Pre-[REDACTED]

Our Company received an additional round of [REDACTED] (the “**Series B Investment**”) from the Series B Investors pursuant to a Series B Preferred Share purchase agreement dated May 26, 2021 entered into by, among others, the Series B Investors, Mr. Yang and the Company (the “**Series B SPA**”).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Pursuant to the Series B SPA, the Company issued to each of the Series B Investors and each of the Series B Investors subscribed for 288,122 Series B Preferred Shares (representing approximately 1.87% of the total number of the then issued shares of our Company at the time upon closing) at a consideration of US\$15,652,576.78.

Round	Investor	Date of agreement	Number of Series B Preferred Shares allotted	Number of Shares in respect of the Series B Preferred Shares as of the [REDACTED]	Amount of consideration (US\$)	Settlement date of the consideration	[REDACTED]	[REDACTED]
Series B	Tencent	May 26, 2021	288,122	[REDACTED]	15,652,576.78	May 27, 2021	[REDACTED]	[REDACTED]
Series B	Alibaba Qookka	May 26, 2021	288,122	[REDACTED]	15,652,576.78	May 28, 2021	[REDACTED]	[REDACTED]
Series B	Bilibili Inc.	May 26, 2021	288,122	[REDACTED]	15,652,576.78	May 27, 2021	[REDACTED]	[REDACTED]
Series B	Boyu	May 26, 2021	288,122	[REDACTED]	15,652,576.78	May 25, 2021	[REDACTED]	[REDACTED]

Notes:

1. Calculated after taking into account each Series B Preferred Share shall be converted into one ordinary share of our Company and the number of Shares to be issued pursuant to the [REDACTED] and the [REDACTED] (assuming the [REDACTED] is not exercised).
2. Calculated based on division of the amount of consideration paid as set out above by the number of Shares as of the [REDACTED].
3. The discount to the [REDACTED] is calculated based on the assumption that (1) the [REDACTED] is [REDACTED] per Share, being the mid-point of the indicative [REDACTED] of [REDACTED] to [REDACTED]; and (2) each Series B Preferred Share shall be converted into one ordinary share.

The table below sets out the shareholdings of the Series B Investors mentioned above after taking into account the Series A Preferred Shares issued to the relevant Series B Investors aforementioned:

Investor	Total Number of Series A Preferred Shares and Series B Preferred Shares immediately after completion of the transactions under the Series B SPA	Number of Shares as of the [REDACTED]	Approximate shareholding in our Company as of the [REDACTED]
Tencent	769,272	[REDACTED]	[REDACTED]
Alibaba Qookka	769,272	[REDACTED]	[REDACTED]
Bilibili Inc.	769,272	[REDACTED]	[REDACTED]
Boyu	288,122	[REDACTED]	[REDACTED]

Note: Calculated after taking into account each Series A Preferred Shares and Series B Preferred Shares being converted into one ordinary share of our Company and the number of Shares to be issued pursuant to the [REDACTED] and the [REDACTED] (assuming the [REDACTED] is not exercised).

Principal terms of the [REDACTED]

Basis of determination of the considerations

The considerations were determined based on arm’s length negotiations between the parties with reference to (i) the prospects of our business, (ii) the valuation of our Group as a whole, and (iii) the strategic benefits brought by the [REDACTED] on or around the date of the investment.

Use of [REDACTED]

The funds raised by the Group from the Series B Investment are intended to be used as our expansion capital to grow our principal

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

business, including but not limited to the development of games, publishing and operating games, sales and marketing and other general and administrative expenses.

As of the Latest Practicable Date, approximately US\$105,453 raised from the Series B Investment have been so utilized for the aforementioned purposes and approximately US\$62,504,854 remained unutilized.

Strategic benefits

We are of the view that our Company can benefit from the investments by the [REDACTED] as their investments demonstrated their confidence in our Group’s operations and served as an endorsement of our Company’s performance and strengths.

Our Company is also of the view that the [REDACTED] have good presence in our industry which can provide us with professional insights and advice on our Group’s development and can help us achieve business synergies through enhanced business cooperation.

Conversion rights

Upon the [REDACTED], each Series A Preferred Shares and Series B Preferred Shares shall be converted into Shares based on the then applicable conversion ratio and conversion price set out in the Articles.

The adjustment to the conversion ratio is not linked to the [REDACTED] or the [REDACTED] of our Company upon [REDACTED] and is in line with the principles and requirements promulgated by the Stock Exchange.

[REDACTED]

The Shares held by each of the [REDACTED] (as applicable) will be counted towards the [REDACTED] of our Shares.

Lock-up

The holders of the Series A Preferred Shares and Series B Preferred Shares are not subject to any lock-up undertaking pursuant to their respective share purchase agreements and shareholders agreements entered into pursuant to the respective [REDACTED].

Special Rights Granted to the Series A Investors Affiliates and HK Kunpan

Each of the Series A Investors’ Affiliates (under the Articles in force prior to the [REDACTED]) and HK Kunpan had been granted certain special rights, including liquidation preferences and conversion rights. All such special rights will be terminated upon [REDACTED] when all Series A Preferred Shares are converted into ordinary shares of our Company.

Special Rights Granted to the Series B Investors

In addition to the terms described above, each of the Series B Investors (under the Articles in force prior to the [REDACTED], the Series B SPA and shareholders agreement entered into thereunder) had been granted certain special rights, including information rights, right of first refusal, tag-along right, redemption rights, conversion rights, anti-dilution rights and liquidation preferences. All such special rights (except for redemption rights which shall terminate one calendar day before the submission of the application for [REDACTED] by the Company (the “**First Filing**”), subject to restoration on the date which is twelve calendar months after the date of the First Filing if the [REDACTED] is not consummated) will be terminated upon [REDACTED] when all Series B Preferred Shares are converted into ordinary shares of our Company.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Information on the Series A Investors and Series B Investors

Guangxi Tencent and Tencent

Guangxi Tencent is a limited liability company established under the laws of the PRC. Guangxi Tencent is wholly owned by Shenzhen Tencent Industrial Investment Fund Co., Ltd., which is a subsidiary of Tencent Holdings Limited, a company incorporated in the Cayman Islands and listed on the Main Board of the Stock Exchange with the stock code: 0700.

Tencent, a company limited by shares incorporated in Hong Kong and a direct wholly owned subsidiary of Tencent Holdings Limited.

Alibaba Lingxi and Alibaba Qookka

Qookka Entertainment Limited (formerly known as Ejoy.com Limited), a private company limited by shares incorporated under the laws of Hong Kong on February 28, 2012, is principally engaged in the publishing and operation of online games.

Qookka Entertainment Limited is ultimately owned by Alibaba Group Holding Limited, a company incorporated in the Cayman Islands, the ordinary shares of which are listed on the Main Board of the Stock Exchange with the Stock Code: 9988 and its American Depositary Shares (each representing eight ordinary shares) are listed for trading on the New York Stock Exchange under the symbol “BABA”.

Alibaba Lingxi, a limited liability company established under the laws of the PRC, is ultimately owned by Alibaba Group Holding Limited and principally engaged in the development, marketing, publishing and operation of games.

Bilibili Inc. and Shanghai Hode

Bilibili Inc. is a company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability, and its American Depositary Shares (each representing one Class Z ordinary share), are listed on Nasdaq Global Select Market (stock symbol: BILI), and its Class Z ordinary shares are listed on the Main Board of the Stock Exchange (stock code: 9626). Bilibili Inc. is an iconic brand and a leading video community with a mission to enrich the everyday life of the young generations in China.

Shanghai Hode Information Technology Co., Ltd., a company incorporated under the laws of PRC on May 2, 2013, is a consolidated affiliated entity of Bilibili Inc. and is principally engaged in operation of mobile games.

Boyu

Wildlife Willow Limited is a BVI business company incorporated under the laws of the BVI and is 100% owned by Boyu Capital Opportunities Master Fund, which is an exempted company incorporated under the laws of Cayman Islands. Boyu Capital Opportunities Master Fund is an investment fund and managed by Boyu Capital Investment Management Co. Limited. Boyu Capital Investment Management Co. Limited is a fund manager that focuses on investing in high quality business franchises with sustainable growth in the healthcare, consumer, technology, media and telecommunications and financial sectors.

Compliance with Interim Guidance and Guidance Letters

The Joint Sponsor have confirmed that the investments of the Series A Investors, Series A Investors’ Affiliates and Series B Investors are in compliance with the Interim Guidance on [REDACTED] issued by the Stock Exchange on October 13, 2010 and as updated in March 2017, the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CORPORATE REORGANIZATION

On March 12, 2021, we commenced the Reorganization in preparation for the [REDACTED], whereupon our Company became the holding company and the [REDACTED] vehicle of our Group and our PRC operations were conducted primarily by our Company through the Contractual Arrangements.

1. Establishment of offshore holding structure

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on March 12, 2021 and is the ultimate holding company of our Group. Upon incorporation, our Company has an authorized share capital of US\$50,000 divided into 5,000,000,000 shares of a par value of US\$0.00001 each. On the same day, one share was allotted and issued for cash at par value to the initial subscriber and was subsequently transferred to Keiskei QC Ltd., the offshore shareholding company wholly owned by Mr. Yang established in the British Virgin Islands as an investment holding company on February 25, 2021.

Intelligence QC Ltd. was established in the BVI as an investment holding company on February 26, 2021, which is wholly owned by Mr. Huang.

Fantasy QC Ltd. was established in the BVI as an investment holding company on February 25, 2021, which is wholly owned by Mr. Wei.

Gentle Tiger Ltd. was established in the BVI as an investment holding company on February 25, 2021, which is wholly owned by Mr. Liu.

Cloud Rings Ltd. was established in the BVI as an investment holding company on February 25, 2021, which is wholly owned by Mr. Zeng.

Wisdom Code Ltd. was established in the BVI as an investment holding company on February 26, 2021, which is wholly owned by Mr. Lin.

Rapid Yacht Ltd. was established in the BVI as an investment holding company on February 26, 2021, which is wholly owned by Mr. Ye.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

2. Offshore shareholding restructuring

To reflect the onshore shareholding structure of QC Digital, our Company allotted an aggregate of 14,270,513 Shares to the then shareholders of QC Digital at par value US\$0.00001. For details of the changes in share capital of the Company, please refer to the section headed “Appendix IV—Statutory and General Information—A. Further Information about our Group—2. Changes in our share capital” in this document and the table below.

Name	Ultimate Shareholder(s)/ Corresponding Onshore Entity	Shares Allotted
1. Keiskei Holding Ltd.	Mr. Yang	5,296,696
2. Intelligence QC Ltd.	Mr. Huang	958,978
3. Intelligence QC Holding Ltd.	Mr. Huang	643,029
4. Gentle Tiger Holding Ltd.	Mr. Liu	330,124
5. Cloud Rings Ltd.	Mr. Zeng	191,225
6. Fantasy QC Ltd.	Mr. Wei	263,433
7. Rapid Yacht Ltd.	Mr. Ye	1,289,262
8. Xiamen Sealand	—	486,262
9. Wisdom Code Ltd.	Mr. Lin	71,566
10. HK Kunpan	G-bits	3,296,488
11. Tencent	Guangxi Tencent	481,150
12. Alibaba Qookka	Alibaba Lingxi	481,150
13. Bilibili Inc.	Shanghai Hode	481,150
	Total:	14,270,513

3. Establishment of onshore and offshore subsidiaries

Qingci Holding Limited was established in the BVI as an investment holding company on April 1, 2021, which is wholly owned by the Company.

QC HK Limited was established in Hong Kong as an investment holding company on April 22, 2021, which is wholly owned by Qingci Holding Limited.

QC Interactive was established in the PRC as an investment holding company on May 17, 2021, which is wholly owned by QC HK Limited.

4. Restructuring of our non-restricted and/or non-prohibited business

As part of the Reorganization, to transfer the business which are not subject to any foreign investment restrictions or prohibition to ensure that the Contractual Arrangements are narrowly tailored in accordance with the requirements of the Stock Exchange, QC Digital transferred all its equity interests in QC HK, representing 100% of QC HK’s shareholding, to Qingci Holding Limited.

In addition, in June 2021, the PRC Consolidated Affiliated Entities have transferred all of their non-restricted business to QC Interactive. Physical assets (such as computer equipment and facilities) and personnel relating to the operation of non-restricted business are in the process of being transferred to QC Interactive.

QC HK holds 20% interests in Hongkong Leiting Qingci Network Co., Limited (香港雷霆青瓷網路有限公司), which would be transferred to Qingci Holding Limited together with QC HK indirectly.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

5. Deregistration of non-core entity

QC Chengdu was established in the PRC as a limited liability on April 15, 2016 with a registered capital of RMB0.1 million. Immediately prior to the Reorganization, QC Digital directly wholly owned QC Chengdu. As QC Chengdu had limited operation since its establishment, it is in the process of being voluntarily dissolved through de-registration.

6. Entering into the Contractual Arrangements to control our PRC Consolidated Affiliated Entities

On May 26, 2021, QC Interactive entered into various agreements that constitute the Contractual Arrangements with, among others, Mr. Yang, Mr. Huang, Mr. Liu and Mr. Zeng, under which all economic benefits arising from the business of our PRC Consolidated Affiliated Entities are transferred to QC Interactive to the extent permitted by the PRC laws and regulations. For further details on the Contractual Arrangements, see “Contractual Arrangements.”

[REDACTED]

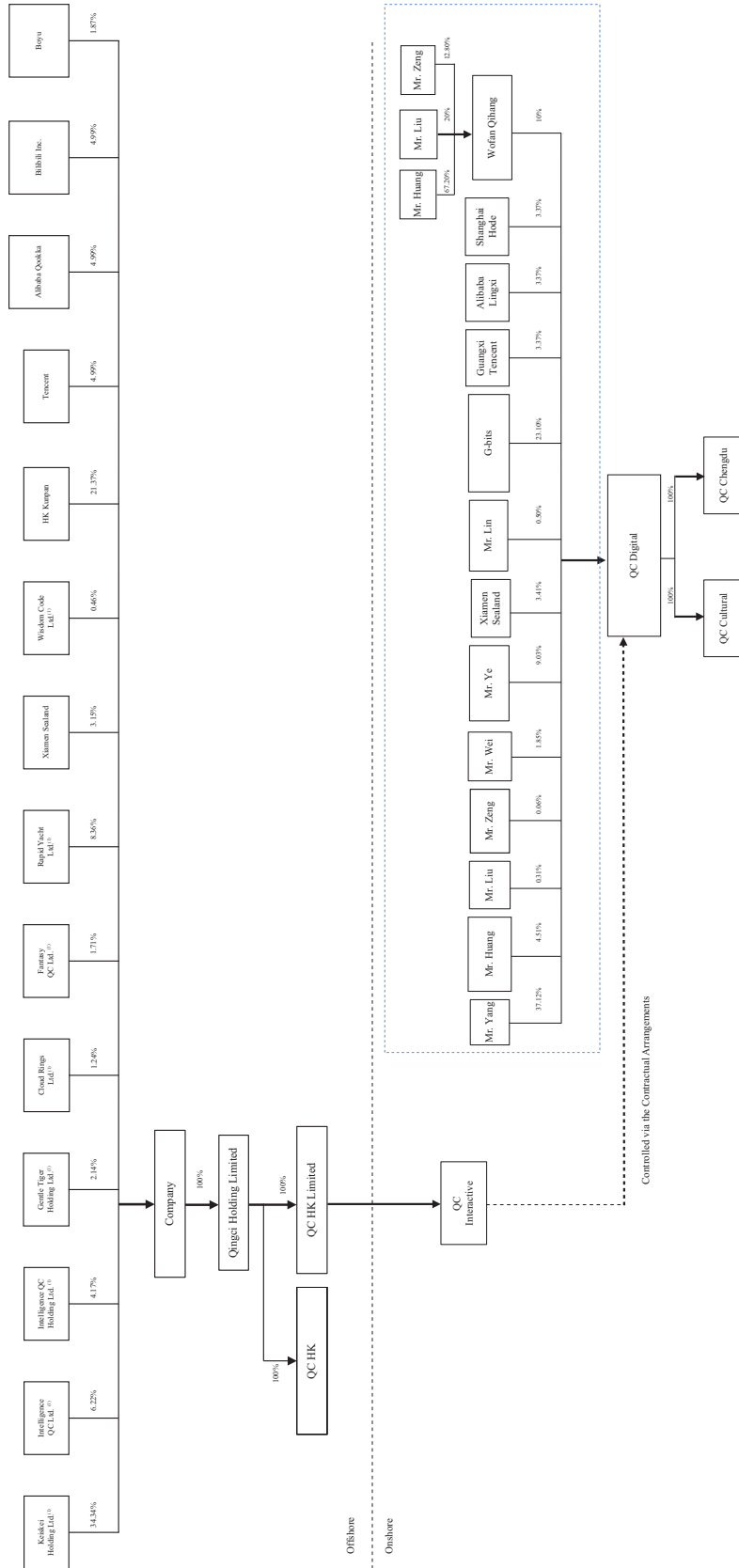
COMPLIANCE WITH PRC LAWS AND REGULATION

Our PRC Legal Advisor confirmed that (i) the establishment of our subsidiaries in the PRC and their subsequent shareholding changes have complied with the relevant laws and regulations in all material respects; and (ii) the Reorganization has complied with relevant applicable PRC laws and regulations in material respects.

[REDACTED]

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

SIMPLIFIED GROUP STRUCTURE OF OUR GROUP IMMEDIATELY UPON COMPLETION OF THE REORGANIZATION

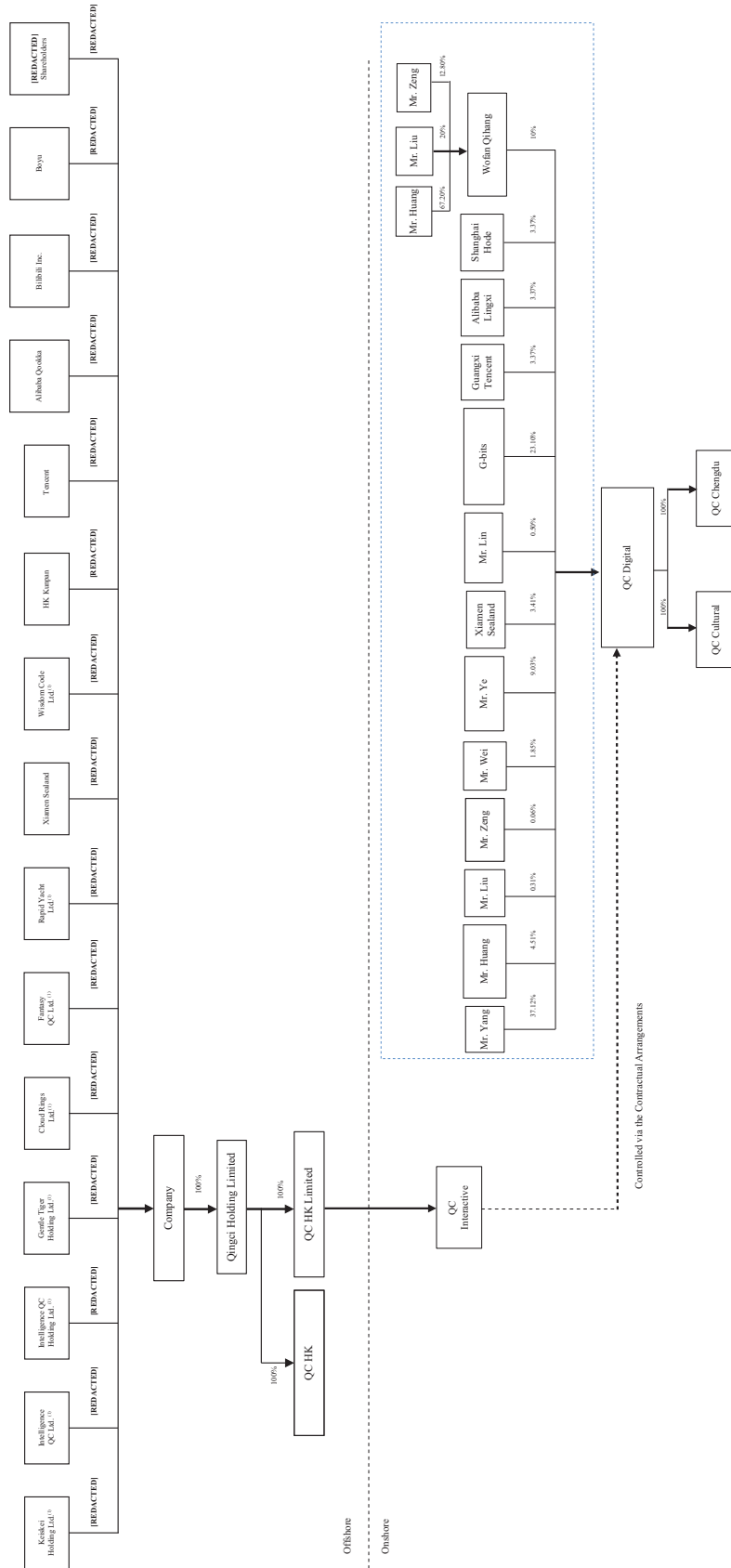


Note:

- (1) For the details of the ultimate beneficial owners, please refer to the section headed “Appendix IV—Statutory and General Information—A. Further Information about our Group – 2. Changes in our share capital” in this document.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

SIMPLIFIED GROUP STRUCTURE OF OUR GROUP IMMEDIATELY UPON COMPLETION OF THE [REDACTED] (ASSUMING THE [REDACTED] OPTION IS NOT EXERCISED)



Note:

- (1) For the details of the ultimate beneficial owners, please refer to the section headed “Appendix IV—Statutory and General Information—A. Further Information about our Group – 2. Changes in our share capital” in this document.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

SAFE REGISTRATION

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “**SAFE Circular No. 37**”), promulgated by SAFE and which became effective on July 4, 2014: (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**SAFE Circular No. 13**”), promulgated by the SAFE and which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Advisor, our Relevant Individual Shareholders who are PRC citizens, namely Mr. Yang, Mr. Huang, Mr. Ye, Mr. Wei, Mr. Lin, Mr. Zeng and Mr. Liu, have conducted their registration under the SAFE Circular No. 13 and the SAFE Circular No. 37 on April 12, 2021.

M&A RULES

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the SAIC, the CSRC and the SAFE, jointly issued the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定) (the “**M&A Rules**”), which became effective on September 8, 2006, and was amended on June 22, 2009. Pursuant to the M&A Rules, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise through an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise (the “**Regulated Activities**”). Where a domestic company, enterprise or natural person intends to acquire its/his/her related domestic company in the name of an offshore company which it/he/she lawfully established or controls, the acquisition shall be subject to the examination and approval of the MOFCOM, and an offshore special purpose vehicle formed for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires equity interests in PRC companies using shares of offshore companies as the consideration.

Given that (i) QC Interactive was established as a wholly foreign-owned enterprise by means of direct investment rather than by merger or acquisition by our Company under the M&A Rules; and (ii) no Regulated Activities were involved in the Reorganization under the M&A Rules, as advised by our PRC Legal Advisor, the establishment of QC Interactive and the Reorganization are not subject to the M&A Rules, and the [REDACTED] of our Company does not require approvals from the CSRC and the MOFCOM under the M&A Rules. However, there is uncertainty as to how the M&A Rules will be interpreted or implemented and we cannot assure you that relevant PRC governmental authorities, including the CSRC, would reach the same conclusion as our PRC Legal Advisor.

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OUR MISSION

Bring fantastic experiences to game players globally through iconic and captivating games and content.

OVERVIEW

We are a leading mobile game developer and publisher in China, offering mobile games with captivating content as well as distinctive and fantastic gameplay experiences to players around the world. Our games are particularly popular among the young generation that is aged 30 or below. As a pioneer and leader in casual games, especially idle games, and rogue-like RPGs in China, we have developed, published and operated a number of exceptionally 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* (最强蜗牛), *Gumballs & Dungeons* (不思議迷宫) and *Lantern and Dungeon* (提燈與地下城), have recorded exceptional gross billings and achieved high rankings on the game lists widely recognized in our industry. For example, *The Marvelous Snail* recorded gross billings exceeding RMB400 million in the first month following its launch in June 2020 and had an average MAU of 4.4 million from June to December 2020. It also obtained the highest ranking of No. 2 on the iOS Bestseller Games List in China in 2020. The gross billings of *Lantern and Dungeon* exceeded RMB185 million in the first month following its launch in March 2021. It also topped the iOS Top 10 Free Games Chart in China for six consecutive days after its launch and obtained the highest ranking of No. 4 on the iOS Bestseller Games List in China. Our outstanding game publishing and operation capabilities enable us to reach a broad, active player base. In the three months ended March 31, 2021, the average MAU for all of our games amounted to 3.7 million.

According to Frost & Sullivan, we have achieved the following industry-leading results:

- We ranked third and second among all mobile game companies in China in 2020 in terms of gross billings from casual games and idle games, respectively.
- We ranked second among all mobile game companies in China in 2020 in terms of gross billings from self-developed rogue-like RPGs.
- We ranked fourth, in terms of average gross billings per self-developed game in 2020, among all mobile game companies in China that had aggregate gross billings from self-developed games of over RMB1.0 billion.

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



BUSINESS

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

We continuously pursue our goal of improving player engagement. Supported by the strong willingness of game players, especially the young generation, to share game experiences with others, our “QingCi” brand has attracted a large, loyal and active player base that forms our player community, which we call “QingCi community.” As of March 31, 2021, we had over 11 million QingCi Enthusiasts who were connected with us on our official accounts and groups on social media platforms. We have a dedicated operation team that manages our player community accounts and actively interacts with the community participants. From October 1, 2020 to March 31, 2021, our articles on the official WeChat account of *The Marvelous Snail* obtained over 24 million views in aggregate, with approximately 130 thousand views per article on average. Our frequent and close interactions with our QingCi Enthusiasts create a virtuous circle, as the feedback from the player community helps us to develop and improve our games, which in turn attract more active players. In addition, these interactions further enhance our player stickiness and monetization, and increase the recognition of our “QingCi” brand. Due in part to these efforts, the average weekly player retention rate of *The Marvelous Snail*, from its launch in June 2020 to March 31, 2021, reached 29%, which is significantly higher than the industry average of approximately 12% for idle games, according to Frost and Sullivan. Supported by our strong brand recognition and effective community connections, as of March 31, 2021, approximately 1.7 million of the 3.8 million registered players of *Lantern and Dungeon* were converted from our other games, despite their different genres and characteristics.

Our strong capabilities in applying customized approaches to game publishing and operation, coupled with our ability to capture evolving market trends for game publishing and distribution, have become a key success factor for us. We have quickly adopted new channels in game publishing and established close partnerships with popular vertical distribution channels such as TapTap and Bilibili, which helps us reach our target audience, particularly young players, more effectively. In addition, we tailor our publishing approach for each of our games based on its characteristics, players’ interest and distribution channels’ features. We identify the game’s target audience and then customize our marketing campaigns so that our game can “break the circle” to reach a large audience. For instance, we accurately identified potential core players for *Lantern and Dungeon* and engaged comprehensive and frequent marketing campaigns suited for its gameplay and characteristics before its official launch. As a result, this game gained great popularity upon launch and swiftly broke through to a vast number of players. Moreover, our strong operation capabilities enable us to accurately capture players’ interest and achieve high player lifetime value while maintaining relatively low player acquisition costs. In 2020 and the three months ended March 31, 2021, our overall ARPPU was RMB206 and RMB205, respectively, which were higher than the industry average, according to Frost & Sullivan.

BUSINESS

Building upon our successful track record and our systematic approach in game development and operation, we have continued to develop and license in high-quality mobile games, including games of new genres and types, such as parkour, SLG (including tower defense and others), ACT, STG and ACT RPG. As of the Latest Practicable Date, we had a pipeline of 10 games, including four self-developed games, that we plan to launch in 2021, 2022 and 2023. In addition, we plan to launch local versions for *Lantern and Dungeon* in Hong Kong, Macau and Taiwan in the fourth quarter of 2021 and *The Marvelous Snail* in Japan in the second quarter of 2022.

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 RMB29.3 million in the three months ended March 31, 2020 to RMB480.6 million in the same period of 2021, and our net profit increased substantially from RMB9.4 million in the three months ended March 31, 2020 to RMB166.8 million in the same period of 2021. Moreover, in 2018, 2019 and 2020, our adjusted net profit for the period (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 profit for the period (non-IFRSs) increased substantially from RMB13.2 million in the three months ended March 31, 2020 to RMB172.4 million in the same period of 2021.

OUR COMPETITIVE STRENGTHS

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

A leading mobile game developer and publisher in China offering games with captivating content and distinctive experiences and particularly popular among the young generation

We are a leading mobile game developer and publisher in China, offering mobile games with captivating content as well as distinctive and fantastic gameplay experiences to players around the world, and our games are particularly popular among the young generation. As a pioneer and leader in casual games, particularly idle games, and rogue-like RPGs in China, we have launched a number of blockbuster games, including the rogue-like RPG *Gumballs & Dungeons* in August 2016, the idle mobile game *The Marvelous Snail* in June 2020 and the rogue-like RPG *Lantern and Dungeon* in March 2021. *The Marvelous Snail* has gained phenomenal attraction since its launch in June 2020. As of March 31, 2021, *The Marvelous Snail* had recorded RMB1.6 billion in total gross billings with over 19.2 million cumulative registered players. This game obtained the highest ranking of No. 2 on the iOS Bestseller Games List in China, and it ranked among the iOS Top 10 Bestseller Games List in China for more than 80 days in 2020. It has also been awarded as “*Google Play 2020—The Most Innovative Game.*” *Gumballs & Dungeons* topped the iOS Paid Games List in China for over 70 days in 2017 and had over 23.1 million cumulative registered players as of March 31, 2021—making it a benchmark game in China’s rogue-like RPG category. It was nominated for the “2017 Best Chinese Game” by The Game Awards (“TGA”) in 2017. *Lantern and Dungeon* also enjoyed wide popularity, with its gross billings exceeding RMB185 million and its MAU reaching 3.8 million in the first month following its launch. In addition, *Lantern and Dungeon* topped the iOS Top 10 Free Games Chart in China for six consecutive days after its launch and obtained the highest ranking of No. 4 on the iOS Bestseller Games List in China.

Our strong capabilities in game development, publishing and operations have helped us achieve outstanding performance. According to Frost & Sullivan, in 2020, we ranked third, second and second among all mobile game companies in China in terms of gross billings from casual games, idle games and self-developed rogue-like RPGs, respectively. In the overseas markets, we have strong operation capabilities to develop dedicated and customized versions of our games based on the local culture and user habits, and our games have been recognized for innovation and high quality. For example, after its launch, *The Marvelous Snail* topped the iOS and Google Play Top 10 Free Games Chart in Hong Kong and Taiwan, and obtained the highest rankings of No. 1 on the Google Play Games List in Hong Kong and iOS Bestseller Games List in Taiwan.

BUSINESS

We seek to optimize product development by actively addressing players’ needs and are committed to providing distinctive gameplay experiences. Our games are particularly popular among the young generation, which has been the key driving force and trend-setter of the game industry. Young players generally have strong desire for premium content, personal expression and distinctive experiences and they are generally more receptive to games with compelling storylines and renowned IPs. They appreciate innovative plots and game rules, as well as spoof elements, and prefer to use their fragmented time to play mobile games. Therefore, idle games and rogue-like RPGs, such as those offered by us, are particularly popular among the young generation. This enables our games to continuously attract young players. According to the Frost and Sullivan Survey, approximately 76% of our players were aged 30 or below, significantly higher than the industry average of 65%.

Our rich and diversified game pipeline forms a foundation for our sustainable and rapid development. As of the Latest Practicable Date, we had 10 games in our pipeline, including *Time Voyager (時光旅行社)*, *Servitor Project (使魔計劃)*, *Bladeheart Ninja 2 (刃心2)* and other existing classic IP sequels and innovative games. In addition, we plan to launch local versions for *Lantern and Dungeon* in Hong Kong, Macau and Taiwan in the fourth quarter of 2021 and *The Marvelous Snail* in Japan in the second quarter of 2022.

Strong content capabilities and systematic production and operation

Our portfolio includes games that are stylish, entertaining and characterized by captivating content, distinctive game punchlines, striking designs and graphics, and often humorous twists, with each game incorporating features of multiple game genres, all of which make our games particularly popular among young players. Players of our games are able to enjoy an immersive exploration process, thereby raising player stickiness. For example, for *The Marvelous Snail*, the huge variety of virtual items, unexpected plot twists and brilliant map exploration design greatly enrich the game’s storyline and gameplay. The carefully crafted surprises and humorous twists throughout the game resonate well with our players, particularly young players. The MAU of *The Marvelous Snail* consistently exceeded 2 million in the second half of 2020. Its average weekly player retention rate from its launch in June 2020 to March 31, 2021 reached 29%—significantly higher than the industry average of approximately 12% for idle games, according to Frost & Sullivan.

Our proven, systematic approach to game development and operation is vital for us in transforming game ideas into successful game products effectively. The core components of our systematic game development approach include: (i) “goal decomposition”: after our game designers generate new and captivating ideas and content, we form detailed action plans for each step during our game development process; (ii) “effective verification”: before a game is launched, we conduct multiple rounds of game testing by players, particularly our QingCi Enthusiasts, to verify attractiveness of the ideas for the game and the effectiveness of the team’s action plan; and (iii) “frequent optimization”: based on player feedback collected, we rapidly and frequently update the game to meet player demands ahead of the game launch. In particular, our publishing and operation team actively participates in a game’s production, collects player feedback from as early as the “demo” stage and studies players’ evolving demands and preferences—all of which enable us to timely capture emerging market opportunities and enhance the game’s commercial success. For instance, for *The Marvelous Snail*, we produced the game demo and conducted the first player testing within only one month after the project’s commencement, and released a new game version approximately every 20 days before the game’s official launch. This approach allowed us to launch the game swiftly and successfully. For in-licensed games such as *Ares Virus (阿瑞斯病毒)*, we deployed a dedicated team to participate in the mid- and late-stages of game optimization as well as multiple rounds of testing and assessment before the game’s official launch. As of March 31, 2021, *Ares Virus* reached over 15.7 million cumulative registered players.

We have actively built and expanded our pool of original IPs—with games as the core. As of the Latest Practicable Date, we had four self-developed games with original IPs in operation, which are highly recognized in the market according to Frost & Sullivan. In addition, we had rolled out a series of peripheral products and pan-entertainment content around these games. We have integrated virtual cultural relics and other props into our games, such as *The Marvelous Snail*, to promote traditional Chinese culture. We have also produced excellent animations and videos based on our games to further increase their market exposure and acceptance. As of the Latest Practicable Date, our animation series of *The Marvelous Snail—Uninvited Guest (最強蝸牛不速之客)* had

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obtained over 6.4 million views on Bilibili. We believe that the continuous extension and operations of different entertainment formats around our original IPs have helped to enhance players’ loyalty and maintain the long-term value of our IPs.

A virtuous circle fostered by large, loyal and active player community

Supported by the strong willingness of game players, especially the young generation, to share game experience with others, our “QingCi” brand has attracted a large, loyal and active player base that is strongly attached to our games and forms our player community. As of March 31, 2021, we had over 11 million QingCi Enthusiasts who were connected with us on our official accounts and groups on social media platforms. Specifically, we had more than 3 million followers on WeChat and more than 5 million followers on TapTap and operated more than 400 super-large player groups (namely, groups with at least 1,000 participants each) on Tencent QQ, covering over 600,000 followers, as of March 31, 2021. We have a dedicated operation team that manages our player community accounts and actively interacts with the community participants. For example, from October 1, 2020 to March 31, 2021, our articles on the official WeChat account of *The Marvelous Snail* obtained over 24 million views in aggregate, with approximately 130 thousand views per article on average. After the official launch of *The Marvelous Snail*, we have regularly organized online events on our official WeChat account, and two of these events that took place during the 2020 National Day and 2021 New Year holidays attracted over 1.2 million QingCi Enthusiasts. Our large and active player community has become a solid foundation for our creativity, product optimization, and game promotion—strengthening the appeal and influence of our “QingCi” brand.

Our frequent and close interactions with our QingCi Enthusiasts create a virtuous circle, as the feedback we collect from the players helps us to develop and optimize our games, which in turn attract more active players. We have involved QingCi Enthusiasts in our community in multiple rounds of testing for our pre-launch games, to optimize the gameplay and meet player expectations. For example, during the development of *Lantern and Dungeon*, we conducted nine rounds of player testing among our QingCi Enthusiasts, covering the entire process of game development from demo production to testing. After a game is launched, these players spontaneously spread the game as “seed users,” helping the game to swiftly break through to a vast number of players. Supported by our strong brand recognition and effective community connections, as of March 31, 2021, approximately 1.7 million of the 3.8 million registered players of *Lantern and Dungeon* were converted from our other games, despite their different genres and characteristics. Active interactions among QingCi Enthusiasts further enhance player stickiness and monetization, and increase the recognition of our “QingCi” brand. This serves as a testament to a virtuous cycle that we have established within our QingCi community.

Strong publishing and operation capabilities leading to successful monetization

Our strong game publishing and operation capabilities allow us to successfully unleash our monetization potential. Our publishing model, based primarily on targeted marketing campaigns, supplemented by effective traffic acquisition, has enabled us to obtain more player traffic cost-effectively and enhance our long-term brand value. For example, the gross billings generated through our self-operated distribution channels, TapTap (which charges no commission) and the iOS App Store, in aggregate, contributed approximately 90.4% of the total gross billings of *The Marvelous Snail* in China in 2020, and approximately 97.2% of the total gross billings of *Lantern and Dungeon* in China in the first quarter of 2021.

Our strong capabilities in applying customized approaches to game publishing and operation, coupled with our ability to capture evolving market trends for game publishing and distribution, has become a key success factor for us. We have quickly adopted new channels in game publishing and established close partnerships with popular vertical distribution channels, such as TapTap and Bilibili, which helps us reach our target audience, particularly young players, more effectively. For example, in connection with launching *The Marvelous Snail*, we published the game on various channels, including leveraging KOL-generated content and acquiring traffic from social media platforms such as Douyin, and we also held a Douyin Challenge Competition (“抖音挑戰賽”) which generated over 10 billion views over a collection of short videos relating to the game before the game’s launch. As a result, the game’s popularity rose rapidly, obtaining over 120 times of “Editor’s Choice” recommendation on the iOS App Store in 2020.

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We tailor our publishing and operation approaches for each of our games based on its characteristics, players’ interests and distribution channels’ features. Before we officially launch a game, we conduct extensive testing, initially with our core QingCi Enthusiasts and gradually expanding to other players, to identify the game’s target audience and customize our marketing campaigns. The distinctive characteristics of our game content make such targeted promotion particularly effective. For instance, to stimulate players’ interest, we produced massive humorous and popular content for *The Marvelous Snail*, which achieved considerable exposure on multiple platforms. In addition, we accurately identified core players of *Lantern and Dungeon* and engaged comprehensive and frequent marketing campaigns suited for its gameplay and characteristics before its official launch. As a result, this game gained great popularity upon launch and swiftly broke through to a vast number of players. It was included in the iOS “Today” top games list in China for 38 times, and the number of active players reached 1 million on the date it was launched.

We use multi-dimensional data analytics tools to generate various operational indicators and collect extensive feedback, which provide input that we can apply in subsequent version updates and refinements of our monetization strategies. We update our games to provide our players with fresh and engaging experiences to retain our existing players and extend ours games’ lifecycles. The lifecycles of our games in operation as of the Latest Practicable Date generally range from 60 to 96 months, significantly longer than the industry average for idle games and for rogue-like RPGs, according to Frost & Sullivan. Since the launch of *Gumballs & Dungeons* in 2016, we have been consistently exploring innovative gameplay for the game, and as of the Latest Practicable Date, we had launched over 180 updated versions, including versions reflecting theme activities such as the Chinese New Year Maze in January 2020 and the fourth anniversary celebration of this game in December 2020. This game still recorded an average MAU of over 390 thousand in 2020 after three years’ operation. Our strong operation capabilities enable us to accurately capture player interest, achieve high player lifetime value while maintaining relatively low player acquisition costs. In 2020 and the three months ended March 31, 2021, the ARPPU of our games was RMB206 and RMB205, respectively, which were significantly higher than the industry average, according to Frost & Sullivan.

Innovative, experienced and stable management team and core game producers with exceptional execution capabilities and support from industry-leading strategic investors

Our core management team members are committed to innovation and quality. Our founder and chairman, Mr. Yang Xu, has been deeply involved in the game industry for more than 15 years. He has participated in the development of large-scale games such as *Wen Dao* (問道). He has extensive experience in the development and operation of multiple genres of mobile and other games, and has been leading us to advance innovation in our industry. Since our establishment, Mr. Yang has led the development and operation of a series of successful games, including *Gumballs & Dungeons* and *The Marvelous Snail*.

A majority of our core management team members have collaborated for more than eight years and have shown long-term stability. They possess in-depth industry insights, strong game development capabilities, as well as extensive experience working at well-known online gaming companies such as Tencent and G-bits, or their respective affiliates. They are also fully involved in our business from idea generation to game operation, which assures our efficiency from decision-making to execution. Our proven execution capabilities and strong commitment to creating value through innovation have allowed us to stay ahead of the curve and capture new market opportunities.

We had a core game producers team, each member of which has over 12 years of experience in game development, publishing and operation. This team has led the development of all of our self-developed landmark games, as well as a number of games in our pipeline.

In addition, our strategic investors that are leading players in the mobile game industry, including G-bits, Tencent, Alibaba and Bilibili Inc., have extensive expertise and resources in the mobile game industry and boast innovative visions and successful track records in game development, publishing and operations. We expect to benefit significantly from their strong, long-term support and potential business cooperation opportunities with them.

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OUR STRATEGIES

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

Continue to enrich our high-quality game portfolio and content offerings

Leveraging our solid R&D capabilities and distinctive approach to game production, we will continue to develop and in-license high-quality mobile games. To achieve this, we will continue to strengthen our game development team and advance our R&D capabilities, by both attracting external talent and cultivating our own outstanding employees. We have developed and will continue to identify and incubate future game producers who display strong innovation and game design talent. We provide our game producers with more resources in game development and optimization, and help them gain more experience and improve their leadership. We plan to launch four self-developed games in 2021, 2022 and 2023. In addition, we plan to launch local versions for *Lantern and Dungeon* in Hong Kong, Macau and Taiwan in the fourth quarter of 2021 and *The Marvelous Snail* in Japan in the second quarter of 2022, as well as launch *Time Voyager* in Hong Kong, Macau and Taiwan in the fourth quarter of 2021.

In addition, we will continue to license in games from other outstanding game developers and bring these games to their full potential by leveraging our in-depth industry know-how and expertise in customized publishing capabilities. We plan to distribute six in-licensed games in 2022. Collectively, our 10 pipeline games include games of new genres and types such as parkour, SLG (including tower defense and others), ACT, STG and ACT RPG.

IP is not only an important part of our games’ popularity and continued vitality, but also an important asset for us. We plan to build our QingCi universe primarily through developing original, iconic IP for our games, (including by integrating cultural elements), supplemented by peripheral products and pan-entertainment content, such as comics, videos and other merchandise. We will also pursue ways to achieve synergies among the various IPs within our QingCi universe, such as by embedding gameplay elements of our existing IPs into our new games to connect our various IPs, thereby increasing player stickiness and enhancing monetization.

Continue to strengthen our game development and operation capabilities to enhance profitability

We will apply big data analytics and other technologies to improve our game production and operation capabilities. We will also invest in AR technology to enhance our ability to deliver immersive, cutting-edge gameplay experiences. These technologies will strengthen our multi-dimensional analytics of player behavior, from game testing to launch, as we continue to develop and optimize our games. Applying this data-driven approach, we expect to more effectively understand the needs and preferences of players, provide them with compelling content of our QingCi universe and improve our monetization capabilities.

Leveraging our game publishing and operation capabilities, which encompasses customized marketing campaigns, supplemented by effective traffic acquisition, we will seek to acquire a large number of quality players in a cost-efficient manner. We will apply our data insights to introduce popular marketing content and improve our targeted promotion of games in a cost-effective manner, further reducing channel costs and increasing our profitability.

Expand our player base and improve player stickiness and engagement

Our large, loyal and active QingCi Enthusiast base is the foundation of our QingCi community and the primary target audience of our games, for our continued development. We plan to pursue the approaches below to expand this player base, increase their engagement with us and enhance their recognition of our brand and culture:

- We will leverage our captivating games to provide more attractive gameplay experiences and, through more interesting interactions, create topics that captivate players and drive our marketing momentum;

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- We will continue to build and operate QingCi community through various online platforms, support and cultivate player community, and encourage interaction among players and collect feedback and analyze test data to refine our games; and
- We will continue to organize offline player activities to provide a more diversified interactive experience. We are currently planning to open QingCi games offline experience store(s) by the end of 2021.

Continue to expand our overseas business

We will launch our games in overseas markets mainly through self-publishing. In 2021, we plan to focus on players in Japan, South Korea, Hong Kong, Macau and Taiwan as our primary target audience. In the following two to three years, we will gradually expand to Europe, the U.S. and other regions.

We will provide overseas players with games and interactive experiences that are as captivating as our games for the market in China, while at the same time customizing the games based on the local cultures and player habits of specific markets. This will include multilingual game versions with content that has been customized based on local players’ feedback and cultural characteristics.

We will continue to consolidate our capabilities in overseas publishing, operation, marketing and player community development. We will deepen our cooperation with major international distribution channels such as Google Play and iOS App Store, social media platforms such as Facebook, and other upstream and downstream partners in the mobile game industry. We have also begun building overseas player community on social media platforms such as Facebook and TikTok, and we will use our extensive experience to continuously attract and retain players and enhance monetization.

Enter into strategic alliances, investments and acquisitions

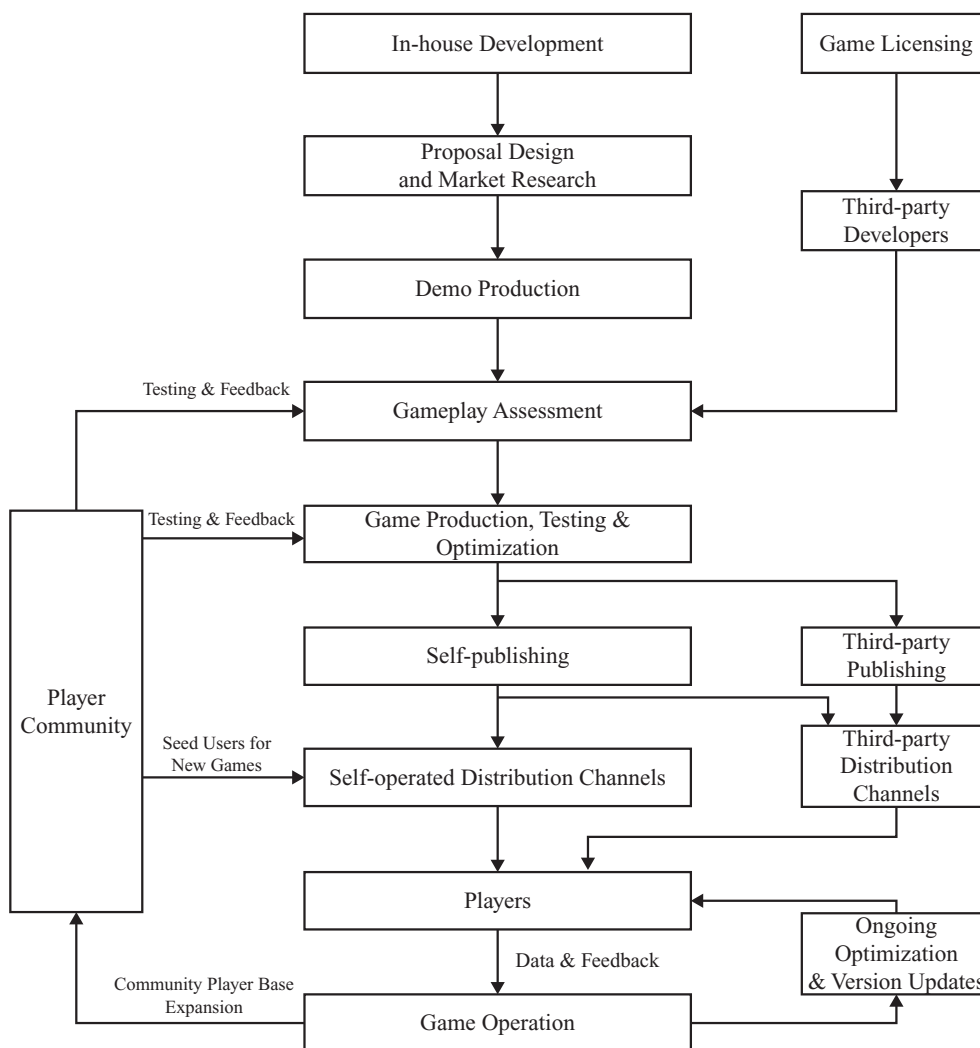
We actively pursue win-win cooperation opportunities through in-depth strategic alliances, investments and acquisitions. For example, under our model of in-licensing games from our investee companies, we have enabled the success of outstanding products such as *Lantern and Dungeon*. We will continue to cooperate with third-party developers as our strategic partners to roll out compelling new games. In addition, we will seek out high-quality business partners in the mobile game industry and deepen our cooperation with these partners through strategic alliances, investments or acquisitions.

Our strategic focuses in this area in China and overseas include: (i) targeting game developers with high-quality products that can expand our game portfolio, strengthen our brand and IP, and attract new players; and (ii) pairing up with upstream and downstream industry players with distinctive qualifications and capabilities such as game publishers and animation producers. We believe that strategic alliances, investments and acquisitions can help us to more effectively consolidate our market position, respond to industry trends, and achieve our goals for growth.

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OUR BUSINESS MODEL

We publish and operate our in-house developed mobile games as well as certain games licensed in from third-party developers. To a lesser extent, we engage third parties to publish certain of our games, leveraging their established distribution network relationships and game marketing and promotion capabilities. The following chart illustrates our business processes, from game sourcing to post-launch operations, for all of these three business models. See “—Our Business Processes” for more discussion of our business processes.



Our mobile games are currently offered primarily on a free-to-play basis. We generate game operating revenues primarily from the sales of in-game virtual items. For our self-published in-house developed games, we are entitled to all the gross billings after deduction of fees charged by payment service providers and distribution channel fees. For our in-licensed games, we generally pay the third-party game developers fee amounting to a prescribed percentage of the gross billings (which are net of commissions to distribution and payment channels, promotion and marketing expenses and other expenses, as the case may be). We recognize licensing fees from third-party publishers as our game licensing revenue. In addition, we generate information service revenue by providing performance-based in-game marketing and promotion services to advertisers or their agents who promote their customers’ products and services in our games to players beginning from 2018.

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The following table sets forth a breakdown of our revenue by source in absolute amounts and as percentages of our total revenues for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2018		2019		2020		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>									
	<i>(Unaudited)</i>									
Game operating revenues										
Self-developed	35,481	36.1	43,318	48.8	1,082,298	88.2	16,374	55.9	324,076	67.4
Licensed	15,110	15.3	10,054	11.3	11,150	0.9	2,713	9.2	134,576	28.0
<i>Subtotal</i>	50,591	51.4	53,372	60.1	1,093,448	89.1	19,087	65.1	458,652	95.4
Game licensing revenue	47,822	48.6	33,582	37.9	58,576	4.8	8,290	28.3	11,816	2.5
Information service revenue	8	0.0	1,750	2.0	74,896	6.1	1,932	6.6	10,118	2.1
Total revenues	98,421	100.0	88,704	100.0	1,226,920	100.0	29,309	100.0	480,586	100.0

Given the content-oriented nature of our games, the players generally feel attached to our games, and a large number of them have actively participated in community interactions with us and other players. As of March 31, 2021, our games had accumulated more than 11 million QingCi Enthusiasts on various social media and online platforms, such as TapTap, WeChat, Tencent QQ and Bilibili. See “—Player Community” for more details. Our continuous engagement and the players’ feedback make a virtuous cycle that nurtures our growth and forms an integral part of our business model.

OUR GAMES

We develop, publish and operate top-rated online mobile games. As of the Latest Practicable Date, we had six existing mobile games, including five idle games or rogue-like RPGs and one other RPG. In addition, we had a pipeline of 10 games expected to be launched in 2021, 2022 and 2023, including RPG (including rogue-like RPG, ACT RPG and others), casual games (including parkour, idle games and others), SLG (including tower defense and others), ACT and STG. As of the same date, four of our existing games and four of our pipeline games were developed in-house and the rest were in-licensed from third-party developers. Moreover, we plan to launch new local versions of two of our landmark games in 2021 and 2022.

Our games typically have strong storylines and provide relaxing experiences to the players at their leisure time. Players may role-play our game characters, explore the virtual world, gather resources, amass collectibles and upgrade their bases and avatars as dynamic in-game events constantly occur. With engaging storylines, smooth learning curves, abundant culture references and captivating graphics and music, our games provide relaxing gameplay experiences that are designed to interweave seamlessly with our players’ daily routines, achieving high user stickiness and extending the games’ lifecycle.

With a global vision, we also publish and operate games, by ourselves or through third parties, in overseas markets including Hong Kong, Macau, Taiwan, South Korea, Japan, Europe, the U.S., Southeast Asia and the Middle East.

Our Landmark Games

A number of our mobile games have achieved excellent market reception. We discuss below our selected landmark games, based primarily on their revenue contribution, ratings and market reception.

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The Marvelous Snail (最強蝸牛)



The Marvelous Snail (最強蝸牛), officially launched in June 2020, is our self-developed idle game. This game provides an engaging storyline where players role-play the time-traveling brave little snail and take on adventures across eight civilizations in a mission to save the whole world from the impending apocalypse. In general, players simply click on this game occasionally for the plot to proceed and make the storyline progress. This game also integrates mini-games that are independent from the storyline and rewards the players with virtual items and virtual currencies that may be used in the storyline. Our utilization of cutting-edge technologies and development tools, such as customized and optimized Cocos2dx, allows us to deliver smooth game performance. Its doodle-like aesthetics and upbeat background music can draw players' attention, thereby attracting new players. In addition, it has more than 3,000 independently-designed characters and over 500,000 characters of dialog integrating popular humorous twists and punchlines, which deliver an amusing experience to players. As of the Latest Practicable Date, the game was available in simplified and traditional Chinese. We released a substantially updated version of this game in June 2021 with new content, plot and roles, where players can play multiple roles and enjoy enhanced immersive experience in the game. We have crafted the multi-role storyline of this new version to be laden with topics for interactions among players, so as to raise the game's following and discussion on social media platforms. In addition, we plan to launch a local version for *The Marvelous Snail (最強蝸牛)* in Japan in the second quarter of 2022.

The Marvelous Snail (最強蝸牛) generated gross billings exceeding RMB400 million in the first month following its launch in June 2020, which was higher than most of its peer games in mainland China, according to Frost & Sullivan. The game recorded more than RMB1.6 billion in total gross billings and 19.2 million cumulative registered players as of March 31, 2021, approximately nine months from its launch. In addition, it had an average MAU of 4.4 million and an average MPU of over 700 thousand from June to December 2020. Further, the average weekly player retention rate of *The Marvelous Snail (最強蝸牛)* exceeded 29% from its launch to March 31, 2021, which was significantly higher than the industry average of approximately 12% for idle games, according to Frost & Sullivan. The game was awarded as the Outstanding Game of the Year for Storyline and Outstanding Game of the Year for Innovative Gameplay by Beijing International Game Innovation Conference and the Players' Most Anticipated Game by Huawei AppGallery in 2020. The game also received over 120 times of "Editor's Choice" recommendation on the iOS App Store in China in 2020. In addition, after its launch, the game topped the iOS and Google Play Top 10 Free Games Charts in Hong Kong and Taiwan in 2020, and obtained the highest ranking of No. 1 on the Google Play Games List in Hong Kong and iOS Bestseller Games List in Taiwan. It also obtained the highest ranking of No. 2 on the iOS Bestseller Games List in China in 2020. The game generated aggregate revenues of RMB1,510.5 million during the Track Record Period.

BUSINESS

Gumballs & Dungeons (不思議迷宫)



Gumballs & Dungeons (不思議迷宫) is our self-developed rogue-like RPG launched in August 2016. Players role-play a gumball, the main character of this game, which is a bouncy creature determined to become a hero by embarking on a journey through the four corners of the world. As the plot develops, the character develops mainly through dungeon crawls, where players encounter friendly and hostile mystical creatures, beasts and fellow gumballs, and upgrade their own gumball along the way. This game provides players with a fun and captivating experience and, with more than 200 types of gumballs, hundreds of possible role combinations and more than 20 themed mazes, even proficient players can find surprises in the game from time to time. This game is powered by customized and optimized Cocos2dx, which allows this game to run smoothly even with a large number of concurrent players at the peak. This game had approximately 4.7 million cumulative registered players in the overseas markets as of March 31, 2021, with localized versions in five language versions including English, Japanese, Korean, and simplified and traditional Chinese.

Gumballs & Dungeons (不思議迷宫) maintains its outstanding performance, though it has been launched for more than four years. The game was nominated for the Best Chinese Game Award by TGA in 2017 and pocketed the Black Stone Award for Most Popular Indie Games by Mobile Hardcore Alliance in 2017. It has also been recommended by both Google Play and iOS App Store in multiple regions around the globe. It had received over 70 times of “Editor’s Choice” recommendation and obtained the highest score of 4.9 out of 5.0 on the iOS App Store in China as of the Latest Practicable Date. In 2020, it generated total gross billing of approximately RMB102 million and achieved an average MAU of over 390 thousand. It had more than 23.1 million cumulative registered players as of March 31, 2021. The game generated aggregate revenues of RMB168.3 million during the Track Record Period.

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Lantern and Dungeon (提燈與地下城)



Lantern and Dungeon (提燈與地下城) is our in-licensed rogue-like RPG officially launched in March 2021. This game runs in portrait mode, and its user interface is designed to allow players to navigate singlehandedly. Players can incubate a collection of minions dropped by defeated enemies in the game to assemble a task force and help the main character wade through the vast, randomly-generated dungeon world. Each of these minions can be customized to acquire its unique set of skills and equipment. A key feature of this game is that the players can manually adjust the brightness of the lantern, which affects the difficulty and yield of this game. In this way, the game is able to attract players across the spectrum: while hardcore players can choose to have a dimmed lantern to obtain more virtual currency, experience, minions and equipment, casual players can have fun simply with a bright lantern. As of the Latest Practicable Date, this game was available in simplified Chinese. In addition, we plan to launch *Lantern and Dungeon (提燈與地下城)* in Hong Kong, Macau and Taiwan in the fourth quarter of 2021.

Lantern and Dungeon (提燈與地下城) had more than one million active users with peak concurrent users exceeding 250 thousand on its official launch day. The game topped the iOS Top 10 Free Games Chart in China for six consecutive days after its launch and obtained the highest ranking of No. 4 on the iOS Bestseller Games List in China. The game had received over 30 times of “Editor’s Choice” recommendation on the iOS App Store as of the Latest Practicable Date. The game generated gross billings exceeding RMB185 million in the first month following its launch. As of March 31, 2021, it had recorded approximately 3.8 million cumulative registered players. For the three months ended March 31, 2021, it achieved an average MAU of 3.8 million, an average MPU of 1.2 million and an average weekly player retention rate of 43%. The game generated aggregate revenues of RMB135.3 million during the Track Record Period.

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Ares Virus (阿瑞斯病毒)



Ares Virus (阿瑞斯病毒), launched in August 2018, is our in-licensed zombie survival RPG with a top-down still view and distinct fresh ballpoint style. To survive the apocalyptic world and avenge the teammates and friends, a player needs to craft equipment and supplies in the shelter, explore the wilderness and ruins, defend himself or herself from swarms of a wide spectrum of hostile creatures, and eventually unveil and vanquish a secretive crime syndicate. Playthroughs can be very different among players: players can make various choices when interacting with different non-player characters, which will unlock different storylines; each type of enemies has their own attack patterns and weaknesses, which can be exploited for an easier defeat; a plethora of gadgets, equipment and consumables have different stats and uses, which allow endless possibilities for character development. As of the Latest Practicable Date, it was available in simplified and traditional Chinese and English versions.

Before its official launch in August 2018, *Ares Virus* (阿瑞斯病毒) had already received more than 200,000 advanced reservations and obtained a score of 8.6/10 on TapTap, higher than the average level of game score (around 6/10) on TapTap. It topped the iOS Paid Games List in China overnight after its official launch, and it had remained as one of the top 10 iOS Paid Adventure Games for over 30 days. The game had received over 10 times of “Editor’s Choice” recommendation and obtained the highest score of 4.8 out of 5.0 on the iOS App Store in China as of the Latest Practicable Date. The game won OPPO’s Best Spark Game in 2018. Even without incurring substantial cost for customer acquisition, *Ares Virus* (阿瑞斯病毒) achieved great reputation and brand recognition.

As of March 31, 2021, *Ares Virus* (阿瑞斯病毒) had recorded more than 15.7 million cumulative registered players. At its peak, it achieved an MAU of 3.6 million. In the three months ended March 31, 2021, it achieved an average weekly player retention rate of 23% in China. The game generated aggregate revenues of RMB34.9 million during the Track Record Period.

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Eternal Adventure (無盡大冒險)



Eternal Adventure (無盡大冒險), launched in June 2015, is one of our self-developed classic games that combine the features of idle gameplay experience and Diablo-like adventure. Players are able to roam the vast virtual world fearlessly in one of the seven professions, grow their characters and defeat various enemies. Like other idle games, this game can almost run without players' constant clicking. In boss fights and dungeon challenges, relatively more strategic decision-making is needed to ensure a higher rating of the character's performance, which is necessary to obtain higher rewards. As each boss and dungeon has their own unique strengths and weaknesses, it is crucial that a player matches the corresponding suites of equipment to ensure his or her survival. With a wide selection of armors, weapons, runes and skills, this game allows endless possibilities of character development. *Eternal Abyss* (地下秘境) is a special dungeon in this game that poses serious challenges to even the most experienced players, granting unlimited theoretical replayability. It is available in simplified Chinese and Japanese versions.

We have been constantly improving *Eternal Adventure* (無盡大冒險) since its launch. In 2019, we launched a significantly updated version of this game with entirely newly designed graphics, user interface, model and special effects. This version has led to an increase of over 60% in the newly-registered players of this game, an increase of over 160% in the average MPUs of this game, and an increase of over 260% in the gross billings of this game, from 2018 to 2019. As of the Latest Practicable Date, we had accumulated over 920 thousand installations and nearly 450 thousand followers on TapTap alone for *Eternal Adventure* (無盡大冒險). The game had received over 150 times of “Editor's Choice” recommendation and obtained the highest score of 4.7 out of 5.0 on the iOS App Store in China as of the Latest Practicable Date. As of March 31, 2021, it had recorded over 1.8 million cumulative registered players. The game generated aggregate revenues of RMB32.8 million during the Track Record Period.

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Our Existing Game Portfolio

We have established a robust game portfolio. As of the Latest Practicable Date, our games had different versions in a total of five languages across China and the overseas markets. The following table sets forth certain details of our existing games as of the Latest Practicable Date.

Logo and Title	Mobile Game Genre	Languages	Publishing Model(s) as of the Latest Practicable Date	Official Launch Date ⁽¹⁾	Major Market(s) ⁽²⁾	Source	Lifecycle Stage as of the Latest Practicable Date ⁽³⁾	Expected Lifecycle ⁽³⁾⁽⁴⁾	Remaining Duration of Lifecycle as of the Latest Practicable Date
<i>The Marvelous Snail</i> (最強蝸牛)	Idle	Chinese (Simplified/Traditional)	Self-publishing	June 2020	Mainland China	Developed in-house	Maturity	96 months	84 months
			Third-party publishing	July 2020	Hong Kong, Macau and Taiwan	Developed in-house	Maturity	96 months	85 months
<i>Gumballs & Dungeons</i> (不思議迷宮)	Rogue-like RPG	Chinese (Simplified/Traditional), English, Japanese and Korean	Self-publishing	August 2016	Southeast Asia, Europe (regions other than French-, German- and Russian-speaking regions) and the U.S.	Developed in-house	Maturity	96 months	38 months
			Third-party publishing	December 2016	Mainland China, Hong Kong, Macau, Taiwan, South Korea, the Middle East, Europe (French-, German- and Russian-speaking regions)	Developed in-house	Maturity	96 months	42 months
<i>Lantern and Dungeon</i> (提燈與地下城)	Rogue-like RPG	Chinese (Simplified)	Self-publishing	March 2021	Mainland China	In-licensed	Growth	60 months	57 months
<i>Ares Virus</i> (阿瑞斯病毒)	Other RPG	Chinese (Simplified/Traditional); English	Self-publishing	August 2018	Mainland China and the U.S.	In-licensed	Maturity	60 months	26 months
<i>Eternal Adventure</i> (無盡大冒險)	Idle	Chinese (Simplified) and Japanese	Self-publishing	June 2015	Mainland China	Developed in-house	Maturity	96 months	24 months
			Third-party publishing	July 2020	Japan	Developed in-house	Maturity	60 months	49 months
<i>Yu Gong 3</i> (愚公移山3—智叟的反擊)	Idle	Chinese (Simplified)	Self-publishing	May 2016	Mainland China	Developed in-house	Recession	84 months	23 months

Notes:

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

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Our Games’ Performance

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

	Year ended December 31,			Three months ended March 31,
	2018	2019	2020	2021
Average MAUs ⁽¹⁾ (in thousands)	1,693	1,240	3,448	3,701
Average MPUs (in thousands)	163	114	495	782
ARPPU (RMB)	47	60	206	205
	As of December 31,			As of March 31,
	2018	2019	2020	2021
Cumulative registered players (in thousands)	27,458	35,978	59,585	65,753

Note:

(1) MAUs for *Gumballs & Dungeons* in South Korea for the eight months ended August 31, 2018 are unavailable and the revenue contribution of this game from South Korea was relatively small during the Track Record Period.

The following tables set forth the revenue contribution and performance of our five landmark mobile games during the periods and as of the dates indicated.

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	(RMB in thousands)				
	(Unaudited)				
Revenues⁽¹⁾					
<i>The Marvelous Snail</i> (最強蝸牛)	–	1,871	1,169,742	9,519	338,874
<i>Gumballs & Dungeons</i> (不思議迷宮)	72,839	53,286	36,393	12,136	5,811
<i>Lantern and Dungeon</i> (提燈與地下城)	–	–	2,773	–	132,506
<i>Ares Virus</i> (阿瑞斯病毒)	14,140	10,068	8,485	2,586	2,185
<i>Eternal Adventure</i> (無盡大冒險)	4,237	19,247	8,182	4,117	1,103

Note:

(1) The revenues for each game included revenues generated from the pre-launch testing stage of the games (where applicable) during the Track Record Period, which were immaterial.

	Year ended December 31,			Three months ended March 31, 2021
	2018	2019	2020	2021
	(in thousands)			
Average MAUs				
<i>The Marvelous Snail</i> (最強蝸牛)	–	–	4,417	1,745
<i>Gumballs & Dungeons</i> (不思議迷宮)	903	536	394	263
<i>Lantern and Dungeon</i> (提燈與地下城)	–	–	–	3,805
<i>Ares Virus</i> (阿瑞斯病毒)	1,585	572	424	393
<i>Eternal Adventure</i> (無盡大冒險)	43	90	42	28

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	Year ended December 31,			Three months ended
	2018	2019	2020	March 31,
				2021
	(in thousands)			
Average MPUs				
<i>The Marvelous Snail</i> (最強蝸牛)	–	–	701	310
<i>Gumballs & Dungeons</i> (不思議迷宮)	96	66	52	34
<i>Lantern and Dungeon</i> (提燈與地下城)	–	–	–	1,224
<i>Ares Virus</i> (阿瑞斯病毒)	135	28	26	25
<i>Eternal Adventure</i> (無盡大冒險)	7	18	8	5
	Year ended December 31,			Three months ended
	2018	2019	2020	March 31,
				2021
	(in thousands)			
ARPPU (RMB)				
<i>The Marvelous Snail</i> (最強蝸牛)	–	–	238	364
<i>Gumballs & Dungeons</i> (不思議迷宮)	63	67	59	57
<i>Lantern and Dungeon</i> (提燈與地下城)	–	–	–	108
<i>Ares Virus</i> (阿瑞斯病毒)	21	30	27	29
<i>Eternal Adventure</i> (無盡大冒險)	54	90	89	69
	As of December 31,			As of March 31,
	2018	2019	2020	2021
	(in thousands)			
Cumulative Registered Players				
<i>The Marvelous Snail</i> (最強蝸牛)	–	–	17,929	19,219
<i>Gumballs & Dungeons</i> (不思議迷宮)	18,539	21,120	22,884	23,120
<i>Lantern and Dungeon</i> (提燈與地下城)	–	–	–	3,805
<i>Ares Virus</i> (阿瑞斯病毒)	6,610	11,447	14,947	15,727
<i>Eternal Adventure</i> (無盡大冒險)	814	1,490	1,801	1,850

The average MAUs, average MPUs and ARPPU of our five landmark mobile games changed during the Track Record Period in line with development of the games’ lifecycle stages, our game version updates and our launches of new blockbuster games, *The Marvelous Snail* (最強蝸牛) and *Lantern and Dungeon* (提燈與地下城). The cumulative registered players of our five landmark mobile games grew significantly during the Track Record Period, primarily due to the successful launches and development of new blockbuster games, as well our releases of updated game versions. In addition, the generally strong performance of our landmark mobile games during the Track Record Period was mainly attributable to our captivating games with good quality, our excellent monetization strategies and our ability to retain players with strong willingness to pay.

Our games typically experience a lifecycle comprising: a fast growth stage starting from the time of game launch, a relatively long mature stage, and a recession stage before the game is terminated. The game stages are based on the growth rates of players and revenue. According to Frost & Sullivan, during the growth stage, the number of players and revenue generated from the game tend to increase relatively fast as a result of the comprehensive marketing and promotion campaigns; during the maturity stage, the game has gained its player base and market share, and the gross billings generated by the game generally remains stable; and during the recession stage, the number of game players and the gross billings typically decline significantly. According to Frost & Sullivan, a game typically generates 25% to 35%, 55% to 65% and 10% to 20%, respectively, of the total revenue it generates throughout its lifecycle at the growth stage, the maturity stage and the recession stage. The lifecycles of our games in operation as of the Latest Practicable Date are generally 60 to 96 months. According to Frost & Sullivan, the average lifecycles of casual games (including idle games) and RPGs (including rogue-like RPGs) are approximately 10 months and 12 months, respectively, while the top five casual games and the top five RPGs measured by gross billings in China in 2020 have been in operation for an average of 54 months and

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33 months, respectively, which are much longer than the industry average. Our games’ relatively long lifecycles were primarily attributable to our strong game development, publishing and operation capabilities, including by producing and updating our games to provide our players with fresh and engaging experiences to retain our existing players and extend our games’ lifecycles.

Our Game Pipeline

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

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

<u>Title</u>	<u>Mobile Game Genre</u>	<u>Source</u>	<u>Expected Launch Date</u>	<u>Markets for the Local Versions</u>
<i>Lantern and Dungeon</i> (提燈與地下城)	Rogue-like RPG	In-licensed	Fourth quarter of 2021	Hong Kong, Macau and Taiwan
<i>The Marvelous Snail</i> (最強蝸牛)	Idle game (a type of casual games)	Developed in-house	Second quarter of 2022	Japan

As of the Latest Practicable Date, we also had a pipeline of 10 new mobile games, covering a wide range of genres and types. We expect to launch the first local version for each of these games in 2021, 2022 and 2023 and will release these games in markets such as mainland China, Hong Kong, Macau and Taiwan, Japan, South Korea, Europe and the U.S. The specific target markets of each game may vary depending on the game’s development progress and post-launch performance, market conditions and our marketing strategies. We expect our game portfolio to expand in the foreseeable future as we continue to develop additional games in-house and seek out quality games to license in from third-party developers. The table below sets forth details of our pipeline games as of the Latest Practicable Date.

<u>Title⁽¹⁾</u>	<u>Mobile Game Genre⁽¹⁾</u>	<u>Source</u>	<u>Development Stage as of the Latest Practicable Date⁽¹⁾</u>	<u>Expected Launch Date⁽¹⁾</u>
<i>Time Voyager</i> (時光旅行社)	Rogue-like RPG	Developed in-house	Game production, testing and optimization	Fourth quarter of 2021
<i>Project A</i>	Tower defense (a type of SLG)	Developed in-house	Game production, testing and optimization	Second quarter of 2022
<i>Servitor Project</i> (使魔計畫)	Idle game (a type of casual games)	Developed in-house	Game production, testing and optimization	Second quarter of 2022
<i>Ares Virus 2</i> (阿瑞斯病毒2)	RPG	In-licensed	Game production, testing and optimization	Second quarter of 2022
<i>Project B</i>	Casual	In-licensed	Game production, testing and optimization	Third quarter of 2022

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Title ⁽¹⁾	Mobile Game Genre ⁽¹⁾	Source	Development Stage as of the Latest Practicable Date ⁽¹⁾	Expected Launch Date ⁽¹⁾
<i>Loot Rush</i> (騎士沖鴨)	ACT RPG	In-licensed	Game production, testing and optimization	Third quarter of 2022
<i>Project C</i>	ACT	In-licensed	Demo production	Third quarter of 2022
<i>Project D</i>	STG	In-licensed	Demo production	Fourth quarter of 2022
<i>Bladeheart Ninja 2</i> (刀心2)	Parkour (a type of casual games)	In-licensed	Game production, testing and optimization	Fourth quarter of 2022
<i>Project E</i>	SLG	Developed in-house	Demo production	Second quarter of 2023

Note:

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

PLAYER COMMUNITY

We have nurtured vibrant QingCi community of players on various mobile game forums and social media platforms. As of March 31, 2021, our games had accumulated more than 11 million QingCi Enthusiasts who were connected with us on our official accounts and groups on social media platforms, such as TapTap (over 5 million followers), WeChat (over 3 million followers), Tencent QQ (over 600 thousand group members) and Bilibili (over 600 thousand followers). Below are pictures for some of the online and offline events we organized for our community players:



Online community event for the Chinese New Year



Online community event for the Labor Day Holiday

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Offline event for our players

We attract players to our QingCi community mainly through introducing our social media platform accounts in our games, and we retain players by organizing activities and encouraging player interactions via our official accounts on various social media platforms. We have a dedicated operation team that manages our player community accounts and actively interacts with the community participants. Through the QingCi community, our players can receive from us latest information about our games, including recent events we organize, opportunities to participate in testing our new games and free in-game virtual items. We also proactively seek players’ feedback on our games and organize online and offline player activities to enhance players’ sense of belonging and identification with us. For example, we organize offline events for our players, including group games and communications between our players and our game development team.

We highly value players’ feedback on our games, and testing by our community players is an important step of our game development. As early as the “demo” stage, we would invite community players on our various social media accounts to participate in our games’ testing. The community players’ feedback and testing data help us to efficiently verify the games’ designs, core gameplay, player experiences and overall commercial potential, so that we can timely adjust and optimize our game development strategies.

In addition, we use WeChat, Tencent QQ and other social media platforms to promote our new games to the community players, and as a result, many players of our existing games have learned of and registered for our new games. For example, as of March 31, 2021, approximately 1.7 million of the 3.8 million registered players of *Lantern and Dungeon* (提燈與地下城) were converted from our other games, despite their different genres and characteristics. Before the official launch of a game, we publish notices of the game on our official website, our official accounts on platforms such as TapTap, and certain other online platforms such as Bilibili and Douyin, to warm up our targeted players. After the game is launched, we proactively interact with our players primarily through our official accounts on social media platforms and invite KOLs and our QingCi Enthusiasts to share professionally-produced content and user-generated content that are customized for our players to increase players’ engagement with our games.

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AWARDS AND RECOGNITION

We have received recognition for the quality and market reception of our games. Some of the significant awards and recognition we had received as of the Latest Practicable Date are set out below.

<u>Award/Recognition</u>	<u>Award Year(s)</u>	<u>Awarding Institution/Authority</u>	<u>Entity/Game</u>
Editor’s Choice (編輯推薦)	2020	iOS App Store; Google Play	<i>The Marvelous Snail</i> (最強蝸牛)
Editor’s Choice (編輯推薦)	2018-2020	iOS App Store; Google Play	<i>Gumballs & Dungeons</i> (不思議迷宮)
Most Influential Partner (最具影響力合作夥伴)	2020	Pangle.cn	<i>The Marvelous Snail</i> (最強蝸牛)
Outstanding Game of the Year for Storyline and Outstanding Game of the Year for Innovative Gameplay (年度優秀遊戲—玩法創新；年度優秀遊戲—劇情)	2020	Beijing International Game Conference	<i>The Marvelous Snail</i> (最強蝸牛)
Nomination for China’s Top 10 New Games and Nomination for China’s Top 10 Games Development Teams (2020年度中國遊戲十強新銳遊戲提名；2020年度中國遊戲十強遊戲研發團隊提名)	2020	GPC	QC Digital
Cicada Award for Most Popular App of the Year and Cicada Award for Best Design Award (蟬鳴獎：年度最具人氣APP；年度最佳設計獎)	2020	Global Mobile Cicada Awards	<i>The Marvelous Snail</i> (最強蝸牛)
Players’ Anticipated Game (玩家期待獎)	2020	Huawei	<i>The Marvelous Snail</i> (最強蝸牛)
Whale Sound Award for Top 10 Games of the Year (鯨鳴獎：年度十佳出海遊戲)	2020	Global Traffic Conference	<i>The Marvelous Snail</i> (最強蝸牛)
Outstanding Game Producer of the Year and Influential Game of the Year (第五屆金陀螺獎：年度杰出遊戲製作人獎，年度影響力遊戲獎)	2020	2020 Future Business Ecological Conference	<i>The Marvelous Snail</i> (最強蝸牛)
OPPO’s Best Spark Game (最佳星火遊戲)	2018	OPPO	<i>Ares Virus</i> (阿瑞斯病毒)
Wandoujia Design Award – Game of the Year (豌豆莢設計獎：2018年度遊戲)	2018	Wandoujia (豌豆莢)	<i>Ares Virus</i> (阿瑞斯病毒)
Nomination for Best Chinese Game Award	2017	TGA	<i>Gumballs & Dungeons</i> (不思議迷宮)
Black Stone Award for Most Popular Indie Game (黑石獎：最受歡迎獨立遊戲)	2017	Mobile Hardcore Alliance	<i>Gumballs & Dungeons</i> (不思議迷宮)
Wandoujia Design Award (豌豆莢設計獎)	2017	Wandoujia (豌豆莢)	<i>Gumballs & Dungeons</i> (不思議迷宮)

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OVERSEAS MARKETS

We have been expanding our business globally since 2016, targeting a large worldwide player base, backed by our superior localization capabilities. 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,						Three months ended March 31,			
	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	24,825	84.7	468,754	97.5
Outside mainland China ⁽¹⁾	31,377	31.9	26,018	29.3	48,017	3.9	4,484	15.3	11,832	2.5
Total	98,421	100.0	88,704	100.0	1,226,920	100.0	29,309	100.0	480,586	100.0

Note:

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

During the Track Record Period, our revenues from the overseas markets were primarily from *Gumballs & Dungeons* (不思議迷宮), *The Marvelous Snail* (最強蝸牛) and *Eternal Adventure* (無盡大冒險). We plan to launch local versions for *Lantern and Dungeon* (提燈與地下城) in Hong Kong, Macau and Taiwan in the fourth quarter of 2021 and *The Marvelous Snail* (最強蝸牛) in Japan in the second quarter of 2022. In addition, we also expect to distribute our 10 pipeline games in the overseas markets.

While our landmark games have achieved respectable performance in China, we need to make substantial localization efforts to adapt our games to the overseas markets’ linguistic and cultural background to attract local players. For example, we make local language versions of our games for the targeted overseas markets and engage local experts to provide game content input and marketing support. Our games have been recognized in the overseas markets for innovation and high quality. For example, after its launch, *The Marvelous Snail* (最強蝸牛) topped the iOS and Google Play Top 10 Free Games Charts in Hong Kong and Taiwan in 2020, and obtained the highest ranking of No. 1 on the Google Play Games List in Hong Kong and iOS Bestseller Games List in Taiwan.

For our games that have become popular in mainland China, we typically first promote the games in Hong Kong, Macau and Taiwan. After the games have been tested by the market in these regions, we would proceed to target the overseas Chinese in Japan and South Korea and then gradually penetrate into the European and the U.S. markets to achieve a global coverage. As of March 31, 2021, we had over 8 million overseas cumulative registered users. We have been distributing our games in broader areas around the globe such as Hong Kong, Macau, Taiwan, South Korea, Japan, Europe, the U.S., Southeast Asia and the Middle East.

In markets outside of mainland China, we typically publish our games through iOS App Store and Google Play. We also cooperate with third-party publishers based on the game features. We screen third-party publishing partners in overseas markets primarily by evaluating: (i) their competitiveness and resources in the local markets, (ii) their localization and operational capabilities, and (iii) their track records in publishing and distributing Chinese mobile games. For example, beginning in 2016, we commenced our global business operations by distributing *Gumballs & Dungeons* (不思議迷宮) in Hong Kong, Macau and Taiwan through third-party publishing and in Southeast Asia, the United States and Europe (regions other than French-, German- and Russian-speaking regions) through self-publishing. We have also engaged the G-bits Group to distribute and operate *The Marvelous Snail* (最強蝸牛) in Hong Kong, Macau and Taiwan. We have been focusing on distributing our games offshore primarily by ourselves beginning from 2020 as our overseas distribution platform and capabilities have significantly enhanced over the years.

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OUR BUSINESS PROCESSES

Game Developing

In-house Development

Leveraging our over a decade’s experience in the mobile game industry and our strong systematic game development capabilities, four of our six existing mobile games and four of our 10 pipeline games were developed in-house as of the Latest Practicable Date. As of March 31, 2021, our game development team consisted of 143 employees, approximately 77% of whom had a bachelor’s degree or higher. Our game development team members have spent an average of three years with us. Their roles include producers, designers, programmers, artists, sound engineers and testing engineers. To strengthen our R&D capabilities, we also discover and incubate future game producers who display strong innovation and game design talent.

Our game development team primarily focuses on designing new games, innovating gameplay, originating game content, enhancing player experience and optimizing existing games. Our game development team works closely with our publishing and operation team at each stage of game development to optimize our games efficiently and productively. Our game development team also plays an essential role in determining the games to be licensed in by assessing the stability, benefits and risks associated with those games.

We incurred research and development expenses of RMB25.3 million, RMB25.6 million, RMB146.1 million and RMB8.4 million in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively, accounting for 25.7%, 28.9%, 11.9% and 1.7% of our total revenues for these respective periods.

Proposal Design, Market Research and Demo Production

Proposal design and market research are the pre-production phase of the game development project. We continuously study the industry trend, players’ changing demands and preferences, as well as feedback on our existing games. After an idea is generated, we would form a core project team of typically less than 10 members led by a producer. The team would conduct research and analysis regarding the new project’s background, target market segment and game positioning (including storyline, genre, core gameplay, graphic design, artistic style, core technology, competitive strengths, development timeline and budget). The team then formulates a detailed game development plan covering these factors. We hold project meetings to review the plan and the core project team optimizes the plan with the suggestions from our management and experienced members of our game development team and our publishing and operation team. Once approved, our core project team would proceed to prepare a game demo within the budget by incorporating the core gameplay and other critical features of the game. Our core project team continuously receives suggestions and support from our management and experienced members of our game development team and our publishing and operation team throughout the demo production process.

Gameplay Assessment

After a game demo is produced, our management and our core project team evaluate the competitiveness and monetization potential of the game. They assess the game demo primarily based on standards such as the game demo’s potential to be developed into an innovative game and provide players with better gameplay experience compared to existing games in the market. Our management, internal specialized testers, and experienced members from our game development team and our publishing and operation team assess the game demo’s quality. They try out the game demo and assess whether the core gameplay, basic functions and design achieved the planned effect, and provide feedback on game functionality and gameplay experience to the core project team for them to make improvements to the game and resolve relevant technical issues.

We select a small number of external players from our large, high-quality player community to test our game demo. These core players typically have strong enthusiasm for mobile games and are able to provide

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helpful feedback on the game demo. These players’ feedback and testing data, which are relatively objective and close-to-market, can help us to efficiently verify the game demo’s core gameplay. Our demo production and gameplay assessment process typically lasts three to six months. Once a game demo passes the gameplay assessment, we will proceed to prepare relevant documentation for game registration and obtain the game publication number from the NPPA.

Game Production, Testing and Optimization

After a game demo passes the gameplay assessment and is approved by our management, our core project team gradually expands into a full-fledged project team with diverse expertise to carry out multiple rounds of modifications, testing and optimization until the game is officially launched. The game production, testing and optimization process typically lasts 12 to 24 months. The designers, programmers and other professionals of our project team work together to produce and optimize the game. Our project team first establishes the fundamental game structure with game engines, and then refines the game development details, including plots, levels, gameplays, artistic effect, functions, economic system and combat power numerical system. Our project team customizes the game by introducing gameplays, new features and characters and building levels required by the game design and fix bugs that may arise. The project team leaders, who coordinate with our game designers and programmers, monitor the game production, testing and optimization process and control the game’s quality throughout the process. In addition, our management optimizes the game under development to troubleshoot and instruct the relevant game development team to improve the game accordingly. We have in limited circumstances outsourced part of the graphic, music, and animation designing work of our games to third-party studios to optimize resource allocation. We also review their work-in-progress periodically to ensure they meet our requirements and avoid any potential delays.

We conduct multiple rounds of testing at each stage of the game production process. Before each round of testing, our project team and members of our publishing and operation team who participate in the testing will set the targets and gather the questions to be resolved during the testing process. We have different focuses for each round of testing, such as the retention related indicators and monetization related indicators. We initially conduct closed testing for our games and only players we invite from our QingCi community may participate in the testing. When we need a large number of players (such as over a hundred thousand players) to test the game, or when we need feedback from ordinary players from the market, we will place advertisements on social media platforms to attract game players, including those outside our QingCi community, to participate in our open paid testing. The open paid testing only begins after we complete the game registration and obtain the game publication number from the NPPA. In our open paid testing, game players would need to purchase in-game virtual items during the testing. After each round of testing, our project team and our publishing and operation team monitor and analyze game player activities to assess their engagement levels and evaluate the game’s monetization potential, and utilize their experience and highly-efficient and customized analytics tools to analyze the data from the testing. Our game development team would further optimize the game based on the test results.

After continuous optimization, if a game reaches the testing targets confirmed by our management and our publishing and operation team, we will prepare it for the official launch. Our testing methods help us accurately forecast the number of players and their income levels and prepare a marketing and promotion plan customized for this game with an appropriate budget. Our management and our project team may terminate a game’s development process if this game does not meet certain testing targets after continuous optimization.

Official Launch and Ongoing Optimization

Following the testing process, assuming no further technical issues, we would officially publish the game by ourselves or through third-party publishers, making it available to the general public through a number of distribution channels. Our game publishing and operation team has been closely engaged throughout the game production and testing process and therefore is well-prepared to run the game. Our game development team cooperates with the publishing and operation team to conduct ongoing optimization and version updates of the game throughout its lifecycle, based on analysis of data on player behavior, feedback of players from our QingCi community and other platforms, and spending patterns, among others.

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Game Licensing

In addition to our in-house developed games, we also license in games from third parties to enrich our game portfolio. In particular, we identify and acquire minority equity interests (typically not more than 30%) in other high-potential game developers and publish certain games they developed. Before we license in a game, we consider a variety of factors including the game’s supplement to our portfolio, its market potential, the potential for version updates and the in-house development capability of its developer. After we obtain the game demo from a third-party developer, similar to our in-house developed games, we conduct gameplay assessment, game production, testing and optimization before launching the game. We typically assess the benefits and risks relating to target games before their approval by our management. Our game publishing and operation team participates in the research and development of the in-licensed games from a relatively early stage. For example, we deploy a dedicated team to participate in the game optimization as well as multiple rounds of testing and assessment to enhance the game’s quality and optimize player experience. As a result, we are able to establish a customized basic game publishing strategy in the mid-stage of the game’s research and development process.

We have entered into game licensing agreements with the relevant game developers. The major terms of these licensing agreements are set forth below:

- *Exclusivity.* We typically have the exclusive right to publish, operate, and authorize third-party publishers to jointly operate the underlying licensed games in the specified regions.
- *Term of agreement.* The term is generally three years after the relevant game’s commercial operation.
- *Fee arrangement.* We generally pay fees to the third-party game developers amounting to a prescribed percentage of the gross billings (which are net of commissions to payment and distribution channels, promotion and marketing expenses and other expenses, as the case may be).
- *Obligations of third-party game developers.* The third-party game developers are responsible for developing and updating the relevant games according to our requirements and the agreed standards. They are required to provide us with requisite materials and tools for game development, localization and service, as well the application materials for any approvals from local governments in the specified regions. They also are required to provide 24/7 technical support services, including server installation, staff training and promptly fixing system failures and bugs. For the games’ closed testing, open testing and other major events, the third-party game developers undertake to assign dedicated project managers to address our inquiries.
- *Our rights and obligations.* We are responsible for establishing server infrastructure and official websites for the games and hosting and maintaining the game servers. We are also responsible for the marketing, promotion and operation of the game, which primarily include establishing distribution, marketing and payment channels, and we are entitled to independently formulate game operation and marketing strategies in line with the agreements. Aside from exercising best efforts in running closed testing, open testing and commercialized operation, we undertake to communicate to the third-party game developers with respect to the bugs that we become aware of and have them fixed promptly.
- *IP rights.* We require the third-party game developers to maintain all requisite IP rights in connection with our licensing arrangements to avoid potential infringement of third-party IP rights. We are authorized to register trademarks or other forms of IP rights in the specified regions to facilitate the marketing of the games, and we agree to transfer the ownership of the pertinent IP rights to the third-party game developers upon the termination of the agreements.
- *Termination.* Either party may terminate the agreement in the event of a material breach of contract by the other party. The agreement can also be terminated by us if the third-party developer fails to

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continue developing the game or providing technical support, honor IP-related representations, warranties or covenants, or deliver game product and content on time, resulting in our inability to timely operate the game.

In 2018, 2019, 2020 and the three months ended March 31, 2021, we paid commissions charged by game developers of RMB5.2 million, RMB2.9 million, RMB2.4 million and RMB15.7 million, respectively.

Game Publishing and Operation

We publish our in-house developed games and licensed games primarily by ourselves on our official website and through third-party distribution platforms. To a lesser extent, we have also engaged other third-party publishers to publish and distribute our games. The following table sets forth a breakdown of our revenues by publishing model in absolute amounts and as percentages of our total revenues for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2018		2019		2020		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Revenues	<i>(RMB in thousands, except for percentages)</i> <i>(Unaudited)</i>									
Self-published games	50,591	51.4	53,372	60.1	1,093,448	89.1	19,087	65.1	458,652	95.4
Third-party published games	47,822	48.6	33,582	37.9	58,576	4.8	8,290	28.3	11,816	2.5
Total	98,413	100.0	86,954	98.0	1,152,024	93.9	27,377	93.4	470,468	97.9

Self-publishing and Operation

We have published and operated a substantial majority of our games by ourselves, particularly beginning from 2020. In addition to our in-house developed games, we also publish in-licensed games.

As of March 31, 2021, we had a dedicated game publishing and operation team of 113 employees. This team is involved in the publishing and operation of our games, as described below:

- *Design and development:* Our game publishing and operation team shares market insight, player feedback and optimization suggestions with our game development team. The team is involved in the game production process and therefore is able to formulate the publishing strategies relatively early at the game development stage. After the game is substantially developed, we apply for game registration with the relevant authorities. It typically takes six to nine months to complete the game registration.
- *Official launch:* We tailor our publishing approach for each game based on its characteristics, players’ interest and distribution channels’ features. Before we officially launch a game, we conduct extensive testing with external players to identify the game’s target audience and customize our marketing campaigns. Before launching a game for open testing, we advertise on mainstream media applications and on social media platforms to establish a player community and increase the game’s visibility. After the game is ready for official launch, our publishing and operation teams cooperate closely to distribute the game through a variety of distribution, marketing and payment channels to launch the game, attract players and facilitate in-game purchases.
- *Operation:* Following the official launch of a game, our game publishing and operation team continuously reviews and updates the game to detect and fix technical issues, monitor and analyze the game’s performance and players’ feedback, gameplay habits and spending patterns using our data analytics tools. This information helps us efficiently develop optimized versions of the game with new

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settings, gameplay, content and features on an ongoing basis. Our game publishing and operation team also further optimize the game’s operation strategies to enhance player engagement, loyalty and monetization. We update our games to provide our players with fresh and engaging experiences to retain our existing players and extend ours games’ lifecycles.

- *Localization for overseas markets:* For each game that we publish on global distribution channels, our overseas publishing and operation team will create different language versions of the game tailor-made for the target markets. Our localization activities include developing local language scripts for the game programs, customizing the dialog between the characters with local languages, introducing local artistic designs, user interfaces and popular cultural elements.

Third-party Publishing

We occasionally publish our games in cooperation with third-party publishers, if we consider these publishers’ resources, localization capabilities and user base would enable them to publish the games more cost-effectively than us or that their strengths will complement our strategy. We select prospective third-party publishers considering primarily their scale of operation and track records in regional markets, financial resources, market reputation and influence, creditworthiness, technological and management capabilities. We have built extensive connections with third-party publishing partners in mainland China and the overseas markets, including Hong Kong, Macau, Taiwan, Japan and South Korea.

We license our games to these third-party publishers and typically receive from them revenue share payments and, in some cases, fixed licensing fees. Set forth below is a summary of our licensing agreements with third-party publishers:

- *Exclusivity.* The third-party publishers have exclusive rights to publish and distribute our games in the relevant markets as designated in the service agreements.
- *Term of agreement.* The term of agreements is usually three years and can be extended upon mutual assent.
- *Fee arrangement and settlement.* Our income as the game developer typically consists of (i) one-off licensing fees and advance payment of the subsequent share of revenue and (ii) subsequent monthly share of revenue (to which the advance payment is credited). In some circumstances, we may also be entitled to conditional incentive fees.
- *Licensing fees.* The licensing fees are generally payable by third-party publishers in two or three installments. The specific installment payment schedule varies from agreement to agreement. The first installment is generally payable shortly after the signing of the agreement. The second/third installments are generally payable after completion of paid commercial testing of the game by the third-party publisher or after the launch of the game on the distribution platform(s).
- *Subsequent monthly share of revenue.* In addition to the licensing fees and advance payments, we, as the game developer, are also entitled to the subsequent monthly share of revenue of the games, which is a predetermined percentage of the gross billings. Third-party publishers typically determine the price of the virtual items in the games they published by referring to the price of the virtual items in the games we publish.
- *Incentive fees.* In some circumstances, if the game’s monthly gross billings exceed a certain amount, we will be entitled to a discretionary incentive fee.
- *IP rights.* We retain titles to all intellectual property of our in-house developed games. Local publishers can reasonably use, interpret, adapt, or localize our games to facilitate the marketing, distribution and promotion of the games in their respective markets after notifying us.

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- *Termination.* Either party may terminate the agreement in the event of a material breach of contract by the other party. Generally, the service agreements can be terminated if the games have material defects that are not promptly addressed. The agreements can also be terminated if either party is unable to obtain approval from government agencies.

Game Distribution

Self-operated Distribution Channels

We have used our proprietary distribution channels to distribute all of our in-house developed and licensed games. These channels include our official website as well as other third-party websites and online advertisements, which are linked to our official website. Players can log on to our official website through these channels to download our games, for example, by scanning QR codes. We also provide Android mobile users with links to our official website where they can download and install the games, in which case we do not need to pay distribution channel fees. Our self-operated distribution channels are supported by our large, loyal and active player community as well as our ability to utilize social media platforms to place advertisements, which help us distribute our games in a cost-effective manner.

Third-party Distribution Channels

As the iOS App Store is the only official platform for iOS device users and Google Play is the major platform for overseas Android device users to download mobile applications, we use these platforms as the application marketplaces to launch our mobile game applications. In addition, we have established close partnerships with popular vertical distribution channels in mainland China, such as TapTap and Bilibili. TapTap charges minimal marketing fees and no commission and tends to attract mobile game enthusiasts. Bilibili helps us reach more potential players, particularly the young generation, who, due to the ACG and meme-heavy nature of the platform, are predisposed towards enjoying our joke-laden idle and rogue-like RPGs. We also distribute our games through a number of other distribution channels in mainland China, such as Huawei AppGallery, OPPO App Market, VIVO App Store, and Xiaomi App Store.

We have entered into non-exclusive distribution agreements with third-party distribution channels. Under these agreements, we are responsible for the operation of the games, including the games’ updates and optimization, pricing of virtual items, promotion campaigns, technical support and other customer service. The distribution platforms act as agents to deliver and marketing our games to the players on their platforms. The distribution agreements typically have the following salient terms:

- *Non-exclusivity.* Our cooperation with the distribution platforms are on non-exclusive basis.
- *Term.* The term of the agreements is typically two years.
- *Principal Rights and Obligations of Parties Involved.* We are required to deliver the games as specified in the agreement and render operation and maintenance services and game player services. Third-party distribution channels are required to promote and advertise the games on their respective platforms.
- *Payment channel.* For games published on third-party distribution platforms, players can only make payment through the payment channels prescribed and built in by these distribution platforms. The payment channels include primarily proprietary payment channels operated by these distribution platforms, major third-party online payment channels, online banking and for some of the platforms, mobile carriers.
- *Revenue sharing and platform service fees.* The distribution platforms typically charge us a total fee which may include (i) the applicable payment channel and other service fees (calculated based on multiple factors, including the total downloads of the games and in-game purchases) and (ii) the

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revenue sharing by these platforms. Third-party distribution platforms typically charge up to 50% of the gross billings of the games as commissions. The third-party distribution platforms may monitor the pricing of our virtual items.

- *Termination.* Either party may terminate the agreement in the event of a material breach of contract by the other party. Occasionally, third-party distribution channels may terminate the agreement when fundamental breach by either party occurs and persists for a specified period of time.

MONETIZATION AND PRICING

We offer our games primarily in a free-to-play model, allowing game players to download and play games without up-front cost. As a result, we primarily generate revenue from players’ purchases and consumption of in-game virtual items, which include tools, equipment and features. Through virtual items, users are able to extend their play, enhance or personalize their game environment, character or settings, enhance their in-game battle capabilities, or accelerate their progress in the games. Game players may exchange real currency into virtual currency and then use the virtual currency to purchase the virtual items. Our monetization ability depends on whether we are able to attract new players, convert existing players into paying players and encourage in-game purchases by paying players. Players typically prepay for a specified period of entitlement to our games’ virtual items, which helps to enhance our players’ paying ratio and retention rate.

We determine the types, pricing and timing of our in-game virtual items to be offered based on an analysis of data we accumulated on the game players’ spending patterns and preferences, estimated level of disposable income of targeted players, consumption habits in local markets, the anticipated demand for the relevant virtual items, and the prices of virtual items offered in other comparable games. The prices and exchange rates of our virtual items are not subject to seasonality and are generally fixed across regions. We closely track and monitor the statistics of purchased virtual items in a game through SDKs and data collection systems to understand the consumption patterns of our game players and utilize such analysis as guidance to offer additional amounts and types of in-game virtual items and price other games of a similar type. In addition, we provide players with offers of virtual item packs within the gameplay at a discount to standalone items to encourage their in-game purchases, some of which are time-limited.

We also monetize our games by charging licensing fees, advance payments and monthly share of revenue from our third-party publishers. The licensing fees and advance payments are generally payable by third-party publishers in two or three installments. The subsequent monthly share of revenue of the games is predetermined percentage of the gross billings. For example, we have engaged the G-bits Group to distribute and operate *Gumballs & Dungeons* (不思議迷宮) in mainland China. While we decide the details of the in-game virtual item packs, such as the prices, types and amounts of the in-game virtual items, third-party publishers provide suggestions on the timing to distribute these packs. In addition, we generate information service revenue by providing in-game marketing and promotion services to our customers.

Furthermore, to promote player loyalty with our games and brands, extend the lifecycle of our IPs and further diversify our revenue source, we also design and sell or gift game peripheral merchandise, such as emojis, T-shirts, dolls, notebooks and blind boxes. All of these peripheral products focus on creative content and seek to stand out from similar products already widely available on the market.

PAYMENT CHANNELS

Game players can purchase our virtual currencies and other virtual items through mainstream mobile payment solutions. In mainland China, our players make in-game purchase through third-party online payment channels, such as Alipay, WeChat Pay and Apple Pay. In the overseas markets, our players can make payments through the payment channels offered by Apple Pay, Google Pay and other online payment channels. We are generally subject to the standard terms and conditions prescribed by these payment channels.

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TECHNOLOGY AND INFRASTRUCTURE

Game Engines

We have used third-party game engines with the latest technology to power our games. During the Track Record Period and up to the Latest Practicable Date, we used Cocos2dx and Unity3D and develop them with our tailored designs to power our games including *The Marvelous Snail* (最強蝸牛) and *Gumballs & Dungeons* (不思議迷宮).

Server Networks and Cloud Platforms

We have used cloud computing based on Alibaba Cloud and AWS Cloud servers for our game operations. We have established our proprietary cloud-based server architecture for games we published. Our core technology indicators, including parallel processing capability, response time and stable systems, enable us to deliver games to millions of players simultaneously while maintaining the game’s performance. We did not encounter any major server disruption during the Track Record Period. In addition, to avoid cheating practices of players, such as using unauthorized plug-in software to exploit vulnerabilities in our games or obtain unfair advantages over other players, we mandate that gameplay actions taken by players be processed by our servers, to prevent plug-in cheating software from tampering with the rules of our games. In addition, we conduct anti-cheating testing prior to the launch of our games and have installed anti-cheating software for our games in operation.

Data Analytics

During the process of game operations, we record, process and analyze large volumes of data including player engagement and demographics on various dimensions. We use a third-party data analytics platform with large data processing and analysis capacity to process and visualize these data. Through these data analytics tools, we gain valuable insights into game player behavior to improve our games and our game player experience, enhance our monetization strategies in relation to in-game purchases, and extend our games’ lifecycle.

SDKs

We have developed our own SDKs supporting both iOS and Android. Our SDKs provide our games with a one-stop solution for account-related and payment management, information services, content sharing and integration of third-party SDKs. Embedded with our SDKs, our games are equipped with various functions including player account registration, account log-in, linking between mobile numbers and game accounts, and retrieval of account passwords, and allow our players to choose their preferred payment methods. In addition, our SDKs can collect and analyze real-time game and player behavior data and are integrated with our data analytics system. Moreover, our SDKs have built-in reporting systems to monitor and control various risks, including player violation of our policies.

Our Support and Maintenance Team

As of the Latest Practicable Date, we had a support and maintenance team of nine employees dedicated to providing technical support and maintenance. The team uses game operation and maintenance monitoring systems to monitor and manage our server infrastructure and game operations in real time, and it upgrades the systems from time to time. These systems alert the team by sending text messages, WeChat and emails if they detect any glitches or malfunctioning, so that the team can quickly locate and resolve the problems. The team uses highly automated systems to manage the operation of our servers and are capable of conducting maintenance and update of our games automatically. The team supports our staff as well as third-party publishers, and provides services such as game architecture improvements, data optimization, game monitoring and other technical support. During the development stage of our games, our support and maintenance team advises the game project teams on data optimization, data disaster recovery, server cluster and other matters related to game architecture improvements.

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MARKETING AND PROMOTION

We market our games through advertising and promotion of our brand and games in various channels as well as traffic acquisition, based on factors such as player retention and spending results at the testing stage, features and targeted players of the games, and our assessment of market receptiveness of our games. We also publish notices of our games on our official website and various third-party platforms, including our player community, to attract players. See “—Player Community” for more details. We design and implement marketing and promotional programs catering to the demographics and characteristics of our target players. As of March 31, 2021, we had approximately 65.8 million accumulated registered players, as well as over 11 million QingCi Enthusiasts who were connected with us on our official accounts and groups on social media platforms. Due in part to this large, loyal player base, we were able to acquire our user traffic cost-effectively through our own distribution channels.

Traffic Acquisition for Our Games

We advertise our new games on multiple social media and other online platforms, such as Douyin, TouTiao and Baidu. Where we use third-party advertising platforms, we generally provide the advertisement graphics and videos to the third-party platforms. Subject to the advertisement content meeting their requirements, the third-party platforms would post our advertisements at our targeted geographies. The advertisements typically contain links to our games for the players to download and play. These third-party advertising platforms generally charge service fees with reference to the number of posts of advertisements or the number of users actions, such as cost-per-thousand-impression, cost-per-click, cost-per-time, cost-per-registered user or cost-per-paying user basis. Our advertisement efficiency is assessed through business intelligent big data technology to ensure content quality and commercial effectiveness on the different social media platforms. We also engage local advertisement agencies to assist on the marketing and advertising of our games in local markets. We refrain from performing targeted advertising or other traffic acquisition campaigns towards minors.

Brand Marketing and Promotion

We use various marketing and promotion methods to further penetrate the everyday life of our potential game player base and achieve maximum exposure for our games and “QingCi” brand.

We had rolled out a series of pan-entertainment and content peripheral products around these games. In addition, we have integrated virtual cultural relics and other props into our games, such as *The Marvelous Snail* (最強蝸牛), to promote traditional Chinese culture. We have also produced excellent animations and videos based on our games to further increase their market exposure and acceptance. As of the Latest Practicable Date, our animation series of *The Marvelous Snail - Uninvited Guest* (最強蝸牛不速之客) had obtained over 6.4 million views on Bilibili. Our promotion campaigns are typically tailored to align with the relevant games’ themes to attract our target audience. For example, in 2020, to promote *The Marvelous Snail* (最強蝸牛), we cooperated with a key actor of *Surprise*, a comedy web series in China, to produce a special advertising *Surprise* (萬萬沒想到) video.

Moreover, we have engaged celebrities to be our game ambassadors. We typically select celebrities with an established fan base which is likely to be converted into our game players, which often become the center of online publicity and help us to promote the games and draw in new game players. We also engaged a popular Chinese folk singer to reinterpret a nursery rhyme named *the Snail and the Oriole* (蝸牛與黃鸝鳥), which attracted wide media coverage. We further cooperated with two film stars, our game ambassadors, to advertise *The Marvelous Snail* (最強蝸牛) in their film *Detective Chinatown III* (唐人街探案3), one of the biggest blockbusters during the 2021 Chinese New Year holiday season.

We place offline advertisements to promote our games in public areas such as bus stations, airports, public buildings and high-speed trains. We have also utilized offline marketing methods, including figures and apparels, and we are exploring additional offline channels including bricks-and-mortar stores. In addition, we have also cooperated with some featured local museums to promote our games and engage our players. In return, our games also introduce the museums and promote traditional Chinese culture, which resonates with the core values of our games.

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In 2018, 2019, 2020 and the three months ended March 31, 2021, we incurred selling and marketing expenses of RMB13.9 million, RMB16.8 million, RMB559.2 million and RMB182.0 million, respectively, accounting for 14.1%, 18.9%, 45.6% and 37.9% of our total revenues for these respective periods.

CUSTOMER SERVICE

We provide continued customer service to our players. Our player service representatives provide 24/7 online customer service in multiple languages. They are dedicated to responding to players’ queries and complaints according to our standard procedures, fixing technical issues and advising on other game-related questions on gameplay and account maintenance, among others. The players can contact our player service representatives via multiple channels, including live chat, emails, telephone calls and in-game inquiry systems. We require our player service representatives to respond to our players within matters of minutes and endeavor to have a customer satisfaction rate of over 90%. As of the Latest Practicable Date, our customer satisfactory had been over 95% and we had not received any material complaints from our users that resulted in a material adverse effect on our business. We have outsourced certain of our customer services to third-party service providers, while we have a customer service team to monitor the quality of services provided by these third parties. We mainly communicate with our overseas players via email, Facebook and Discord in Chinese (simplified and traditional) and English. We generally do not allow players to return or exchange virtual items in our games and we do not refund the real currency, except that we permit refunds when players prove that they are minors and paid real currency without their guardians’ permission, the amount of which was insubstantial in the Track Record Period.

OUR CUSTOMERS

For our self-published games, we consider the players that have purchased in-game virtual items as our customers. For our games published through third-party publishers, we consider these publishers as our customers, and we provide game development and licensing services to them. In 2018, 2019, 2020 and the three months ended March 31, 2021, revenue from our five largest customers amounted to RMB48.0 million, RMB35.3 million, RMB133.8 million and RMB22.7 million, respectively, accounting for 48.8%, 39.8%, 11.0% and 4.8% of our total revenues in the same respective periods. The decrease in the proportion of revenue contribution from our five largest customers during the Track Record Period was mainly attributable to the increase in our game operating revenues (namely, revenues from games published by ourselves) as a percentage of our total revenues.

The following tables set forth certain information of our five largest customers for the periods indicated.

Three Months ended March 31, 2021

<u>Customer</u>	<u>Revenue (RMB in thousands)</u>	<u>Contribution to our total revenue (%)</u>	<u>Principal Business</u>	<u>Services Rendered by Us</u>	<u>Year of commencing business relationship</u>
G-bits Group	11,799	2.5	Game publishing and operation	Game development and licensing	2012
Company A	6,578	1.4	Software design and development	Information service	2019
Company B	3,222	0.7	Software design and development	Information service	2017
Player A	622	0.1	N/A	Game service	2012
Player B	456	0.1	N/A	Game service	2020
Total	22,677	4.8			

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Year ended December 31, 2020

<u>Customer</u>	<u>Revenue (RMB in thousands)</u>	<u>Contribution to our total revenues (%)</u>	<u>Principal Business</u>	<u>Services Rendered by Us</u>	<u>Year of commencing business relationship</u>
Company A	67,634	5.5	Software design and development	Information service	2019
G-bits Group	57,196	4.7	Game publishing and operation	Game development and licensing	2012
Company B	6,981	0.6	Software design and development	Information service	2017
Player A	1,195	0.1	N/A	Game service	2012
Company C	786	0.1	Game publishing and operation	Game development and licensing	2017
Total	133,792	11.0			

Year ended December 31, 2019

<u>Customer</u>	<u>Revenue (RMB in thousands)</u>	<u>Contribution to our total revenues (%)</u>	<u>Principal Business</u>	<u>Services Rendered by Us</u>	<u>Year of commencing business relationship</u>
G-bits Group	31,591	35.6	Game publishing and operation	Game development and licensing	2012
Company C	1,368	1.5	Game publishing and operation	Game development and licensing	2017
Company A	1,239	1.4	Software design and development	Information service	2019
Company D	623	0.7	Game publishing and operation	Game development and licensing	2017
Company E	511	0.6	Software design and development	Information service	2018
Total	35,332	39.8			

Year ended December 31, 2018

<u>Customer</u>	<u>Revenue (RMB in thousands)</u>	<u>Contribution to our total revenues (%)</u>	<u>Principal Business</u>	<u>Services Rendered by Us</u>	<u>Year of commencing business relationship</u>
G-bits Group	44,135	44.8	Game publishing and operation	Game development and licensing	2012
Company F	1,446	1.5	Game publishing and operation	Game development and licensing	2017
Company C	1,340	1.4	Game publishing and operation	Game development and licensing	2017
Company D	878	0.9	Game publishing and operation	Game development and licensing	2017
Player C	184	0.2	N/A	Game service	2018
Total	47,983	48.8			

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Certain subsidiaries of G-bits, a principal shareholder of our Company, have published our games. We refer to G-bits and its subsidiaries as the G-bits Group. Except for these companies, all of our five largest customers during the Track Record Period were Independent Third Parties, and none of our Directors, their close associates or any Shareholders which, to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company has any interest in any of the abovementioned customers. We deal with all of our customers at arm’s length. We negotiate game publishing agreements with the G-bits Group based solely on commercial considerations, and the transaction terms with them are comparable to those with Independent Third-Party customers.

OUR SUPPLIERS

Our suppliers primarily include third-party distribution platforms, payment channels, game developers from whom we license in games, other related game service providers, as well as third-party advertising and marketing service providers and server providers. In 2018, 2019, 2020 and the three months ended March 31, 2021, purchases from our five largest suppliers amounted to RMB20.6 million, RMB17.1 million, RMB535.1 million and RMB181.6 million, respectively, accounting for 43.3%, 50.2%, 61.8% and 61.3% of our total purchases in these respective same periods. For risks relating to our major suppliers, see “Risk Factors—Risks Related to Our Business and Industry—Any restriction on access to the Internet or major distribution channels, such as iOS App Store and Google Play, or failure to maintain relationships with the distribution channels, could lead to a loss or slow the growth of our game players” for details.

The following table sets forth certain information of our five largest suppliers for the periods indicated.

Three Months ended March 31, 2021

<u>Supplier</u>	<u>Purchase Amount (RMB in thousands)</u>	<u>Percentage of total purchases (%)</u>	<u>Principal Business</u>	<u>Services Rendered to Us</u>	<u>Year of commencing business relationship</u>
Company G	57,064	19.3	Provision of mobile communication and media devices, and personal computers	Game distribution	2012
Company H	52,688	17.8	Provision of online advertising services	Online advertising	2020
Company I	46,366	15.6	Provision of online advertising services	Online advertising	2020
Shenzhen Jishiwu Technology Co., Ltd.	15,631	5.3	Online games development	Game development	2018
Company J	9,887	3.3	Provision of mobile communication and media devices, and personal computers	Game distribution	2015
Total	181,636	61.3			

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Year ended December 31, 2020

<u>Supplier</u>	<u>Purchase Amount (RMB in thousands)</u>	<u>Percentage of total purchases (%)</u>	<u>Principal Business</u>	<u>Services Rendered to Us</u>	<u>Year of commencing business relationship</u>
Company G	173,194	20.0	Provision of mobile communication and media devices, and personal computers	Game distribution	2012
Company K	117,786	13.6	Provision of online advertising services	Online advertising	2020
Company L	95,339	11.0	Provision of online advertising services	Online advertising	2020
Guangzhou Jodo Information and Technology Co., Ltd.	79,388	9.2	Provision of online advertising services	Online advertising	2019
G-bits Group	69,413	8.0	Games publishing and operation	Property leasing and administrative services, marketing and promotion services, and game development	2012
Total	535,120	61.8			

Year ended December 31, 2019

<u>Supplier</u>	<u>Purchase Amount (RMB in thousands)</u>	<u>Percentage of total purchases (%)</u>	<u>Principal Business</u>	<u>Services Rendered to Us</u>	<u>Year of commencing business relationship</u>
Company G	5,285	15.5	Provision of mobile communication and media devices, and personal computers	Game distribution	2012
Company M	3,797	11.2	Provision of online advertising services	Game distribution	2017
Company N	3,113	9.2	Provision of online advertising services	Online advertising	2019
Shenzhen Hot Zone Network Technology Co., Ltd.	2,694	7.9	Online games development	Game development	2017
G-bits Group	2,161	6.4	Game publishing and operation	Property leasing and administrative services	2012
Total	17,050	50.2			

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Year ended December 31, 2018

<u>Supplier</u>	<u>Purchase Amount (RMB in thousands)</u>	<u>Percentage of total purchases (%)</u>	<u>Principal Business</u>	<u>Services Rendered to Us</u>	<u>Year of commencing business relationship</u>
Company M	4,968	10.4	Provision of online advertising services	Game distribution	2017
Shenzhen Hot Zone Network Technology Co., Ltd.	4,697	9.9	Online games development	Game development	2017
Company O	4,497	9.4	Provision of online advertising services	Online advertising	2016
Company G	4,175	8.8	Provision of mobile communication and media devices, and personal computers	Game distribution	2012
Company P	2,272	4.8	Provision of online advertising services	Online advertising	2016
Total	20,609	43.3			

Shenzhen Hot Zone Network Technology Co., Ltd., Guangzhou Jodo Information and Technology Co., Ltd. and Shenzhen Jishiwu Technology Co., Ltd., are our associate companies in which we have minority equity interests, and they provided game development, online advertising services and game development, respectively, to us. The G-bits Group provided property leasing and administrative services, marketing and promotion services, and game development services to us. Except for these companies, all of our five largest suppliers during the Track Record Period were Independent Third Parties, and none of our Directors, their close associates or any Shareholders who, to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company has any interest in any of the abovementioned suppliers. We deal with all of our suppliers at arm’s length. The transaction terms with the G-bits Group and other suppliers mentioned above who are our associate companies are comparable to those with Independent Third-Party suppliers.

During the Track Record Period, the G-bits Group was our supplier and customer and it contributed 6.4% and 8.0% of our total purchases in 2019 and 2020, respectively, and 44.8%, 35.6%, 4.7% and 2.5% of our total revenues in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively. Certain of G-bits’ subsidiaries have the capability of publishing games in China, providing advertisement service and leasing out office space, and our Directors believe it is industry norm for us to have the G-bits Group both as our supplier and customer.

INTELLECTUAL PROPERTY

Intellectual property rights are fundamental to our business. We own the intellectual property for the games we developed in-house, and the third-party developers of our licensed games hold the intellectual property for those games. As of the Latest Practicable Date, we had 12 registered work copyrights, 73 registered software copyrights and 46 registered trademarks in mainland China. We also have three registered trademarks in Taiwan. For more details on our intellectual property, see “Appendix IV—Statutory and General Information.” We protect our intellectual property through a combination of copyrights, trademarks and domain names, and rely on intellectual property laws and confidentiality and licensing agreements with our employees, suppliers and other business partners. In general, our employees must enter into a standard employment contract together with an intellectual property rights and confidentiality agreement, which includes clauses acknowledging that all intellectual property rights including inventions, trade secrets, and other R&D results generated by them on our behalf of us are our property, and assigning to us all ownership rights that they may claim in those works.

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We have taken internal control measures to prevent leakage of our software code. For example, our IT system prevents code files from being sent out through chat tools, clouds or emails. In addition, we have disabled the USB function for our game development team’s computers unless otherwise approved by our relevant management members. Despite our precautions, however, third parties may obtain and use intellectual property that we own or have licensed in without our consent. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights from such unauthorized use, may adversely affect our business and results of operations. In addition, we cannot guarantee that the games that we license in, our redesign of these games or our services do not or will not infringe valid patents, copyrights or other intellectual properties held by third parties. See “Risk Factors—Risks Related to Our Business and Industry—We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position” and “Risk Factors—Risks Related to Our Business and Industry—We may be subject to claims by third parties for intellectual property rights infringements, which could cause us to incur significant legal expenses and prevent us from promoting our products and services” for more information on IP infringement related risks.

Save as disclosed in this document, we did not have any material disputes or other pending legal proceedings regarding intellectual property rights with third parties during the Track Record Period and up to the Latest Practicable Date.

COMPETITION

We compete primarily with other mobile game developers and publishers in mainland China and our major overseas markets. The mobile game industry is highly competitive, with frequent introduction of new games, rapidly developing technologies, evolving methods of marketing and traffic acquisition and distribution channels, and constantly changing player preferences. We compete primarily on the basis of our player base, ability to develop and source popular games to enrich our game portfolio, ability to ensure gameplay experience quality, ability to cultivate players’ loyalty and promote brand awareness and reputation, ability to enhance monetization of our games, ability to extend the lifecycle of our games and relationships with distribution channels and marketing and promotion platforms. However, some of our existing and potential mobile game competitors have greater financial, technological and marketing resources, larger user bases, stronger relationships with industry participants and a larger and more diverse portfolio of mobile games and resources than we do. Our mobile game competitors could also publish more popular games to compete with our offerings and adversely affect our ability to attract and retain players and their leisure time. For more information on our competitive landscape, please see “Risk Factors—Risks Related to our Business and Industry—The markets in which we operate are highly competitive. If we are unable to compete effectively against our competitors, our game player base, market share and profitability may be materially and adversely affected.”

EMPLOYEES

As of March 31, 2021, we had 281 full-time employees, substantially all of whom were based in China and three of whom were based in Japan. The following table sets forth a breakdown of our employees by business function as of March 31, 2021.

<u>Function</u>	<u>As of the Latest Practicable Date</u>	
	<u>Number</u>	<u>% of total</u>
Game development	143	50.9%
Publishing and operation	113	40.2%
General and administration	25	8.9%
Total	281	100.0%

We have a flat organization and a collegial work environment, which has resulted in a relatively low turnover rate compared to our peer mobile game developers and publishers. We compensate our employees with salaries, welfare payments, and performance-based and annual bonuses.

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As required by PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments. Historically, we failed to pay social security contribution in full for our employees. See “Risk Factors—Risks Related to Our Business and Industry—Certain of our subsidiaries have not made all necessary contributions to the social insurance and housing provident fund, which could subject us to penalties, including fines and court enforcement” for more information. We have obtained written confirmation from the local social insurance and housing provident fund authority in Xiamen, Fujian Province, confirming that no administrative penalty was imposed on us during the Track Record Period. Our PRC Legal Advisor is of the view that the relevant written confirmation was issued by the competent authority and that the above-described situation would not have any material adverse effect on our business operations. We have made provisions for potential liabilities in relation to this situation in our financial statements during the Track Record Period. Based on the above, our Directors are of the view that the above-described situation would not have any material adverse effect on our business, results of operations or financial condition. We are committed to be compliant with the relevant PRC laws and regulations going forward.

We recruit talent primarily from job fairs as well as word-of-mouth referrals. We provide regular training to our employees covering various aspects including our culture and technical know-how. We also follow up with the employees to evaluate the effect of the training, which is aimed at enhancing our employees’ skillset and helping them stay up to date with industry and technology developments. In addition, we discover and incubate future game producers who display strong innovation and game design talent. We encourage and support our employees keen on mobile game development to become our producers. They may form new core project teams with other like-minded employees to develop new games.

During the Track Record Period, we did not engage any dispatched labor agency to obtain services in relation to our business operations domestically or overseas, and we did not have any strikes, protests or other material labor conflicts that may materially affect our business and reputation. As of the Latest Practicable Date, we had not established any labor union.

HEALTH, SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

As a game developer and publisher, a substantial portion of our business is conducted online only with little to no impact on the environment and natural resources. For the portion of our business that requires offline participation, such as the manufacture and delivery of game peripheral merchandise, we engage third-party manufacturers and logistics service providers to carry out these functions. Therefore, we have encountered no material accidents in our course of business, and we do not believe we are subject to significant environmental, health and workplace safety regulation in any jurisdiction in which we conduct business. We did not incur any material environmental, health, social and workplace safety compliance cost nor become subject to any fines or other penalties due to non-compliance with relevant laws during the Track Record Period. We expect our future annual costs in relation to environmental, health and workplace safety compliance to be immaterial.

PROPERTIES

Our corporate headquarters is located at Floor 5, No.4 Wanghai Road, Software Park II, Siming District, Xiamen, China. As of the Latest Practicable Date, we did not own any real properties. As of the Latest Practicable Date, we leased seven properties under lease agreements in China, with an aggregate gross floor area of approximately 3,569 square meters. Our leased properties in China are primarily used for business and office purposes. The relevant lease agreements have lease expiration dates ranging from December 2021 to May 2022. The lessors of our material leased properties have obtained the relevant property ownership certificates or authorization from property owners. We had not completed rental registration for these leased properties as of the Latest Practicable Date. Our PRC Legal Advisor has advised us that the lack of registration of the lease agreements will not affect the validity of the lease agreements under PRC law, and a maximum penalty of RMB10,000 may be imposed for non-registration of each lease according to the Administrative Measures on Leasing of Commodity Housing (《商品房屋租賃管理辦法》).

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DATA PRIVACY

We consider the protection of the data privacy of our players to be of paramount importance. We believe it is crucial that our players understand how we collect and handle their information and trust that we properly protect their privacy. To this end, we have developed a company-wide policy on data collection and protection practices, which primarily include: (i) providing adequate notice to players as to how their data is being collected and used, (ii) encrypting player data stored on our system and setting up cloud and external firewalls for our games, (iii) limiting access of player data to authorized employees, (iv) making reasonable efforts to prevent loss or leakage of player data. We believe the measures we take with respect to data privacy and protection are consistent with industry practice. For risks related to data privacy protection, see “Risk Factors—Risks Relating to Our Business and Industry—Any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies, including privacy concerns relating to unauthorized use of game player information by us or third parties, could damage our reputation, adversely affect our game player base or engagement, or subject us to governmental regulation and other legal obligations.”

INSURANCE

In line with general market practice, we do not maintain any property insurance or product liability insurance, which are not mandatory under PRC law as confirmed by our PRC Legal Advisor. We do not maintain key man life insurance, business interruption insurance or insurance policies covering our network infrastructure or information technology systems. As of the Latest Practicable Date, we had maintained a group life insurance for certain of our employees in China. During the Track Record Period, we did not make any material insurance claims in relation to our business. See “Risk Factors—Risk Relating to Our Business and Industry—We have limited insurance coverage, which could expose us to significant costs and business disruption” for more information on our insurance related risks.

LICENSES, PERMITS AND APPROVALS

We are required to maintain and renew the necessary permits, licenses and approvals for our business operations under applicable laws and regulations in China and overseas. According to our PRC Legal Advisor, we have obtained licenses, permits, approvals and certificates that are material for our business operations in the PRC and such licenses, permits, approvals and certificates are valid and subsisting. Our PRC Legal Advisor also advised us that there existed no material legal impediment to renew applicable licenses, permits and approvals as of the Latest Practicable Date, other than the Internet Culture Operation License which the MOCT no longer issues because the MOCT no longer assumes the responsibility for the administration of the online game industry beginning from May 2019. See “Regulatory Overview—Regulations On Online Games Publishing and Operation” and “Risk Factors—Risks Related to Our Business and Industry—Our failure to comply with laws and regulations as they change from time to time could materially and adversely affect our business, financial condition and results of operations” for more details.

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The following table sets forth details of our material licenses and permits relating to our business and operations (apart from those pertaining to general business requirements), the holding entity, the issuing authority, the grant date and effective period.

<u>License/Permit/Approval/ Certificate</u>	<u>Holder</u>	<u>Issuing Authority</u>	<u>Date of Grant</u>	<u>Effective Period</u>
Internet Culture Operation License (網絡文化經營許可證)	QC Digital	Department of Culture of Fujian Province	July 31, 2018	August 20, 2018 to August 19, 2021
Internet Culture Operation License (網絡文化經營許可證)	QC Cultural	Department of Culture of Fujian Province	March 13, 2018	March 25, 2018 to March 24, 2021
Value-added Telecommunication Business Operation License (增值電信業務經營許可)	QC Digital	Communication Administration Bureau of Fujian Province	December 11, 2019	December 11, 2019 to December 11, 2024
Value-added Telecommunication Business Operation License (增值電信業務經營許可)	QC Cultural	Communication Administration Bureau of Fujian Province	August 26, 2020	August 26, 2020 to August 26, 2025

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

Compliance with PRC laws and regulations, especially those governing the mobile game industry, as well as the protection of and defending our intellectual properties, are major focus of our operational risk management. Our legal team is responsible for monitoring any changes in PRC laws and regulations and ensuring the ongoing compliance of our operations with PRC laws and regulations. Our PRC Legal Advisor is of the view that, during the Track Record Period, we had no violation of PRC laws and regulations that would have a material adverse effect on our business.

When we publish or operate games overseas, we typically follow the policies of our third-party game distribution platforms such as App Store, which need to comply with the relevant local laws and regulations related to distribution of games on their platforms in different countries and jurisdictions. We believe our practice is in line with the industry norm for PRC game companies engaged in overseas game publishing and operation business. After consultation with our legal advisors in the relevant jurisdictions, our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had complied in all material respects with relevant laws and regulations of relevant jurisdictions where we have significant presence.

We are subject to legal proceedings, investigations and claims arising from the ordinary course of our business from time to time. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

We require our employees to follow our employee manual and code of business conduct and ethics, which contains internal rules and guidelines regarding best commercial practice, work ethics, fraud prevention mechanisms, negligence and corruption. We also carry out regular on-the-job compliance training to our management and employees to maintain a healthy corporate culture and enhance their compliance perception and responsibility. We also have adopted an Anti-Corruption Policy and Internal Audit Policy to safeguard against any corruption within our Group. Our staff can anonymously report any suspected corrupt incident to our legal team. Our legal team is responsible for investigating the reported incidents and taking appropriate measures.

RISK MANAGEMENT AND INTERNAL CONTROL

Financial Risk Management

We have adopted internal audit policies in connection with our financial risk management. Our audit department is responsible for conducting internal annual auditing, participating in the preparation of our budget

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plans and overseeing the implementation of our internal controls. We also plan to provide regular training to our audit department staff to ensure that they understand these policies.

Investment Risk Management

We have adopted investment policies and prudent investment strategies during the course of our business. We evaluate and manage each investment based on its specific terms and risks. In addition, we may engage financial advisors to provide advisory services in relation to investment opportunities and decisions. Our investment process comprises (i) pre-investment assessment and evaluation, (ii) investment decision-making in accordance with our investment policies and execution of the investment, (iii) post-investment management and (iv) post-investment evaluation. A project team is assigned for each investment project to manage, supervise and evaluate the investment process and to report to our senior management and our Board.

Information Risk Management

We have implemented internal control procedures to protect the safety of user data and ensure compliance with applicable regulatory requirements. Our information technology team monitors the operating status of our network devices, servers, operating systems and database, and responds to and deals with any issues that may arise in a timely manner. See “—Data Privacy” for more details on our company-wide policy on data collection and protection practices.

In addition, we enter in user privacy agreement with our players on data collection and protection. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data.

Legal Compliance and Intellectual Property Risk Management

We have a dedicated in-house legal team responsible for ensuring our mobile game operations’ compliance with the relevant rules and regulations. Our legal department examines our contract terms, reviews all relevant licenses, approvals and permits required of us, conduct due diligence into our counterparties, and continuously monitors our compliance status and legal risks. For the relevant rules and regulations, see “Regulatory Overview.”

To manage IP risks, we review carefully required documentation before the official launch of a game to spot any potential risks. We were not subject to any material IP-related complaints or allegations during the Track Record Period and up to the Latest Practicable Date. In addition, we disallow and disable sale of in-game virtual items among our players, and we discourage sale of game accounts among the players. We also have implemented measures to prevent the game players from using fake identity for our games in China.

Internal Controls

Our Board of Directors is responsible for establishing our internal control system and reviewing its effectiveness. We have adopted or plan to implement the following internal control measures:

- adopt various measures and procedures regarding our business operations. We provide periodic training on these measures and procedures to our employees and regularly monitor their implementation in our game development, publishing and operation processes.
- establish an Audit Committee responsible for overseeing our financial records, risk management and internal control procedures, assisting and monitoring the auditing process (including making recommendations to our Board of Directors on the appointment and removal of external auditors), and performing other duties and responsibilities as assigned by our Board of Directors or required by relevant laws and regulations. Our Audit Committee consists of three members, Mr. Zhang Longgen

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(Chairman), Ms. Fang Weijin and Professor Lam Sing Kwong Simon. See “Directors and Senior Management—Board of Directors” and “Directors and Senior Management—Committees under the Board of Directors—Audit Committee” for their qualifications and experience as well as the responsibilities of our Audit Committee;

- with the assistance of internal and external legal advisors, our Directors continuously monitor our compliance with relevant laws and regulations;
- monitor fraudulent activities by establishing code of conduct for our employees and anti-fraud rules. Our anti-fraud team consists of five members and is authorized to execute our anti-fraud measures, including overseeing the implementation of the code of conduct for our employees and taking disciplinary actions against non-compliance, handling complaints and whistle-blower reports, conducting internal investigations, reporting to our Board of Directors, and timely rectifying identified corrupt or fraudulent activities and taking preventative measures to avoid future non-compliance; and
- prepare risk management report periodically to the Board of Directors, covering identified risks, evaluation and proposed responding measures, and monitor the implementation of our risk management policies across our Group on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our operations.

CONTRACTUAL ARRANGEMENTS

PRC REGULATORY BACKGROUND

Overview

Foreign investment activities in the PRC are mainly governed by the Guidance Catalog of Industries for Encouraged Foreign Investment (2020 Edition) (《鼓勵外商投資產業目錄》(2020年版)) (the “**Catalog**”) and the Special Administrative Measures for Foreign Investment Access (Negative List) (2020 Edition) (《外商投資准入特別管理措施(負面清單)》(2020年版)) (the “**Negative List**”), which were promulgated and are amended from time to time jointly by the MOFCOM and the NDRC. The Negative List and other relevant laws set forth the industries in which foreign investments are encouraged, restricted and prohibited. Industries that are not listed in any of these three categories are generally open to foreign investment unless otherwise specifically restricted by other PRC rules and regulations. As advised by our PRC Legal Advisor, a summary of our business/operation that is subject to foreign investment restriction or prohibition in accordance with the Negative List is set out below (the “**Relevant Businesses**”):

<u>Categories</u>	<u>Our business / operation</u>
“Prohibited” Internet cultural business	<p>The principal business of QC Digital and QC Cultural involves the publication and operation of games through mobile apps and websites, which falls within the scope of “internet cultural activities” under the Provisional Regulations for the Administration of Internet Culture (《互聯網文化管理暫行規定》).</p> <p>According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business (except for music).</p>
“Restricted” Value-added telecommunication services business	<p>The principal business of QC Digital and QC Cultural involves publication and operation of games through mobile apps and websites, which falls within the scope of “value-added telecommunication service” under the Telecommunication Regulations (《電信條例》).</p> <p>According to the applicable PRC laws, foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business (except for electronic commerce, domestic multi-party communication, store-and-forward, and call center). Each of QC Digital and QC Cultural holds a value-added telecommunications business operating license (within the business scope of internet content provider) (the “ICP License”) for the provision of internet content issued by the local counterpart of the MIIT in Fujian Province.</p>

As advised by our PRC Legal Advisor, the principal business of QC Digital and QC Cultural being the publication and operation of games through mobile apps and websites both falls within the scope of both (i) internet cultural business, which according to the Negative List foreign investments are prohibited to operate; and (ii) “value-added telecommunication service” under the Telecommunications Regulations (《電信條例》), where foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business.

For further details of the limitations on foreign ownership in PRC companies conducting the above businesses under PRC laws and regulations, see “Regulatory Overview.”

As a result of the foregoing, on May 26, 2021, a series of Contractual Arrangements have been entered into by, among others, WFOE, QC Digital and the Registered Shareholders through which we obtain control over the operations of, and enjoy all economic benefits of our PRC Consolidated Affiliated Entities. The existing agreements underlying such Contractual Arrangements comprise: (i) Exclusive Business Cooperation Agreement; (ii) Exclusive Option Agreement; (iii) Equity Pledge Agreement; and (iv) Voting Rights Proxy Agreement and Powers of Attorney.

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We believe that the Contractual Arrangements are narrowly tailored for the following reasons:

- (i) as of the Latest Practicable Date, each of the PRC Consolidated Affiliated Entities (except for QC Chengdu, which is in the process of being voluntarily dissolved through de-registration) held a valid ICP License. As confirmed by our PRC Advisor, online games operation business, according to the Provisional Regulations for the Administration of Internet Culture, which is an “internet cultural activity” where foreign ownership is prohibited pursuant to the Negative List. We can only conduct Relevant Businesses through our PRC Consolidated Affiliated Entities, and
- (ii) as of the Latest Practicable Date, companies with business which are not subject to any foreign investment restrictions or prohibitions, namely WFOE and QC HK, are held indirectly by our Company pursuant to the Reorganization such that the Contractual Arrangements are, and will continue to remain, narrowly tailored under the current PRC laws and regulations.

Qualification requirements

Value-added telecommunication service business

On December 11, 2001, the State Council of the PRC promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the “**FITE Regulations**”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including internet information services. In addition, a foreign investor who invests in value-added telecommunications business in the PRC must possess prior experience in, and a proven track record of, operating value-added telecommunications businesses overseas (the “**Qualification Requirements**”). Foreign investors that meet these requirements must obtain approvals from the MIIT and/or its authorized local counterparts which retain considerable discretion in granting such approvals. Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT issued a guidance memorandum on the application requirements for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, its foreign investor’s previous value-added telecommunication business track record, such as previous permit, filing or experience of operating well-known websites or Apps or previous telecommunications business licenses issued by the relevant local authorities and satisfactory proof of the Qualification Requirements. As advised by our PRC Legal Advisor, the guidance memorandum does not provide clear guidance on how such filing requirement can be fulfilled, and does not provide any further interpretation or guidance on more proof or record required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement. Our PRC Legal Advisor has advised us that as of the Latest Practicable Date, no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in the PRC Consolidated Affiliated Entities where the relevant PRC law allow foreign investors to invest and to hold a majority interest in value-added telecommunications business through our offshore subsidiaries.

With the aim to meet the Qualification Requirements:

- (i) as of the Latest Practicable Date, we have launched certain games such as *Gumballs & Dungeons* (不思議迷宮) and *Ares Virus* (阿瑞斯病毒) in various language and versions worldwide through our subsidiary or our international game publisher partners. We plan to continue to launch our games in multiple languages and geographical markets;
- (ii) we have established a broad user base overseas. As of the Latest Practicable Date, our games had been published in many overseas markets including Hong Kong, Macau, Taiwan, South Korea, Japan, Europe, the United States, Southeast Asia and the Middle East. We plan to further expand our reach to other overseas markets; and

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- (iii) we plan to register our intellectual property rights in overseas jurisdictions to enhance our brand recognition.

Our PRC Legal Advisor is of the view that the above steps taken by us are reasonable and appropriate for gradually building up a track record to meet the Qualification Requirements, the fulfillment of which is subject to the competent authorities’ absolute discretion. Based on the verbal consultation with the MIIT in June 2021 conducted by our PRC Legal Advisor, MIIT will only make a final determination as to whether the Qualification Requirements are satisfied when it receives the detailed application materials and concrete facts. We will, as applicable and when necessary, disclose the progress of our overseas expansion plans and any update to the Qualification Requirements in our annual and interim reports to inform Shareholders and other investors after the [REDACTED]. We will make periodic inquiries with relevant PRC authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements. Nevertheless, even if we have taken the above steps with the aim to meet the Qualification Requirements, we would not be able to directly hold any equity interest in our PRC Consolidated Affiliated Entities conducting our principal business of publication and operation of games, which falls within internet cultural business, and according to the Negative List, foreign investments are prohibited to operate.

Investment held by QC Digital

In addition to the restricted and/or prohibited business of our Company, QC Digital also directly or indirectly holds investment in certain entities in the PRC (the “**Relevant Entities**” and each a “**Relevant Entity**”), each of which (i) is engaged in business subject to foreign investment prohibition under the Negative List which will impair the continuous validity of the relevant licenses or permits of the prohibited businesses held or invested by these entities; or (ii) does not currently carry out business operations that are subject to foreign investment prohibition under the Negative List, however, such Relevant Entity intend to invest or engage in potential businesses which are subject to foreign investment prohibition and has expressly rejected our Company’s proposed transfer of the interest in these entities held by QC Digital to WFOE. It would be impracticable to obtain the consent and/or the assistance from all of the relevant stakeholders required for our Company’s proposed transfer of the interest in the Relevant Entities held by QC Digital to WFOE.

Set out below is a summary of the Relevant Entities held by QC Digital:

No.	Name of the Relevant Entities	Interest held by QC Digital as of the Latest Practicable Date	Principal business	Investment involving prohibited/restricted businesses under the Negative List (Note 1)
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Relevant Entities currently invest or engage in businesses which are subject to foreign investment prohibition or restriction

1.	Xiamen Nut Heli Venture Capital Partnership (L., P.) (廈門堅果核力創業投資合夥企業 (有限合夥) ⁽¹⁾ (“ Xiamen Nut Heli ”))	3.12% equity interest held by QC Digital	Equity Investment	Yes
2.	Xiamen Jixiang Tiancheng Venture Capital Partnership (L., P.) (廈門吉相天成創業投資合夥企業 (有限合夥) ⁽¹⁾ (“ Xiamen Jixiang ”))	4.15% equity interest held by QC Digital	Equity Investment	Yes

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No.	Name of the Relevant Entities	Interest held by QC Digital as of the Latest Practicable Date	Principal business	Investment involving prohibited/restricted businesses under the Negative List (Note 1)
3.	Xiamen Heimai Network Technology Co., Ltd. (廈門黑脈網絡科技有限公司) (“ Xiamen Heimai ”)	19.83% equity interest held by QC Digital	Research and development, publication and operation of games	Yes
4.	Guangzhou JODO Tech Ltd. (廣州卓動信息科技有限公司) (“ Guangzhou JODO ”)	10.00% equity interest held by QC Digital	Publication and operation of games	Yes
5.	Xiamen Nuowei Heyue Venture Capital Partnership (L., P.) (廈門諾惟合悅創業投資合夥企業(有限合夥) ⁽¹⁾) (“ Xiamen Nuowei Heyue ”)	3.58% equity interest held by QC Digital	Equity Investment	Yes
6.	Suzhou Youge Huaxin Venture Capital Partnership (L., P.) (蘇州優格華欣創業投資中心(有限合夥)) (“ Suzhou Youge ”)	10.31% equity interest held by QC Digital	Equity Investment	Yes

Relevant Entities intend to invest or engage in businesses which are subject to foreign investment prohibition or restriction

7.	Chengdu Juleyou Technology Co., Ltd. (成都聚樂游科技有限公司) (“ Chengdu Juleyou ”)	20.00% equity interest held by QC Digital	Research and development of games	No
8.	Xiamen Qianju Technology Co., Ltd. (廈門千聚科技有限公司) (“ Xiamen Qianju ”)	9.91% equity interest held by QC Digital	Provision of HTML5 game production platform	No
9.	Chengdu Weimei Interactive Technology Co., Ltd. (成都微美互動科技有限公司) (“ Chengdu Weimei ”)	45.64% equity interest held by QC Digital	Research and development of games	No
10.	Shenzhen Hot Zone Network Technology Co., Ltd. (深圳熱區網絡科技有限公司) (“ Shenzhen Hot Zone ”)	20.00% equity interest held by QC Digital	Research and development of games	No

CONTRACTUAL ARRANGEMENTS

No.	Name of the Relevant Entities	Interest held by QC Digital as of the Latest Practicable Date	Principal business	Investment involving prohibited/restricted businesses under the Negative List (Note 1)
11.	Chengdu Lemai Interactive Entertainment Technology Co., Ltd. (成都樂麥互娛科技有限公司) (“ Chengdu Lemai ”)	14.35% equity interest held by QC Digital	Research and development of games	No
12.	Fuzhou Kakapo Entertainment Co., Ltd. (福州卡卡波娛樂有限公司) (“ Fuzhou Kakapo ”)	15.00% equity interest held by QC Digital	Research and development of games	No
13.	Shenzhen Jishiwu Technology Co., Ltd. (深圳吉事屋科技有限公司) (“ Shenzhen Jishiwu ”)	20.00% equity interest held by QC Digital	Research and development of games	No
14.	Xiamen Youahyou Technology Co., Ltd. (廈門游啊游科技有限公司) (“ Xiamen Youahyou ”)	20.00% equity interest held by QC Digital	Research and development of games	No
15.	Xiamen Suixiang Internet Technology Co., Ltd. (廈門隨像網絡科技有限公司) (“ Xiamen Suixiang ”)	20.00% equity interest held by QC Digital	Research and development of games	No
16.	Beijing Zhijian Lvdong Internet Technology Co., Ltd. (北京指尖律動網絡科技有限公司) (“ Beijing Zhijian ”)	20.00% equity interest held by QC Digital	Research and development of games	No

Other Relevant Entity

17.	Xiamen Rocket Wolf Network Technology Co., Ltd. (廈門火箭狼網絡科技有限公司 ⁽²⁾) (“ Xiamen Rocket Wolf ”)	10.00% equity interest held by QC Digital	Research and development of games	No
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Notes:

- (1) Certain Relevant Entities currently invest in certain target companies which are principally engaged in foreign prohibited or restricted businesses. As advised by our PRC Legal Advisor, the transfer of such Relevant Entities to WFOE would not be in compliance with the relevant foreign investment prohibition/restriction and therefore impair the continuous validity of the relevant licenses or permits for such prohibited businesses held by such target companies.
- (2) Xiamen Rocket Wolf is in the process of voluntary winding-up and the process is expected to be completed by second half of 2021.

Compelling reasons to hold investment in Relevant Entities through QC Digital

Our Company has compelling reasons to hold investment interests in six Relevant Entities including Xiamen Nut Heli, Xiamen Jixiang, Xiamen Heimai, Guangzhou JODO, Xiamen Nuwei Heyue and Suzhou

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Youge, through QC Digital. As advised by our PRC Legal Advisor, these entities invest or engage in businesses which are subject to foreign investment prohibition/restriction under the Negative List. Our PRC Legal Advisor has advised that, due to foreign investment prohibition/restriction, the direct and indirect shareholders of these Relevant Entities or the target companies in which they invested, as applicable, must be controlled by the PRC nationals or PRC-incorporated corporations. The transfer of our investment interests in such Relevant Entities from QC Digital to WFOE would not be in compliance with the relevant foreign investment prohibition/restriction and therefore would impair the continuous validity of the relevant licenses or permits for the prohibited businesses held or invested by such Relevant Entities. In addition, these Relevant Entities have expressly rejected our Company’s proposed transfer of the interest in these entities held by QC Digital to WFOE.

In respect of ten Relevant Entities including Changdu Juleyou, Xiamen Qianju, Chengdu Weimei, Shenzhen Hot Zone, Chengdu Lemai, Fuzhou Kakapo, Shenzhen Jishiwu, Xiamen Youahyou, Xiamen Suixiang and Beijing Zhijian, to the best knowledge and information of our Company, these entities do not currently invest or engage in businesses that are subject to foreign investment prohibition under the Negative List. However, they intend to invest or engage in businesses which are subject to foreign investment prohibition and have expressly rejected our Company’s proposed transfer of the interest in these entities held by QC Digital to WFOE.

The remaining Relevant Entity, Xiamen Rocket Wolf, has ceased operation and is in the course of deregistration as of the Latest Practicable Date.

Other stakeholders’ consent or assistance required for transferring our Group’s investment interests from QC Digital to WFOE

It is impracticable for our Group to transfer its pre-existing investment interests in the Relevant Entities directly or indirectly held by QC Digital to WFOE without consent and/or assistance from other joint venture partners or shareholders of the Relevant Entities. As set out in the table above in the section headed “—Investment held by QC Digital,” pursuant to the Companies Law of the PRC (《中華人民共和國公司法》) and the articles of association of the Relevant Entities and the applicable PRC laws and regulations, any transfer of the interest in the Relevant Entities directly or indirectly held by QC Digital and, if applicable, any resultant amendment to the Relevant Entities’ articles of association require the consent and assistance of the other joint venture partners or shareholders.

Furthermore, QC Digital is merely a minority shareholder in each of the Relevant Entities, the influence that our Company or QC Digital could exert on the Relevant Entities or on lobbying and obtaining the consent and approvals of other joint venture partners or shareholders for implementing the transfer of their investment interests to WFOE is very limited.

Immateriality to our Company’s financial results and operating status

The Relevant Entities are immaterial to our Group in terms of their contribution to our Company’s financial results and operating status for the following reasons:

- (a) QC Digital holds investment interests in the Relevant Entities on behalf of our Company and such interests do not form part of the principal business of our Group.
- (b) Our Company’s interests in the Relevant Entities are accounted for using the equity method accounting or as financial assets at fair value through profit or loss in our Company’s combined financial statements. The financial results of the Relevant Entities are not consolidated into our Company’s combined financial statements.

Our Company recorded a share of loss amounting to RMB0.40 million and fair value loss amounting to RMB0.08 million from its investments in the Relevant Entities, total loss of which was approximately RMB0.48 million for the year ended December 31, 2020. Meanwhile, our Company recorded a net profit of approximately RMB103.7 million for the year ended December 31, 2020. Accordingly, the impact on such investments in the

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Relevant Entities on our Company’s financial performance is not significant. Our Company undertakes that, in the event that our Company proposes to acquire any business or equity interest in another company involving contractual arrangements, it will only do so in compliance with the Stock Exchange’s Guidance Letter HKEX-GL77-14.

OUR CONTRACTUAL ARRANGEMENTS

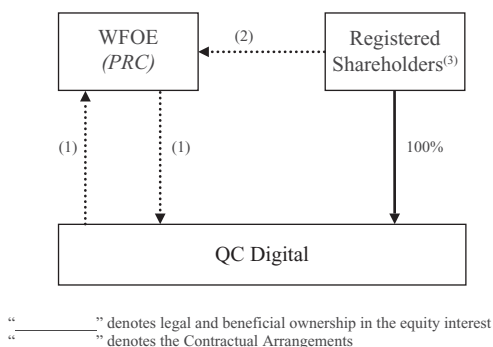
Overview

In view of the aforementioned PRC regulatory background, after consultation with our PRC Legal Advisor, we determined that it was not viable for our Company to hold our PRC Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions and prohibitions, we would gain effective control over, and receive all the economic benefits generated by, the businesses currently operated by our PRC Consolidated Affiliated Entities through the Contractual Arrangements between WFOE, on the one hand, and QC Digital and the Registered Shareholders, on the other. The Contractual Arrangements allow the results of operations and assets and liabilities of QC Digital and its subsidiaries to be consolidated into our results of operations and assets and liabilities under IFRS as if they were subsidiaries of our Group.

In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, we commenced a series of reorganization activities. The Contractual Arrangements currently in effect were entered into on May 26, 2021, whereby WFOE has acquired effective control over the financial and operational policies of our PRC Consolidated Affiliated Entities and has become entitled to all the economic benefits derived from their operations. We believe that the Contractual Arrangements are narrowly tailored, as they are used to enable our Group to conduct businesses in industries that are subject to foreign investment restrictions and prohibitions in the PRC.

Our Directors believe that the Contractual Arrangements are fair and reasonable because (i) the Contractual Arrangements were negotiated on an arm’s length basis and entered into between WFOE and QC Digital and the Registered Shareholders; (ii) by entering into the Exclusive Business Cooperation Agreement with WFOE, which is our subsidiary established under the PRC laws, our PRC Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the [REDACTED]; and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

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



(1) WFOE provides technical consultation and other services in exchange for service fees from QC Digital. See “—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Exclusive Business Cooperation Agreement.”

(2) The Registered Shareholders executed an exclusive option agreement in favor of WFOE, for the acquisition of all or part of the equity interests and/or assets in QC Digital. See “—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Exclusive Option Agreement.” The Registered Shareholders granted security interests in favor of WFOE, over the entire equity interests in QC Digital held by Registered Shareholders. See “—Summary of the agreements under the Contractual Arrangements

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and other key terms thereunder—Equity Pledge Agreement.” The Registered Shareholders executed the Voting Rights Proxy Agreement and Powers of Attorney in favor of WFOE, for the exercise of all shareholders’ rights in QC Digital. See “—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Voting Rights Proxy Agreement and Powers of Attorney.” The spouse of each Relevant Individual Shareholders executed an undertaking in favor of WFOE, see “—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Spouse Undertakings.”

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

Circumstances under which we will unwind the Contractual Arrangements

Our Group will unwind and terminate the Contractual Arrangements as soon as practicable if Relevant Businesses no longer fall within the catalog of prohibitions or certain conditions and permission of foreign investment access required under the Negative List and we can legally operate our business under PRC laws and regulations, and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant PRC laws and regulations allow foreign ownership.

Summary of the agreements under the Contractual Arrangements and other key terms thereunder

A description of each of the specific agreements that comprises the Contractual Arrangements is set out below.

Exclusive Business Cooperation Agreement

Pursuant to an exclusive business cooperation agreement dated May 26, 2021 entered into between WFOE and QC Digital (the “**Exclusive Cooperation Agreement**”), QC Digital agreed to engage WFOE as its exclusive provider to provide QC Digital with technical consultation and services, including but not limited to, (i) business operation and management consultation; (ii) technical consultation; (iii) marketing and promotion consultation, and providing solutions for marketing and promotion; (iv) daily management, maintenance and update of the hardware and database; (v) development, maintenance and update of the software and system; (vi) daily maintenance, debugging and troubleshooting of computer network equipment; (vii) rental of equipment; (viii) human resource support and employee training; and (ix) other services permitted under PRC law as required by QC Digital from time to time. In exchange for these services, QC Digital shall pay a service fee, which shall consist of the total consolidated profit of QC Digital in any financial year, after the deduction of operating costs, expenses, taxes and other statutory contributions in the corresponding financial year, which may include any accumulated deficit of QC Digital and all of its consolidated subsidiaries in respect of the preceding financial year(s) (if any). Meanwhile, QC Digital agreed to any adjustment WFOE may make at its sole discretion on the service fee based on the (i) the complexity of the technical support, the technical consultation and other services provided; (ii) the time required for providing services; (iii) the content and commercial value of the services provided; and (iv) the market price of the same type of services. QC Digital has agreed to pay the service fee to a bank account designated by WFOE within five (5) business days after WFOE issues the payment notice.

During the term of the Exclusive Cooperation Agreement, WFOE enjoys all the economic benefits in relation to our PRC Consolidated Affiliated Entities business operation.

Pursuant to the Exclusive Cooperation Agreement, without the prior written consent from WFOE, QC Digital shall not, during the term of the Exclusive Cooperation Agreement, accept the same or any similar services provided by any third party which are covered by the Exclusive Cooperation Agreement nor shall QC Digital establish cooperation relationships similar to those established by the Exclusive Cooperation Agreement with any third party.

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The Exclusive Cooperation Agreement also provides that WFOE has the exclusive and proprietary ownership, rights and interests in all intellectual property arising out of or created by our PRC Consolidated Affiliated Entities during the performance of the Exclusive Cooperation Agreement.

In addition, pursuant to the Exclusive Cooperation Agreement, without the prior written consent from WFOE, QC Digital shall not, and shall procure that other PRC Consolidated Affiliated Entities not to, among other things:

- (i) sell, transfer, mortgage or otherwise dispose any assets (except for those in the ordinary course of business and worth RMB 1 million or less), business, management right or other beneficial interests;
- (ii) enter into any material contracts (except for (1) those where contract amount is RMB 1 million or less; (2) those which are entered into within the ordinary course of business; and (3) those signed between QC Digital and/or its subsidiaries and WFOE’s parent company, or subsidiaries directly or indirectly controlled by the parent company);
- (iii) incur, inherit, guarantee or approve any debts (except for those generated in the course of ordinary business other than through loans and those which have disclosed to and obtained written consent from, WFOE; and
- (iv) merge or acquire any third party, change its registered share capital, or conduct restructuring or liquidation.

The Exclusive Cooperation Agreement shall remain effective unless (i) the entire equity interests held by the Registered Shareholders in QC Digital or the entire assets held by QC Digital have been transferred to WFOE or its appointee(s); (ii) terminated in writing by WFOE thirty days in advance; (iii) when QC Digital ceases to operate any business, becomes insolvency, bankruptcy or subject to liquidation or dissolution procedures; or (iv) when it is legally permissible for WFOE to hold equity interests directly or indirectly in QC Digital and WFOE or its appointee(s) is registered to be the shareholder of QC Digital. QC Digital is not contractually entitled to unilaterally terminate the Exclusive Cooperation Agreement with WFOE.

Exclusive Option Agreement

Pursuant to an exclusive option agreement dated May 26, 2021, entered into among WFOE, QC Digital and the Registered Shareholders (the “**Exclusive Option Agreement**”), WFOE has the irrevocable, unconditional and exclusive right to purchase, or to designate one or more persons/entities to purchase, from the Registered Shareholders all or any part of their equity interests in QC Digital and from QC Digital all or any part of the assets of QC Digital at any time in WFOE’s absolute discretion in accordance with the provision of the Exclusive Option Agreement and to the extent permitted by the PRC laws. The consideration in relation to purchasing equity interests from the Registered Shareholders shall be the nominal price or the lowest price as permitted under the applicable PRC laws. The consideration in relation to purchasing assets from QC Digital shall be the lowest price as permitted under the applicable PRC laws. The Registered Shareholders shall return the consideration received to WFOE or any person/entity designated by WFOE.

The Registered Shareholders and QC Digital, among other things, have undertaken that:

- without the prior written consent of WFOE, QC Digital shall not in any manner supplement, change or alter its constitutional documents, increase or decrease its registered capital or change its structure of registered capital in other manner, or division, dissolution or any change of its corporate form in any manner;
- QC Digital shall prudently and effectively operate its business and transactions in accordance with the good financial and business standards;

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- without the prior written consent of WFOE, QC Digital shall not sell, transfer, mortgage or otherwise dispose of any assets (except for those of value less than RMB 1 million required for normal business operations), business, legal or beneficial interest of its income, or allow any guarantee or security to be created on or allow the aforementioned to be the subject of any guarantee or security (save for pledges made pursuant to the Equity Pledge Agreement);
- without the prior written consent of WFOE, QC Digital shall not incur, inherit, guarantee or allow any indebtedness other than those incurred in its ordinary course of business or those having been disclosed to and consented by WFOE in writing;
- QC Digital shall operate its business in order to maintain its asset value and they shall not perform any acts or allow any omission which adversely affects the business or assets value of QC Digital;
- without the prior written consent of WFOE, they shall not cause QC Digital to enter into or terminate any material contract (for purpose of this subsection, a contract with a consideration exceeding RMB1 million shall be deemed a material contract), except for the contracts executed in the ordinary course of business or contracts entered between QC Digital and our Company (or any of our subsidiaries), or execute any contract which has substantial conflict with current material contracts;
- QC Digital shall provide its operation and financial information to WFOE upon WFOE’s request;
- without the prior written consent of WFOE, they shall not cause or allow QC Digital to merge or combine with any third party, or acquire or invest in any third party;
- without the prior written consent of WFOE, they shall ensure QC Digital not be terminated, dissolved or liquidated;
- they shall immediately inform WFOE if the assets, business, shareholdings or income of QC Digital are involved in any disputes, litigations, arbitrations or administrative proceedings and shall take all necessary measures under WFOE’s reasonable instructions;
- they shall sign all necessary and appropriate documents, take all necessary and proper acts, bring up all necessary and proper requests, or raise necessary and proper defenses against claims to maintain QC Digital’ ownership for all the assets;
- without the prior written consent of WFOE, they shall not cause QC Digital to distribute dividends to its shareholders; and
- if the Registered Shareholders or QC Digital fail to perform the tax obligations under applicable laws and results in obstacles for WFOE to exercise its exclusive option right, WFOE may request QC Digital or the Registered Shareholders to pay the taxes or pay the same amount to WFOE so WFOE may pay the taxes instead.

The Exclusive Option Agreement shall remain effective unless terminated in the event that (i) the entire equity interests held by the Registered Shareholders in QC Digital or the entire assets held by QC Digital have been transferred to WFOE or its appointee(s); or (ii) in writing by WFOE thirty days in advance.

Equity Pledge Agreement

Pursuant to the Equity Pledge Agreement dated May 26, 2021 entered into between WFOE, QC Digital and the Registered Shareholders (the “**Equity Pledge Agreement**”), the Registered Shareholders agreed to unconditionally and irrevocably pledge all of their respective equity interests in QC Digital to WFOE as collateral security for securing the performance of their obligations under the Contractual Arrangements or for

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any and all of the secured indebtedness under the Contractual Arrangements. During the pledge period, WFOE is entitled to receive any dividends arising from the equity interests in QC Digital held by the Registered Shareholders.

The Equity Pledge Agreement came into effect upon execution and shall remain valid until after all the contractual obligations of the Registered Shareholders and QC Digital under the Contractual Arrangements have been fully performed and all the secured indebtedness of the Registered Shareholders and QC Digital under the Contractual Arrangements have been fully settled. The Registered Shareholders should complete the registration with the relevant administration for market regulation in accordance with the Equity Pledge Agreement.

Upon the occurrence of an event of default (as stipulated in the Equity Pledge Agreement) and unless it has been successfully resolved to WFOE’s satisfaction within 30 days after WFOE delivers a notice to the Registered Shareholders and/or QC Digital requesting rectification of such event of default, WFOE may exercise their right under the Equity Pledge Agreement to deal with the equity interest.

On June 22, 2021, the pledges by the Registered Shareholders have been registered with the relevant PRC authorities as required by the relevant PRC laws and regulations.

Voting Rights Proxy Agreement and Powers of Attorney

The Registered Shareholders, WFOE and QC Digital entered into the Voting Rights Proxy Agreement on May 26, 2021, pursuant to which, each of the Registered Shareholder agreed to enter into a powers of attorney respectively through which each of the Registered Shareholders shall agree to irrevocably appointed WFOE or its appointees as their exclusive agents to act on their behalf to exercise all of their respective rights as the shareholder of QC Digital in accordance with applicable laws and the articles of association of QC Digital. These rights include, among other things, the rights (i) to propose, convene and attend shareholders’ meetings of QC Digital, and sign shareholders’ meeting minutes, resolutions and other relevant documents in the capacity of a proxy of the Registered Shareholders; (ii) to exercise the voting rights on behalf of the Registered Shareholder on all the resolutions which shall be approved at shareholders’ meeting, including but not limited to (a) the election and appointment of directors and other senior management of QC Digital who should be appointed or removed by the shareholders of QC Digital; (b) the sale, transfer, pledge or disposal of any or all equity interests or assets of QC Digital; (c) the decision on the increase or decrease QC Digital’s registered capital, and merger, division, dissolution or liquidation of QC Digital; and (d) the amendments to the articles of association of QC Digital; (iii) to submit any required document to relevant government authorities; (iv) to sign or submit any required document to any company registry or other authorities; (v) to designate or appoint and remove the legal representative, directors, supervisors and other senior management of QC Digital who should be appointed or removed by the shareholders of QC Digital; and (vi) the right to exercise any other rights of shareholders pursuant to PRC laws and the articles of association of QC Digital.

Each of the Registered Shareholders have undertaken that they (i) would not execute any documents with or make any undertaking to any third parties that may have conflicts of interests with any agreements entered into between the Registered Shareholders and WFOE; (ii) they shall not commit or refrain from committing any act that may lead to conflicts of interests between the Registered Shareholders and WFOE; and (iii) in the event of the occurrence of a conflict of interests, they shall, subject to the consent of WFOE, take any measure to eliminate such conflicts.

The Voting Rights Proxy Agreement shall remain effective unless (i) when it is legally permissible for WFOE to hold equity interests directly or indirectly in QC Digital and WFOE or its appointee(s) is registered to be the sole shareholder of QC Digital; or (ii) terminated in writing by WFOE thirty days in advance.

Spouse Undertakings

The spouse of each of the Relevant Individual Shareholders, where applicable, has signed an undertaking (the “**Spouse Undertakings**”) to the effect that (i) the spouse has full knowledge of and unconditionally and

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irrevocably consents to the entering into the Contractual Arrangements (as amended from time to time) among the respective Relevant Individual Shareholders, WFOE and QC Digital; (ii) the spouse shall be bound by the Contractual Arrangements (as amended in QC Digital from time to time) and take all necessary actions to ensure the appropriate implementation of the Contractual Arrangements; (iii) the spouse has no direct right to or interest in such interests of the Relevant Individual Shareholder and will not have any claim on such interests; and (iv) in the event that the spouse of the Relevant Individual Shareholders holds the interests in QC Digital, such spouse shall enter into a series of agreements which are similar to the Contractual Arrangements with WFOE and QC Digital as requested by WFOE.

Our PRC Legal Advisor is of the view that (i) the Contractual Arrangements provide protection to our Group even in the event of death or divorce of any Relevant Individual Shareholder; and (ii) the death or divorce of such shareholder would not affect the validity of the Contractual Arrangements, and WFOE or our Company can still enforce its rights under the Contractual Arrangements against the Registered Shareholders.

Other Key Terms under the Contractual Arrangements

Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, the parties shall negotiate in good faith to resolve the dispute, in the event the parties fail to settle the dispute within thirty (30) days of a negotiation request, any party has the right to submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration in accordance with the then effective arbitration rules and procedures. The arbitration shall be conducted in Beijing. The arbitral award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the equity interests or assets or grant injunctive measures or order specific performance or the winding up of QC Digital. When awaiting the formation of the arbitral tribunal or otherwise under appropriate conditions, the court with competent jurisdiction may grant the interim relief. The parties agree that the courts of Hong Kong, Cayman Islands, and other relevant jurisdiction (being the place where our Company or QC Digital is incorporated or the principal assets of our Company and QC Digital are located) shall all be deemed to have competent jurisdiction.

However, our PRC Legal Advisor has advised that (i) a tribunal normally would not grant injunctive measures or winding up order of QC Digital under PRC laws and regulations; (ii) interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; therefore, in the event we are unable to enforce the Contractual Arrangements, we may not to exert effective control over our PRC Consolidated Affiliated Entities.

As a result of the above, in the event that QC Digital or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our PRC Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See “Risk Factors—Risks Related to Our Contractual Arrangements.”

Conflict of Interest

Each of the Registered Shareholders has given its irrevocable undertakings in the Voting Rights Proxy Agreement which address potential conflicts of interests that may arise in relation to the Contractual Arrangements. See “—Contractual Arrangements—Voting Rights Proxy Agreement and Powers of Attorney.”

Succession

The provisions set out in the Contractual Arrangements are also binding on the successors of the Relevant Individual Shareholders, as if the successors were signing parties to the Contractual Arrangements. Under the Civil Code of the PRC (《中華人民共和國民法典》), the successors include the spouse, children, parents,

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brothers, sisters, paternal grandparents and maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, WFOE may enforce its rights against the successors. Pursuant to the Contractual Arrangements, any heir of the Relevant Individual Shareholders shall inherit any and all rights and obligations of the Relevant Individual Shareholders under the Contractual Arrangements as a result of their death, loss of capacity, or under other circumstances which would affect their exercise of right as Registered Shareholders of QC Digital.

According to the terms of the Exclusive Option Agreement, each of the Registered Shareholders has undertaken, (i) in the event of death or loss of capacity or any other events that could possibly affect his/her exercise or fulfillment of the rights and obligations as a shareholder of QC Digital, or (ii) in the event of the bankruptcy or dissolution, or any other events that could possibly affect its exercise or fulfillment of the rights and obligations as a shareholder of QC Digital, his or its successor in the undertakings of the Registered Shareholders shall assume all the rights and obligations of the Registered Shareholders under the Exclusive Option Agreement.

Based on the foregoing, our PRC Legal Advisor is of the view that (i) the Contractual Arrangements provide protection to our Group even in the event of loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Registered Shareholders; and (ii) the loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Registered Shareholders would not affect the validity of the Contractual Arrangements.

Loss sharing

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

Liquidation

Pursuant to the Exclusive Option Agreement, in the event of a liquidation or dissolution required by the PRC laws, the Registered Shareholders of QC Digital shall transfer the remaining proceeds they received from liquidation or dissolution to the WFOE or its designee(s), at the lowest price as permitted by the PRC laws and regulations, the Registered Shareholders shall waive any payment obligation of WFOE or its designee(s) arising thereon to the extent permitted by then applicable laws of the PRC in force; or shall return WFOE or its designee(s) any income (if any) arising from such transaction to the extent permitted by then applicable laws of the PRC in force.

Pursuant to the Exclusive Option Agreement, the Registered Shareholders have undertaken to appoint a committee designated by WFOE as liquidation committee upon the winding up of QC Digital to manage its assets. However, in the event of a mandatory liquidation required by PRC laws and regulations or bankruptcy liquidation, these provisions may not be enforceable under the PRC laws and regulations.

Insurance

Our Company does not maintain an insurance policy to cover the risks related to the Contractual Arrangements.

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Company’s confirmation

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

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

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

- (a) each of the agreements under the Contractual Arrangements is governed by PRC laws and has been executed properly by each party;
- (b) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto, enforceable under applicable PRC laws and regulations, except that (i) the arbitral tribunal may award remedies over the equity interests or assets or grant injunctive measures or order the winding up of QC Digital, and the court with competent jurisdiction are empowered to grant interim relief when awaiting the formation of the arbitral tribunal or otherwise under appropriate conditions, while under PRC laws and regulations, an arbitral body has no power to grant injunctive measures or to order an entity to wind up, and the aforesaid interim remedies granted by competent courts may not be recognizable or enforceable in the PRC; and (ii) the Contractual Arrangements provide that the Registered Shareholders have undertaken to appoint a committee designated by WFOE as liquidation committee upon the winding up of QC Digital to manage its assets; however, in the event of a mandatory liquidation required by PRC laws and regulations or bankruptcy liquidation, these provisions may not be enforceable;
- (c) none of the agreements under the Contractual Arrangements violates any provisions of the articles of association of QC Digital or WFOE;
- (d) no approval or authorization from the PRC governmental authorities are required for the execution and performance of the Contractual Arrangements except that (i) the pledge of any equity interests in QC Digital for the benefit of WFOE is subject to registration requirements with the relevant governmental authority which has been duly completed on June 22, 2021; (ii) the exercise of any exclusive option rights by WFOE under the Exclusive Option Agreement may subject to the approval, filing or registration requirements with the relevant authorities under the then applicable laws and regulations of the PRC in force; and (iii) the transfer or license of any intellectual property rights under the Exclusive Cooperation Agreement may subject to the approval, filing or registration requirements with the relevant authorities under the then applicable laws and regulations of the PRC in force.

However, we have been advised by our PRC Legal Advisor that there are uncertainties regarding the interpretation and application of the current and future PRC laws and regulations over the validity of the Contractual Arrangements. Accordingly, there can be no assurance that the PRC regulatory authorities will not take a view that is contrary to or otherwise different from the above opinions of our PRC Legal Advisor in the future. See “Risk Factors—Risks Relating to Our Contractual Arrangements”.

Internet culture operation (including online game operation) falls within the prohibited categories in the Negative List. The Notice Regarding the Consistent Implementation of the “Regulation on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹落實國務院<“三定”規定>和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知》) (the “GAPP Notice”), promulgated by the GAPP, together with the National Copyright Administration and the Office of the National Working Group for

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Crackdown on Pornographic and Illegal Publications, on September 28, 2009, provides, among other things, that foreign investors are not permitted to invest or engage in online game operations in the PRC through sole proprietorship, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual agreements or providing technical support. Serious violation of the GAPP Notice will result in suspension or revocation of relevant licenses and registrations.

Notwithstanding the foregoing, the Company and the respective PRC Legal Advisors of the Company and the Joint Sponsors conducted an interview with the Fujian Press and Publication Bureau (福建省新聞出版局) in June 2021, which provided oral confirmations that (i) our Contractual Arrangements are a manner of enterprises’ independent operation and (ii) the Contractual Arrangements are not subject to any approvals from the Fujian Press and Publication Bureau. The Fujian Press and Publication Bureau (福建省新聞出版局) did not express any objection to the Contractual Arrangements. Our PRC Legal Advisor is of the view that (i) Fujian Press and Publication Bureau is the competent government authority for our Company’s principal business; (ii) the personnel who gave the aforementioned oral confirmations in the interview have the authority to give such oral confirmations on behalf of the Fujian Press and Publication Bureau; and (iii) based on such verbal consultations and market practice, the adoption of the Contractual Arrangements is unlikely to be challenged or subject to penalty for any violation of relevant PRC laws and regulations.

Based on the above analysis and advice from our PRC Legal Advisor and confirmation from the relevant government authority, our Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations, and except for the relevant clauses as described in the paragraph headed “Dispute Resolution” and “Liquidation” in this section, each of the agreements under the Contractual Arrangements is enforceable under the PRC laws and regulations.

We are aware of a Supreme People’s Court ruling (the “**Supreme People’s Court Ruling**”) made in October 2012 and two arbitral decisions from the Shanghai International Arbitration Center made in 2010 and 2011 respectively which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravene the prohibition against “concealing an illegitimate purpose under the guise of legitimate acts” as set out in Article 52 of the PRC Contract Law (《中華人民共和國合同法》) and the General Principles of the PRC Civil Law (《中華人民共和國民法總則》) (Both the PRC Contract Law and the General Principles of the PRC Civil Law have been replaced by the Civil Code of the PRC (《中華人民共和國民法典》 which came into effect on January 1, 2021)). It has been further reported that these court rulings and arbitral decisions may increase: (i) the possibility of the PRC courts and/or arbitral panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC; and (ii) the incentive for the Registered Shareholders under such contractual structures to renege on their contractual obligations.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of financial results of our PRC Consolidated Affiliated Entities

Under the Exclusive Cooperation Agreement, it was agreed that, in consideration of the services provided by WFOE, QC Digital shall pay services fees to WFOE. The services fee shall consist of the total consolidated profit of QC Digital in any financial year, after the deduction of operating costs, expenses, taxes and other statutory contributions recognized by WFOE in each financial year, which may include any accumulated deficit of QC Digital and all of its consolidated subsidiaries in respect of the preceding financial year(s) (if any). WFOE has the right to periodically receive or inspect the accounts of our PRC Consolidated Affiliated Entities.

In addition, under the Exclusive Option Agreement, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Registered Shareholders as WFOE’s prior written consent is required before any distribution can be made. If the Registered Shareholders receive any income, profit distribution or dividend, they shall promptly transfer or pay, as part of the services fee under the Exclusive Cooperation Agreement, such income, profit distribution or dividend to WFOE or any other person/entity

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designated by WFOE to the extent permitted under applicable PRC laws. Because of the Contractual Arrangements between WFOE, QC Digital and the Registered Shareholders, WFOE can effectively control, recognize and receive all the economic benefit of the business and operations of our PRC Consolidated Affiliated Entities. Accordingly, our PRC Consolidated Affiliated Entities are treated as controlled structured entities of our Company and consolidated by our Company. The basis of consolidating the results of our PRC Consolidated Affiliated Entities is disclosed in note 2.2.1 to the Accountant’s Report set out in Appendix I to this document.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through QC Digital and, at our Company’s sole discretion, can receive all of the economic interest returns generated by our PRC Consolidated Affiliated Entities. Accordingly, the results of operations, assets and liabilities, and cash flows of our Consolidated Affiliated Entities are consolidated into our Company’s financial statements.

Our Directors consider that our Company can consolidate the financial results of our Consolidated Affiliated Entities into our Group’s financial information as if they were our Company’s subsidiaries. Our Reporting Accountant, has issued an unqualified opinion on our Group’s combined financial information as of and for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021 as included in the Accountant’s Report set out in Appendix I to this document.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

The Foreign Investment Law

Foreign Investment Law (《中華人民共和國外商投資法》) was adopted at the Second Session of the Thirteenth National People’s Congress of the PRC on March 15, 2019 and came into force on January 1, 2020. The Foreign Investment Law has replaced the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Contractual Joint Ventures and the Law on Foreign-Capital Enterprises to become the legal foundation for foreign investment in the PRC.

The Foreign Investment Law stipulates the implementation of the management systems of pre-establishment national treatment and “negative list” for foreign investment. The “negative list”, which was issued by the State Council, refers to special administrative measures for access of foreign investment in specific fields in China. A foreign investor shall not invest in any field in the “negative list” which is prohibited from foreign investment. A foreign investor shall fulfill the investment requirements stipulated under the relevant laws and regulations for any field in the “negative list” which is restricted from foreign investment. Concerning fields not mentioned in the “negative list”, management shall be conducted under the principle of consistency of domestic and foreign investment.

Impact and Potential Consequences of the Foreign Investment Law on the Contractual Arrangements

Our PRC Legal Advisor has advised that, since the contractual arrangements are not specified as foreign investments under the Foreign Investment Law, and no relevant laws, administrative regulations or provisions of the State Council have incorporated contractual arrangements as a form of foreign investment, the Foreign Investment Law does not apply to our Contractual Arrangements, and it does not substantially change the identification of foreign investors in the field of foreign investment and the principle of recognition and treatment of our Contractual Arrangements. Therefore, each of the agreements comprising the Contractual Arrangements will not be materially affected and will continue to be legal, valid and binding on the parties if there are no changes to relevant laws and regulations in this respect. Notwithstanding the above, the Foreign Investment Law stipulates that foreign investors investing through any other methods stipulated under laws, administrative regulations or provisions of the State Council may be considered as a form of foreign investment. It is therefore possible that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment. However, as of the Latest Practicable Date, it was uncertain as to how our Contractual Arrangements will be handled. If Relevant Businesses no longer fall in the catalog of prohibitions or certain conditions and permission of foreign investment access required under the Negative List

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and we can legally operate our business under PRC laws and regulations, the WFOE will exercise the exclusive option right under the Exclusive Option Agreement to acquire the equity interest/assets of QC Digital and unwind the Contractual Arrangements subject to any applicable approvals from the relevant governmental authorities, and subject to any application or approval procedures by the relevant governmental authorities.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (i) major issues arising from the implementation of and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion as and when they arise;
- (ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (iii) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and
- (iv) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our PRC Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

In addition, notwithstanding that our executive Directors, Mr. Yang, Mr. Huang, Mr. Liu and Mr. Zeng are the Registered Shareholders, we believe that our Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently under the following measures:

- (i) the decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is applicable for him or her to do so, and if he or she is to be regarded as having any material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (ii) each of our Directors is aware of his or her fiduciary duties as a Director which requires, amongst other things, that he or she acts for the benefits and in the best interests of our Group;
- (iii) we have appointed three independent non-executive Directors, comprising one-third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and
- (iv) we will disclose in our announcements, circulars, annual and interim reports, whatever appropriate, in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his or her associate that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

CONNECTED TRANSACTIONS

We have entered into certain transactions in the ordinary and usual course of business with entities that will become our connected persons upon the [REDACTED], and such transactions will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

In addition, the transactions contemplated under the Contractual Arrangements, through which we obtained effective control over our PRC consolidated Affiliated Entities and can receive all of the economic interest returns generated by our PRC Consolidated Affiliated Entities, constitute continuing connected transactions of our Company under the Listing Rules.

OUR CONNECTED PERSONS

The table below set forth the parties who will become our connected persons upon the [REDACTED] and the nature of their relationship with our Group.

<u>Name</u>	<u>Connected Relationship with our Group</u>
G-bits Group	As of the Latest Practicable Date, G-bits, through its indirect wholly-owned subsidiary HK Kunpan, held 21.37% of the total issued shares in the Company. Accordingly, G-bits is a substantial shareholder of our Group, and therefore G-bits and its subsidiaries are connected persons of our Company under Rules 14A.07(1) and 14A.13(1) of the Listing Rules.
Mr. Yang	Mr. Yang is an executive Director of our Company, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules.
Mr. Huang	Mr. Huang is an executive Director of our Company, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules.
Mr. Liu	Mr. Liu is an executive Director of our Company, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules.
Mr. Zeng	Mr. Zeng is an executive Director of our Company, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules.
Mr. Wei	Mr. Wei is a director of WFOE, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules.
Wofan Qihang	As of the Latest Practicable Date, Wofan Qihang was held as to 67.20% by Mr. Huang, 20.00% by Mr. Liu and 12.80% by Mr. Zeng, respectively, and is therefore an associate of Mr. Huang and a connected person of our Company under Rule 14A.07(4) of the Listing Rules.

We have entered into the following transactions with the respective entities mentioned above. Such transactions will continue after the [REDACTED] and will constitute continuing connected transactions of our Group under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Summary of Our Continuing Connected Transactions

<u>Nature of Transactions</u>	<u>Applicable Listing Rules</u>	<u>Applicable Waiver Sought</u>	<u>Proposed annual caps for the year ending</u>		
			<u>2021</u>	<u>2022</u>	<u>2023</u>
<i>(in thousand RMB)</i>					
Fully exempt continuing connected transaction					
1. Games Alliance with G-bits					
Mutual licensing of intellectual property rights of characters in games owned by our Group and G-bits Group	14A.34, 14A.52, 14A.53 and 14A.76	N/A	N/A	N/A	N/A
Partially exempt continuing connected transaction					
2. Property Leasing and Administrative Services					
Lease and administrative services expenses payable by our Group to G-bits Group (<i>Expense-based</i>)	14A.34, 14A.35, 14A.49, 14A.71 and 14A.76	Announcement requirement under Chapter 14A of the Listing Rules	[4,500]	[5,400]	[6,480]
Non-exempt continuing connected transactions					
3. Game Cooperation with G-bits					
(a) Fees payable by our Group to G-bits Group (<i>Expense-based</i>)	14A.34, 14A.35, 14A.36,	Announcement requirement under Chapter 14A of the Listing Rules	[5,500]	[54,000]	[25,000]
(b) Fees payable by G-bits Group to our Group (<i>Revenue-based</i>)	14A.49, 14A.71 and 14A.76	Announcement requirement under Chapter 14A of the Listing Rules	[46,800]	[38,400]	[33,600]
4. Marketing and Promotion Cooperation with G-bits					
(a) Marketing and promotion services fees payable by our Group to G-bits Group (<i>Expense-based</i>)	14A.34, 14A.35, 14A.36, 14A.49,	Announcement requirement under Chapter 14A of the Listing Rules	[25,000]	[30,000]	[36,000]
(b) Marketing and promotion services fees payable by G-bits Group to our Group (<i>Revenue-based</i>)	14A.71 and 14A.76	Announcement requirement under Chapter 14A of the Listing Rules	[1,000]	[2,000]	[3,000]
5. Contractual Arrangements					
Contractual Arrangements	14A.34, 14A.35, 14A.36, 14A.49, 14A.53 to 59, and 14A.71	Requirements as to announcement, circular, shareholders' approval and annual caps under Chapter 14A of the Listing Rules	N/A	N/A	N/A

CONNECTED TRANSACTIONS

Fully Exempt Continuing Connected Transaction

The following transactions are made in the ordinary and usual course of business and on normal commercial terms or better where, as our Directors currently expect, the highest applicable percentage ratio for the purpose of Chapter 14A of the Listing Rules will be less than 0.1% on an annual basis. Under Rule 14A.76(1)(a) of the Listing Rules, the following transactions will be fully exempted from announcement, annual review, reporting, circular (including independent financial advice) and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

1. Games Alliance with G-bits

On June 1, 2019, we entered into a games alliance agreement (the “**Games Alliance Framework Agreement**”) with G-bits, pursuant to which our Group granted a license to G-bits to use the intellectual property rights of certain character in *Gumballs & Dungeons* (不思議迷宮) in exchange for G-bits granting a license to our Group to use the intellectual property rights of certain characters in *Give it up! Bouncy* (永不言棄：黑洞) for the purpose of promoting and marketing each other’s games via their respective platforms. There is no monetary consideration involved under the Games Alliance Framework Agreement. Leveraging the game platforms operated by the G-bits Group, we believe that the game alliance with G-bits will enhance the marketing exposure of our game and attract new game players and therefore is beneficial to the Group. The term of the Games Alliance Framework Agreement is three years from the date of the agreement.

As no monetary consideration is involved under the Games Alliance Framework Agreement, the transactions contemplated under the Games Alliance Framework Agreement will be fully exempt from the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.76(1) of the Listing Rules.

Partially Exempt Continuing Connected Transactions

The following transactions are made in the ordinary and usual course of business and on normal commercial terms or better where, as our Directors currently expect, the highest applicable percentage ratio for the purpose of Chapter 14A of the Listing Rules will be more than 0.1% but less than 5% on an annual basis. Under Rule 14A.76(2)(a) of the Listing Rules, the following transactions will be subject to the announcement, reporting and annual review requirements under Chapter 14A of the Listing Rules but will be exempted from the circular (including independent financial advice) and independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules.

2. Property Leasing and Administrative Services

Background for the transactions

During the Track Record Period, we have historically been using certain properties owned by G-bits as office premises and G-bits has also provided certain ancillary office administrative services to us with regards to these office premises. In anticipation of the [REDACTED], we and G-bits entered into a property leasing and administrative services framework agreement on [•] (the “**Property Leasing and Administrative Services Framework Agreement**”), effective upon [REDACTED] until [December 31, 2023].

Principal terms

Pursuant to the Property Leasing and Administrative Services Framework Agreement, G-bits and/or its subsidiaries shall lease to our Group office premises in an office building located in Xiamen, the PRC with an aggregate gross area of approximately 3,139.49 square meters as office premises and provide to our Group ancillary office administrative services for these office premises. We may rent additional property space from G-bits or its subsidiaries in accordance with the actual demand of our Group. The relevant tenants from our Group and the relevant landlords among G-bits and its subsidiaries shall enter into separate lease and administrative services agreements which shall set out the specific terms and conditions pursuant to the principles and conditions provided in the Property Leasing and Administrative Services Framework Agreement.

CONNECTED TRANSACTIONS

Reasons for and benefits of the transactions

Our Group started to lease and use the abovementioned office premises for its business operations throughout the Track Record Period. Any relocation may cause unnecessary disruption to our business operation and incur unnecessary costs.

Pricing Policy

The rental price and administrative services fees under the Property Leasing and Administrative Services Framework Agreement is determined between the parties following arm’s length negotiations with reference to:

- (a) the gross area of the relevant property and the rental period;
- (b) the market prices of comparable properties of similar conditions and administrative services of similar nature in the vicinity; and
- (c) the rental price and administrative services fees payable by Independent Third Parties to G-bits and/or its subsidiaries in respect of comparable properties.

The rental price and administrative services fees may be reviewed and adjusted every rental period during the term of the Property Leasing and Administrative Services Framework Agreement with reference to the prevailing market rental prices and services fees, the consumer price index and the terms and conditions of the leases and administrative services offered by G-bits and/or its subsidiaries to other tenants.

Historical figures

The total lease and administrative services expenses incurred by our Group payable to G-bits Group for each of the three years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021, were approximately RMB1,427,000, RMB2,161,000 and RMB2,570,000, and RMB841,000, respectively.

Proposed annual caps and their basis

The Directors estimated the annual caps of the aggregate lease and administrative services expenses to be payable by our Company for the property leasing and administrative services under the Property Leasing and Administrative Services Framework Agreement for the years ending December 31, 2021, 2022 and 2023 are as follows:

	For the years ending December 31,		
	2021	2022	2023
	<i>(in thousand RMB)</i>		
Lease and administrative services expenses payable by our Group to G-bits Group	[4,500]	[5,400]	[6,480]

In arriving at the above proposed annual caps in respect of the lease expenses under the Property Leasing and Administrative Services Framework Agreement, the Directors have considered (i) the current rental prices and administrative services charges of comparable properties in the vicinity and the prevailing market rates; (ii) the expected increase in rental prices and administrative services charges based on prediction on the future development of the property market in the PRC; and (iii) a buffer for the potential increasing demand of our Group for property space.

Listing Rules implications

As the highest applicable percentage ratio for each of the three years ending December 31, 2023 in relation to the Property Leasing and Administrative Services Framework Agreement is expected to exceed 0.1% but

CONNECTED TRANSACTIONS

below 5% on an annual basis, the transactions contemplated under the Property Leasing and Administrative Services Framework Agreement will constitute continuing connected transactions of our Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

Non-Exempt Continuing Connected Transaction

The following transactions are made in the ordinary and usual course of business and on normal commercial terms or better where, as our Directors currently expect, the highest applicable percentage ratio for the purpose of Chapter 14A of the Listing Rules will be more than 5% on an annual basis. As such, the following transactions will be a non-exempt continuing connected transaction under Chapter 14A of the Listing Rules, subject to annual review, announcement, reporting, circular (including independent financial advice) and independent Shareholders’ approval requirements.

3. Game Cooperation with G-bits

Background for the transactions

On [●], 2021, we and G-bits entered into a game cooperation framework agreement (“**Game Cooperation Framework Agreement**”), pursuant to which, our Group agreed to (i) license games of G-bits Group for publishing and operating on our platforms in designated regions on an exclusive basis (expense-based); and (ii) license our games to G-bits Group for publishing and operating such games on their platforms in designated regions on an exclusive basis (revenue-based). Our Group and G-bits Group also agreed to participate in marketing games licensed to the exclusive publication and operation of the other party (revenue/expense based). Our Group and G-bits Group shall pay fees to each other (as the case may be). The precise scope of cooperation, the calculation of fees and other details of the cooperation shall be agreed between the relevant parties separately.

The Game Cooperation Framework Agreement shall be effective upon [REDACTED] until [December 31, 2023].

Fee Arrangement

The fees payable by our Group or G-bits Group (as the case may be) for publishing and operating of our Group’s or G-bits Group’s games on the other’s platform shall be calculated on any of the following basis:

- Fixed distribution fees and/or licensing fees;
- Revenue/profit sharing between the parties;
- Prepaid revenue/profit sharing between the parties; and/or
- Game performance bonus.

Reasons for and benefits of the transactions

G-bits develops, publishes and operates a large number of online games in the PRC. While we typically publish and operate games which we self-developed, we also have commercial liberty to (i) engage third-party publishers to publish and operate games we self-developed; and (ii) obtain licenses from third-party game developers to publish and operate games owned by them to maximize our earnings. It is expected that our Group and G-bits Group could leverage each other’s competitive advantages in products and platforms to improve popularity of games owned by each other, increase the number of platform users and leverage each other’s game publishing and operating capabilities.

CONNECTED TRANSACTIONS

Pricing Policy

The fees payable by our Group to G-bits Group and the fees payable by G-bits Group to our Group shall be determined after arm’s length negotiations between the parties with reference to the prevailing market price and/or fee range of similar cooperation in the industry and consideration of various commercial factors, including, but not limited to, the nature of the cooperation, popularity, quality and commercial potential of the relevant games and duration of the engagement.

Historical Amounts

The aggregate amounts of fees paid by our Group to G-bits Group and the fees paid by G-bits Group to our Group for the three years ended December 31, 2020 and the three months ended March 31, 2021 are as set out in the table below:

	For the years ended December 31,			For the three months ended March 31
	2018	2019	2020	2021
	<i>(in thousand RMB)</i>			
(a) Fees incurred by our Group payable to G-bits Group ⁽¹⁾ (<i>Expense-based</i>)	0	0	0	0
(b) Fees incurred by G-bits Group payable to our Group ⁽²⁾ (<i>Revenue-based</i>)	44,135	31,591	57,196	11,799

Notes:

1. During the Track Record Period, G-bits Group did not engage our Group to publish and operate any of its games.
2. During the Track Record Period, two of our games were exclusively published and operated by G-bits Group in the PRC and Hong Kong, Macau and Taiwan, respectively. *Gumballs & Dungeons* (不思議迷宮) was launched in December 2016 in the PRC and *The Marvelous Snail* (最強蝸牛) was launched in July 2020 in Hong Kong, Macau and Taiwan.

Proposed annual caps and their basis

The proposed annual caps for the fees payable by our Group to G-bits Group and the fees payable by G-bits Group to our Group under the Game Cooperation Framework Agreement for the three years ending December 31, 2023 are set out in the table below:

	For the years ending December 31,		
	2021	2022	2023
	<i>(in thousand RMB)</i>		
(a) Fees payable by our Group to G-bits Group (<i>Expense-based</i>)	[5,500]	[54,000]	[25,000]
(b) Fees payable by G-bits Group to our Group (<i>Revenue-based</i>)	[46,800]	[38,400]	[33,600]

With reference to the historical amounts between our Group and G-bits Group, the proposed annual caps were determined based on the future business between our Group and G-bits Group after arm’s length discussions. In particular:

- (a) in determining the above proposed annual caps in respect of the fees payable by our Group to G-bits Group, our Directors have considered the revenue expected to be generated and the lifecycle of the game that G-bits Group owns and is to be distributed by our Group. In particular, *Project B* is expected to have an initial surge in revenue upon its publication in 2022 and reached a mature stage with steady revenue in 2023. The table below indicates the annual caps in relation to fee payable by our Group to G-bits Group for such game:

	For the years ending December 31,		
	2021	2022	2023
	<i>(in thousand RMB)</i>		
<i>Project B</i> ⁽¹⁾	[5,500]	[54,000]	[25,000]

CONNECTED TRANSACTIONS

Notes:

1. It is expected that *Project B* will be published in 2022.
- (b) in determining the above proposed annual caps in respect of the fees payable by G-bits Group to our Group, our Directors have considered the number and scale of games our Group owns that are to be published and operated on G-bits Group’s platforms, the respective revenue expected to be generated and the lifecycles of such games. In particular, taking into account (i) the historical amount of fees paid by G-bits Group to our Group; and (ii) the anticipated revenue to be generated by the games in operation given the popularity and life cycles of such games. *Gumballs & Dungeons* (不思議迷宫) and *The Marvelous Snail* (最强蜗牛) were launched in the PRC in December 2016 and in Hong Kong, Macau and Taiwan in July 2020, respectively. As of the Latest Practicable Date, both games have reached their maturity stage. Thus it is forecasted that they will contribute less revenue from 2021 to 2023. The table below indicates the breakdown of annual caps in relation to fees payable by G-bits Group to our Group in the form of revenue sharing by reference to games to be distributed through the platforms of G-bits Group:

	For the years ending December 31,		
	2021	2022	2023
	<i>(in thousand RMB)</i>		
<i>Gumballs & Dungeons</i> (不思議迷宫) ⁽¹⁾	[19,200]	[13,200]	[12,000]
<i>The Marvelous Snail</i> (最强蜗牛) ⁽²⁾	[27,600]	[25,200]	[21,600]

Notes:

1. *Gumballs & Dungeons* (不思議迷宫) was launched in the PRC in December 2016. During the Track Record Period, *Gumballs & Dungeons* was exclusively published and operated by G-bits Group in the PRC.
2. *The Marvelous Snail* (最强蜗牛) was launched in Hong Kong, Macau and Taiwan in July 2020. During the Track Record Period, *The Marvelous Snail* was exclusively published and operated by G-bits Group in Hong Kong, Macau and Taiwan.

Listing Rules implications

Please refer to the section headed “4. Marketing and Promotion Cooperation with G-bits—Listing Rules implications” below.

4. Marketing and Promotion Cooperation with G-bits

Background for the transactions

Pursuant to the Game Cooperation Framework Agreement, our Group and G-bits Group also agreed to cooperate on marketing and promoting games owned by the other party on its own platforms.

The precise scope of services, calculation as to service fees, method of payment and other details of the service arrangement will be agreed between the relevant parties separately.

Fee Arrangement

In return for the marketing and promotion services provided, our Group and G-bits Group will pay the other party marketing and promotion fee using one or more of the following methods, depending on the means of cooperation:

- Cost per action: charged based on the number of newly activated users;
- Cost per click: charged based on the price of each click and number of clicks of online users;

CONNECTED TRANSACTIONS

- Cost per sale: charged based on the users’ actual top-up amount;
- Fixed amount of marketing and promotion fee; or
- Other fee arrangements agreed by the parties.

The channel expense will be agreed by the parties separately.

Reasons for and benefits of the transactions

During the Track Record Period, our Group has been engaging G-bits Group for their marketing and promotion services and we expect to continue on engaging G-bits Group for their marketing and promotion services. G-bits Group has a strong marketing platform in the PRC and offers comprehensive marketing and promotion services to mobile game companies. We believe that G-bits Group will be able to enhance popularity and commercial potential of our games extensively and we will tap into the diverse pool of potential game players on G-bits Group’s platforms. In addition, we also expect to cooperate with G-bits Group on the provision of our marketing and promotion services to G-bits Group. As our Group continues to develop more games and operate more gaming platforms, we believe through providing marketing and promotion services to third party game developers (including G-bits Group), it will create a new revenue stream for our Group and diversify our revenue base and improve our market position.

Pricing Policy

The marketing and promotion services fees payable by our Group to G-bits Group and by G-bits Group to our Group will be determined after arm’s length negotiations between the parties with reference to the prevailing market rates announced by the parties and/or fee range of similar cooperation in the industry taking into account of relevant commercial factors, including, but not limited to, the types of games involved, the form and nature of the marketing and promotion services and the promotion period.

Historical Amounts

The aggregate amounts of marketing and promotion services fees paid by our Group to G-bits Group and the marketing and promotion services fees paid by G-bits Group to our Group for the three years ended December 31, 2020 and the three months ended March 31, 2021 are as set out in the table below:

	For the years ended December 31,			For the three months ended March 31
	2018	2019	2020	2021
	<i>(in thousand RMB)</i>			
(a) Marketing and promotion services fees paid by our Group to G-bits Group ⁽¹⁾ <i>(Expense-based)</i>	0	0	66,843	4,823
(b) Marketing and promotion services fees paid by G-bits Group to our Group ⁽²⁾ <i>(Revenue-based)</i>	0	0	0	0

Notes:

3. During the Track Record Period, our Group engaged G-bits Group to provide marketing and promotion services to promote our game on their platforms.
4. During the Track Record Period, G-bits Group did not engage our Group to provide marketing and promotion services.

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Proposed annual caps and their basis

The proposed annual caps for the marketing and promotion services fees payable by our Group to G-bits Group and the marketing and promotion services fees payable by G-bits Group to our Group under the Game Cooperation Framework Agreement for the three years ending December 31, 2023 are set out in the table below:

	For the years ending December 31,		
	2021	2022	2023
	<i>(in thousand RMB)</i>		
(a) Marketing and promotion services fees payable by our Group to G-bits Group <i>(Expense-based)</i>	[25,000]	[30,000]	[36,000]
(b) Marketing and promotion services fees payable by G-bits Group to our Group <i>(Revenue-based)</i>	[1,000]	[2,000]	[3,000]

In determining the above proposed annual caps in respect of marketing and promotion services fees payable by our Group to G-bits Group, our Directors have considered the historical amount of fees paid by our Group to G-bits Group with a steady increase rate of 20% for the annual caps for the year ending December 31, 2022 and 2023.

In determining the above proposed annual caps in respect of marketing and promotion services fees payable by G-bits Group to our Group, our Directors have considered the future cooperation plan between our Group and G-bits Group including but not limited to the types and scale of the marketing and promotion services after arm’s length negotiations and discussions between the parties.

Listing Rules implications

As the highest applicable percentage ratio for each of the proposed annual caps for the three years ending December 31, 2023 with respect to the transactions contemplated under the Game Cooperation Framework Agreement (in respect of (1) fees payable by our Group to G-bits Group under the game cooperation arrangement; and (2) marketing and promotion services fees payable by our Group to G-bits Group, in aggregate), are expected to exceed 5% on an annual basis, the transactions contemplated under the Game Cooperation Framework Agreement (in respect of (1) fees payable by our Group to G-bits Group under the game cooperation arrangement; and (2) marketing and promotion services fees payable by our Group to G-bits Group, in aggregate) will constitute continuing connected transactions of our Company, and subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirements under 14A.35 of the Listing Rules and the independent Shareholders’ approval requirement under Rule 14A.36 of the Listing Rules.

As the highest applicable percentage ratio for each of the proposed annual caps for the three years ending December 31, 2023 with respect to the transactions contemplated under the Game Cooperation Framework Agreement (in respect of (1) fees payable by G-bits Group to our Group under the game cooperation arrangement; and (2) marketing and promotion services fees payable by G-bits Group to our Group, in aggregate), are expected to exceed 5% on an annual basis, the transactions contemplated under the Game Cooperation Framework Agreement (in respect of (1) fees payable by G-bits Group to our Group under the game cooperation arrangement; and (2) marketing and promotion services fees payable by G-bits Group to our Group, in aggregate) will constitute continuing connected transactions of our Company, and subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirements under 14A.35 of the Listing Rules and the independent Shareholders’ approval requirement under Rule 14A.36 of the Listing Rules.

5. Contractual Arrangements

Background for the transactions

As disclosed in the section headed “Contractual Arrangements” in this document, due to regulatory restrictions on foreign ownership in mobile game business, we cannot directly or indirectly, hold any equity

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interest in our PRC Consolidated Affiliated Entities, which hold certain licenses and permits required for operation of our business. As a result, our Group entered into the Contractual Arrangements with QC Digital and its Registered Shareholders so that we can conduct our business operations indirectly in the PRC through our PRC Consolidated Affiliated Entities while complying with applicable PRC laws and regulations. The Contractual arrangement, as a whole, are designed to provide our Group with effective control over the financial and operational policies of our PRC Consolidated Affiliated Entities, to the extent permitted by the PRC laws and regulations which enable us to, among others, (i) become entitled to all the economic benefits derived from our PRC Consolidated Affiliated Entities in consideration for the technical consultation and services provided by WFOE to QC Digital; (ii) exert effective control over our PRC Consolidated Affiliated Entities; and (iii) hold an exclusive option to acquire all or part of the equity interest/assets of QC Digital when and to the extent permitted by the PRC laws and regulations.

The Contractual Arrangements consist of a series of agreements, including (i) Exclusive Business Cooperation Agreement; (ii) Exclusive Option Agreement; (iii) Equity Pledge Agreement; and (iv) Voting Rights Proxy Agreement and Powers of Attorney, each of which is an integral part of the contractual arrangements. For detailed terms of these agreements, please refer to the section headed “Contractual Arrangements” to this document.

Listing Rules implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon [REDACTED] as certain parties to the Contractual Arrangements, namely, Mr. Yang, Mr. Huang, Mr. Liu, Mr. Zeng, Mr. Wei and Wofan Qihang, are connected persons of our Group.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group’s legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our PRC Consolidated Affiliated Entities and any member of our Group (the “**New Intergroup Agreements**” and each of them, a “**New Intergroup Agreement**”) (which are (a) solely restricted to matters that are contemplated under the Contractual Arrangements; and (b) narrowly tailored to achieve our Company’s business purposes and minimizing the potential for conflict with the relevant PRC laws and regulations) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement, circular and independent Shareholders’ approval requirements.

INTERNAL CONTROL MEASURES FOR PARTIALLY EXEMPT AND NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

For partially exempt continuing connected transactions and non-exempt continuing connected transactions, we will establish the following internal review procedures upon the [REDACTED] to ensure that the pricing under the partially exempt continuing connected transactions and non-exempt continuing connected transactions is fair and reasonable:

- we will adopt and implement a management system on connected transactions and our Board and the various internal departments of our Company (including the finance, legal and internal control departments) will be responsible for the control and daily management in respect of the continuing connected transactions;

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- our Board and various internal departments of our Company (including the finance, legal and internal control departments) will be jointly responsible for evaluating the terms under for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps under each transaction;
- we will, to the extent commercially practicable, seek to obtain quotations from independent third parties for similar premises/services and will compare the commercial terms offered by the independent third parties with those offered by G-bits Group;
- our Board and various internal departments of our Company will regularly monitor the fulfillment status and the transaction updates under the relevant framework agreements. In addition, the management of our Company will also regularly review the pricing policies of the relevant framework agreements; and
- our independent non-executive Directors and auditors will conduct an annual review of the continuing connected transactions under the framework agreements and provide annual confirmation to ensure that, in accordance with the Listing Rules, the transactions are conducted in accordance with the terms of the agreements on normal commercial terms and in accordance with the pricing policy.

WAIVERS FROM THE STOCK EXCHANGE

As the material terms of each of the partially exempted and non-exempted connected transactions are disclosed in this document and potential [REDACTED] will participate in the [REDACTED] on the basis of the disclosures, the Directors consider that strict compliance with the announcement requirement and, where applicable, the circular (including independent financial advisor) and the independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules, would be impracticable and unduly burdensome and, in particular, would induce unnecessary administrative costs to our Company. In addition, the Directors, including the independent non-executive Directors, believe that it is in the interest of our Company to continue with these transactions after [REDACTED].

As a result, our Company has applied to the Stock Exchange for, and has been granted, subject to the condition that the value of the annual transactions shall not exceed their respective estimated annual caps as stated above:

- (a) a waiver under Rule 14A.105 of the Listing Rules to exempt transactions set out in the sub-section headed “Partially Exempt Continuing Connected Transactions” in this section from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rule for the term ending [December 31, 2023]; and
- (b) a waiver under Rule 14A.105 of the Listing Rules to exempt the transactions set out in the sub-section headed “Non-Exempt Continuing Connected Transaction” in this section from strict compliance with the announcement, circular and independent Shareholders’ approval requirements under Rule 14A.35 and Rule 14A.36 of the Listing Rules for the terms [December 31, 2023].

In addition, we confirm that we will comply with the applicable requirements under the Listing Rules and will immediately inform the Stock Exchange if any of the proposed annual caps set out above is exceeded, or when there is a material change in the terms of these transactions.

The Contractual Arrangements

In respect of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under

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the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules; (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the period of the Contractual Arrangements to a fixed term under Rule 14A.52 of the Listing Rules pursuant to Rule 14A.105 of the Listing Rules, for so long as our Shares are [REDACTED], subject, however, to the following conditions:

(a) No change without independent non-executive Directors’ approval

No change to the Contractual Arrangements (including with respect to any fees payable to WFOE thereunder) will be made without the approval of our independent non-executive Directors.

(b) No change without independent Shareholders’ approval

Save as described in paragraph (c) below, no change to the agreements governing the Contractual Arrangements will be made without the independent Shareholders’ approval. Once independent Shareholders’ approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (d) below) will, however, continue to be applicable.

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the PRC Consolidated Affiliated Entities through (i) our Group’s option (if and when so allowed under the applicable PRC laws) to acquire all or part of the entire equity interests and assets at a consideration which shall be the higher of (a) a nominal price or (b) the lowest price as permitted under applicable PRC laws; (ii) the business structure under which the profit generated by the PRC Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to WFOE by QC Digital under the Exclusive Cooperation Agreement; and (iii) our Group’s right to control the management and operation of, as well as the substance of, all of the voting rights of QC Digital.

(c) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding on the one hand, and the PRC Consolidated Affiliated Entities on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch companies) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of our Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements.

The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch companies) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however, be treated as connected persons of our Company and transactions between these connected persons and our Company, other than those under similar contractual arrangements, shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(d) Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company’s annual report and accounts in accordance with the relevant provisions of the Listing Rules.

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- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company’s annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (ii) no dividends or other distributions have been made by QC Digital to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and QC Digital during the relevant financial period under paragraph (c) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.
- Our Company’s auditors will carry out review procedures annually on the transactions, pursuant to the Contractual Arrangements, and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements, and that no dividends or other distributions have been made by our PRC Consolidated Affiliated Entities to the holders of their equity interests which are not otherwise subsequently assigned or transferred to our Group.
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, our PRC Consolidated Affiliated Entities will be treated as our Company’s subsidiaries, and at the same time the directors, chief executives or substantial shareholders of our PRC Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding, for this purpose, our PRC Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including, for this purpose, our PRC Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- Our PRC Consolidated Affiliated Entities will undertake that, for so long as our Shares are [REDACTED], our PRC Consolidated Affiliated Entities will provide our Group’s management and our Company’s auditor with full access to their relevant records for the purpose of our Company’s auditor’s review of the connected transactions.
- In addition, we have also applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with (i) the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated in any Exclusive Cooperation Agreement; (ii) the requirement of setting an annual cap for the fees payable to any member of our Group from our PRC Consolidated Affiliated Entities in the Exclusive Cooperation Agreement; and (iii) the requirement of limiting the period of the Contractual Arrangements to a fixed term under Rule 14A.52 of the Listing Rules pursuant to Rule 14A.105 of the Listing Rules, for so long as Shares are [REDACTED]. The waiver is subject to the condition that the Contractual Arrangements subsist and that our PRC Consolidated Affiliated Entities will continue to be treated as our Company’s subsidiaries, but their directors, chief executives or substantial shareholders of our PRC Consolidated Affiliated Entities and their associates will be treated as connected persons of our Company (excluding, for this purpose, our PRC Consolidated Affiliated Entities), and transactions between these connected persons and our Group, other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules. We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

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CONFIRMATION FROM THE DIRECTORS

The Directors, including the independent non-executive Directors, are of the view that:

- (a) the partially exempt continuing connected transactions and the non-exempt continuing connected transactions described above for which waivers are sought have been entered into and will be carried out in the ordinary and usual course of business of our Group and all such transactions will be conducted on normal commercial terms which are fair and reasonable and in the interests of our Company and the Shareholders as a whole;
- (b) the proposed annual caps of such partially exempt continuing connected transactions and the non-exempt continuing connected transactions set out above are fair and reasonable and in the interests of our Company and the Shareholders as a whole; and
- (c) with respect to the terms of the Contractual Arrangements, which is of a duration of longer than three years, it is a justifiable and normal business practice for the Contractual Arrangements of this type to be of such duration.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors have reviewed the relevant information and historical figures prepared and provided by our Company relating to the partially exempt continuing connected transactions and the non-exempt continuing connected transactions described above and have obtained confirmations from our Company. Based on the Joint Sponsors' due diligence, the Joint Sponsors are of the view that:

- (a) the partially exempt continuing connected transactions and non-exempt continuing connected transactions described above for which waivers are sought have been entered into in the ordinary and usual course of business of our Group and are on normal commercial terms which are fair and reasonable and in the interests of our Company and the Shareholders as a whole; and
- (b) the proposed annual caps of such partially exempt continuing connected transactions and non-exempt continuing connected transactions set out above are fair and reasonable and in the interests of our Company and the Shareholders as a whole; and
- (c) with respect to the terms of the Contractual Arrangements, which is of a duration of longer than three years, it is a justifiable and normal business practice for the Contractual Arrangements of this type to be of such duration.

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You should read the following discussion and analysis in conjunction with our combined financial information as of and for the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021 included in the Accountant’s Report set out in Appendix I to this document, together with the respective accompanying notes. Our combined 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 a leading mobile game developer and publisher in China, offering mobile games with captivating content as well as distinctive and fantastic gameplay experiences to players around the world, and our games are particularly popular among the young generation that is aged 30 or below. As a pioneer and leader in casual games, especially idle games, and rogue-like RPGs in China, we have developed, published and operated a number of exceptionally 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 exceptional 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 RMB29.3 million in the three months ended March 31, 2020 to RMB480.6 million in the same period of 2021, and our net profit increased substantially from RMB9.4 million in the three months ended March 31, 2020 to RMB166.8 million in the same period of 2021. Moreover, in 2018, 2019 and 2020, our adjusted net profit for the period (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 profit for the period (non-IFRSs) increased substantially from RMB13.2 million in the three months ended March 31, 2020 to RMB172.4 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 liabilities at fair value through profit or loss, which are carried at fair value.

Immediately prior to and after the Reorganization, our business was carried out by QC Digital and its subsidiaries. Pursuant to the Reorganization, our business is ultimately under effective control of our Company through direct equity holding or through Contractual Arrangements. Our Company and those companies newly set up during the Reorganization were not involved in any other business prior to the Reorganization and their operations do not meet the definition of a business. The Reorganization is merely a reorganization of our business and does not result in any changes in business substance, management or the ultimate owners of our business. The historical financial information of the companies comprising our Group is presented using the carrying value of our business for all periods presented.

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For companies acquired from or disposed of to a third party, their financial information is included in or excluded from the historical financial information from the respective dates of the acquisitions or disposals.

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

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病毒) and *Eternal Adventure* (無盡大冒險), contributed over 90% 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,			Three months ended March 31,
	2018	2019	2020	2021
Average MAUs (in thousands)	1,693	1,240	3,448	3,701
Average MPUs (in thousands)	163	114	495	782
ARPPU (RMB)	47	60	206	205
	As of December 31,			As of March 31,
	2018	2019	2020	2021
Cumulative registered players (in thousands)	27,458	35,978	59,585	65,753

See “Business—Our Games—Our Games’ Performance” for a detailed discussion on 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 three months ended March 31, 2021, commissions charged by distributors and payment channels amounted to RMB13.9 million, RMB13.1 million, RMB249.1 million and RMB85.5 million, respectively, accounting for 64.3%, 65.4%, 87.5% and 75.7% 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-

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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, promotion and marketing 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.

Promotion and marketing 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 promotion and marketing 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 promotion and marketing expenses of a game tend to increase rapidly and remain at a relative high level. At the maturity stage, we maintain regular promotion and marketing efforts and therefore, the promotion and marketing 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 promotion and marketing expenses tend to further decrease.

In 2018, 2019, 2020 and the three months ended March 31, 2021, we incurred promotion and marketing expenses of RMB10.0 million, RMB11.3 million, RMB524.3 million and RMB177.5 million, respectively, accounting for 10.2%, 12.7%, 42.7% and 36.9% of our total revenues during the same respective periods. As we continue to launch additional games in China and overseas, our promotion and marketing 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 three months ended March 31, 2021, we incurred research and development expenses of RMB25.3 million, RMB25.6 million, RMB146.1 million and RMB8.4 million, respectively, accounting for 25.7%, 28.9%, 11.9% and 1.7% 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,

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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 RMB1.3 million in 2018, 2019, 2020 and the three months ended March 31, 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, promotion and marketing 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.

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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.

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 licensing fees normally comprise non-refundable fixed licensing fees (either up-front or under specific payment schedule) and variable licensing 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

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associated with the operation of these games under the licensing arrangements. Accordingly, the variable licensing 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 licensing 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 combined 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.

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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.

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OUR COMBINED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets forth our combined statements of comprehensive income in absolute amounts and as percentages of our revenues for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2018		2019		2020		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>									
	<i>(Unaudited)</i>									
Revenues	98,421	100.0	88,704	100.0	1,226,920	100.0	29,309	100.0	480,586	100.0
Cost of revenues	(21,670)	(22.0)	(19,967)	(22.5)	(284,565)	(23.2)	(5,236)	(17.9)	(112,838)	(23.5)
Gross profit	76,751	78.0	68,737	77.5	942,355	76.8	24,073	82.1	367,748	76.5
Selling and marketing expenses	(13,917)	(14.1)	(16,763)	(18.9)	(559,215)	(45.6)	(4,856)	(16.6)	(182,043)	(37.9)
Research and development expenses	(25,305)	(25.7)	(25,612)	(28.9)	(146,108)	(11.9)	(5,642)	(19.3)	(8,365)	(1.7)
General and administrative expenses	(19,090)	(19.4)	(9,296)	(10.5)	(102,897)	(8.4)	(4,038)	(13.8)	(11,017)	(2.3)
Net impairment losses on financial assets	(657)	(0.7)	(170)	(0.2)	364	0.0	(81)	(0.3)	(27)	0.0
Fair value changes on investments measured at fair value through profit or loss	143	0.1	535	0.6	594	0.0	(78)	(0.3)	(1,017)	(0.2)
Other income	7,042	7.2	6,394	7.2	11,406	1.0	3,339	11.4	1,474	0.3
Other gains/(losses), net	1,262	1.3	1,741	2.0	(27,071)	(2.2)	103	0.4	2,647	0.6
Operating profit	26,229	26.7	25,566	28.8	119,428	9.7	12,820	43.6	169,400	35.3
Finance income	53	0.1	47	0.1	795	0.1	11	0.0	193	0.0
Finance costs	(151)	(0.2)	(138)	(0.2)	(103)	(0.0)	(29)	(0.1)	(143)	(0.0)
Finance (costs)/income, net	(98)	(0.1)	(91)	(0.1)	692	0.1	(18)	(0.1)	50	0.0
Share of results of investments accounted for using equity method	145	0.1	(154)	(0.2)	(404)	(0.0)	(101)	(0.3)	2,844	0.6
Losses on impairment of investments accounted for using the equity method	-	-	(2,000)	(2.3)	-	-	-	-	-	-
Changes in the carrying amount of financial instruments issued to investor	-	-	(2,667)	(3.0)	(6,400)	(0.5)	(1,600)	(5.3)	(1,600)	(0.3)
Profit before income tax	26,276	26.7	20,654	23.2	113,316	9.2	11,101	37.9	170,694	35.6
Income tax expenses	(1,416)	(1.4)	(1,029)	(1.1)	(9,577)	(0.8)	(1,728)	(5.9)	(3,877)	(0.9)
Profit for the year/period attributable to equity holders of the Company	<u>24,860</u>	<u>25.3</u>	<u>19,625</u>	<u>22.1</u>	<u>103,739</u>	<u>8.5</u>	<u>9,373</u>	<u>32.0</u>	<u>166,817</u>	<u>34.7</u>
Non-IFRS financial data										
Adjusted net profit for the year/period ⁽¹⁾	38,860	39.5	22,292	25.1	166,156	13.5	13,214	45.1	172,384	35.9

Note:

(1) Adjusted net profit for the year/period excluded the effects of share-based compensation, changes in the carrying amount of financial instruments issued to investors and [REDACTED]. See “—Non-IFRS Financial Data” for a detailed discussion of our non-IFRS financial data.

NON-IFRS FINANCIAL DATA

To supplement our combined statements of comprehensive income which are presented in accordance with IFRSs, we use adjusted net profit for the period, a non-IFRS financial measure. We present adjusted net profit for

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the period because it is used by our management to evaluate our operating performance. We also believe that adjusted net profit for the period provides useful information to [REDACTED] and others to understand and evaluate our combined results of operations in the same manner as our management and in comparing financial results across accounting periods.

We exclude share-based compensation, changes in the carrying amount of financial instruments issued to investors, and [REDACTED] in calculating adjusted net profit for the period, because they are not directly related to our business operations. These items have caused volatility in our periodic earnings and have little analytical or predictive value. However, the presentation of adjusted net profit 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 for the period has certain limitations. Share-based compensation, changes in the carrying amount of financial instruments issued to investors and [REDACTED] are not reflected in the presentation of adjusted net profit for the period. We compensate for these limitations by providing the relevant disclosure of our share-based compensation, changes in the carrying amount of financial instruments issued to investors and [REDACTED] both in our reconciliations to the IFRS financial measures and in our combined 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 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 for the period may not be comparable to adjusted net profit for the period or other similarly titled measures utilized by other companies, since such other companies may not calculate adjusted net profit 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 for the periods indicated.

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>				
	<i>(Unaudited)</i>				
Profit for the year/period attributable to equity holders of the Company	24,860	19,625	103,739	9,373	166,817
Adjustments:					
Share-based compensation ⁽¹⁾	14,000	–	56,017	2,241	–
Changes in the carrying amount of financial instruments issued to investors ⁽²⁾	–	2,667	6,400	1,600	1,600
[REDACTED] ⁽³⁾	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Adjusted net profit for the year/period (non-IFRSs)	<u>38,860</u>	<u>22,292</u>	<u>166,156</u>	<u>13,214</u>	<u>172,384</u>

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.

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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 “changes in the carrying amount of financial instruments issued to investors” of our combined statements of comprehensive income. See note 29 to the Accountant’s Report included in Appendix I to this document for more details.
- (3) 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 RMB29.3 million and RMB480.6 million in the three months ended March 31, 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,						Three months ended March 31,			
	2018		2019		2020		2020		2021	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(RMB in thousands, except for percentages)</i>									
	<i>(Unaudited)</i>									
Game operating revenues										
Self-developed	35,481	36.1	43,318	48.8	1,082,298	88.2	16,374	55.8	324,076	67.4
Licensed	15,110	15.3	10,054	11.3	11,150	0.9	2,713	9.3	134,576	28.0
<i>Subtotal</i>	<u>50,591</u>	<u>51.4</u>	<u>53,372</u>	<u>60.1</u>	<u>1,093,448</u>	<u>89.1</u>	<u>19,087</u>	<u>65.1</u>	<u>458,652</u>	<u>95.4</u>
Game licensing revenue	47,822	48.6	33,582	37.9	58,576	4.8	8,290	28.3	11,816	2.5
Information service revenue	8	0.0	1,750	2.0	74,896	6.1	1,932	6.6	10,118	2.1
Total revenues	<u>98,421</u>	<u>100.0</u>	<u>88,704</u>	<u>100.0</u>	<u>1,226,920</u>	<u>100.0</u>	<u>29,309</u>	<u>100.0</u>	<u>480,586</u>	<u>100.0</u>

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 games. We recognize licensing fees from third-party publishers as our revenue, including typically non-refundable fixed licensing fees and variable licensing 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.

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

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	(RMB in thousands)				
	(Unaudited)				
Revenues					
<i>The Marvelous Snail</i> (最強蝸牛)	–	1,871	1,169,742	9,519	338,874
<i>Gumballs & Dungeons</i> (不思議迷宮)	72,839	53,286	36,393	12,136	5,811
<i>Lantern and Dungeon</i> (提燈與地下城)	–	–	2,773	–	132,506
<i>Ares Virus</i> (阿瑞斯病毒)	14,140	10,068	8,485	2,586	2,185
<i>Eternal Adventure</i> (無盡大冒險)	4,237	19,247	8,182	4,117	1,103
Others	7,205	4,232	1,345	951	107
Total	98,421	88,704	1,226,920	29,309	480,586

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,						Three months ended March 31,			
	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	24,825	84.7	468,754	97.5
Outside mainland China ⁽¹⁾	31,377	31.9	26,018	29.3	48,017	3.9	4,484	15.3	11,832	2.5
Total	98,421	100.0	88,704	100.0	1,226,920	100.0	29,309	100.0	480,586	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 RMB5.2 million and RMB112.8 million in the three months ended March 31, 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.

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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,						Three months ended March 31,			
	2018		2019		2020		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except percentages)</i>									
	<i>(Unaudited)</i>									
Commissions charged by distribution and payment channels	13,929	64.3	13,068	65.4	249,107	87.5	2,355	45.0	85,474	75.8
Commissions charged by third-party game developers	5,180	23.9	2,922	14.6	2,430	0.9	1,133	21.6	15,711	13.9
Bandwidth and servers custody fee	1,293	6.0	1,996	10.0	16,022	5.6	900	17.2	6,707	5.9
Employee benefits expenses	1,090	5.0	1,830	9.2	9,844	3.5	644	12.3	1,769	1.6
Others	178	0.8	151	0.8	7,162	2.5	204	3.9	3,177	2.8
Total	<u>21,670</u>	<u>100.0</u>	<u>19,967</u>	<u>100.0</u>	<u>284,565</u>	<u>100.0</u>	<u>5,236</u>	<u>100.0</u>	<u>112,838</u>	<u>100.0</u>

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 RMB24.1 million and RMB367.7 million in the three months ended March 31, 2020 and 2021, respectively. The following table sets forth our gross profit and gross profit margin for the periods indicated.

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	<i>(Unaudited)</i>				
Gross profit (RMB in thousands)	76,751	68,737	942,355	24,073	367,748
Gross profit margin (%)	78.0	77.5	76.8	82.1	76.5

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 RMB4.9 million and RMB182.0 million in the three months ended March 31, 2020 and 2021, respectively. Our selling and marketing expenses consisted of (i) promotion and marketing expenses paid to our online and offline marketing service providers, which represented 72.0%, 67.3%, 93.7% and 97.5% of our total selling and marketing expenses in 2018, 2019, 2020 and the three months ended March 31, 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.

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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,						Three months ended March 31,			
	2018		2019		2020		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>									
	<i>(Unaudited)</i>									
Promotion and marketing expenses	10,013	72.0	11,277	67.3	524,259	93.7	3,561	73.4	177,466	97.5
Employee benefits expenses	3,138	22.5	4,417	26.3	33,418	6.0	1,230	25.3	3,426	1.9
Others	766	5.5	1,069	6.4	1,538	0.3	65	1.3	1,151	0.6
Total	<u>13,917</u>	<u>100.0</u>	<u>16,763</u>	<u>100.0</u>	<u>559,215</u>	<u>100.0</u>	<u>4,856</u>	<u>100.0</u>	<u>182,043</u>	<u>100.0</u>

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 RMB5.6 million and RMB8.4 million in the three months ended March 31, 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 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,						Three months ended March 31,			
	2018		2019		2020		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>									
	<i>(Unaudited)</i>									
Employee benefits expenses	25,064	99.0	25,401	97.8	144,831	99.1	5,628	99.8	8,185	97.9
Outsourced technical service fee	241	1.0	567	2.2	999	0.7	14	0.2	104	1.2
Others	–	–	4	0.0	278	0.2	–	–	76	0.9
Total	<u>25,305</u>	<u>100.0</u>	<u>25,612</u>	<u>100.0</u>	<u>146,108</u>	<u>100.0</u>	<u>5,642</u>	<u>100.0</u>	<u>8,365</u>	<u>100.0</u>

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 RMB4.0 million and RMB11.0 million in the three months ended March 31, 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.

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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,						Three months ended March 31,			
	2018		2019		2020		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>									
	<i>(Unaudited)</i>									
Employee benefits expenses	2,659	13.9	6,040	65.0	38,226	37.1	863	21.4	4,340	39.4
Share-based compensation	14,000	73.3	–	–	56,017	54.4	2,241	55.5	–	–
Depreciation of right-of-use assets	1,045	5.5	1,631	17.5	2,218	2.2	554	13.7	866	7.9
[REDACTED] Tax	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
surcharges	494	2.6	302	3.2	3,764	3.7	88	2.2	1,057	9.6
Rental expenses and utilities	161	0.8	425	4.6	395	0.4	55	1.4	64	0.6
Others	731	3.9	898	9.7	2,277	2.2	237	5.8	723	6.5
Total	19,090	100.0	9,296	100.0	102,897	100.0	4,038	100.0	11,017	100.0

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 RMB81 thousand and RMB27 thousand on financial assets in the three months ended March 31, 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 RMB78 thousand and RMB1.0 million in the three months ended March 31, 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-trade 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.

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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 RMB3.3 million and RMB1.5 million in the three months ended March 31, 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, and (iii) 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,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>				
	<i>(Unaudited)</i>				
Interest income from loans to third parties and related parties	1,458	1,368	2,627	421	–
Interest income from financial assets at amortized cost	634	1,205	1,090	725	–
Subsidies	4,950	3,821	7,689	2,193	1,474
Total	7,042	6,394	11,406	3,339	1,474

Other Gains/(Losses), Net

We recorded net other gains of RMB1.3 million, RMB1.7 million, RMB103 thousand and RMB2.6 million in 2018, 2019 and the three months ended March 31, 2020 and 2021, respectively. We recorded net other losses of RMB27.1 million in 2020. 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 and (ii) donations to charity organizations.

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

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>				
	<i>(Unaudited)</i>				
Foreign exchange gain/(loss), net	1,235	1,681	(24,712)	1,316	2,621
Donations to charity organizations	–	–	(2,254)	(1,211)	(3)
Others	27	60	(105)	(2)	29
Total	1,262	1,741	(27,071)	103	2,647

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 RMB11 thousand and RMB193 thousand in the three months ended March 31, 2020 and 2021, respectively. Our finance income primarily consisted of interest income from bank deposits.

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Our finance costs were RMB151 thousand, RMB138 thousand and RMB103 thousand in 2018, 2019 and 2020, respectively. In addition, our finance costs were RMB29 thousand and RMB143 thousand in the three months ended March 31, 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,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>				
	<i>(Unaudited)</i>				
Finance income					
Interest income from bank deposits	53	47	795	11	193
Finance costs					
Interest expenses on lease liabilities	(136)	(124)	(74)	(27)	(121)
Bank charges	(15)	(14)	(29)	(2)	(22)
<i>Subtotal</i>	<u>(151)</u>	<u>(138)</u>	<u>(103)</u>	<u>(29)</u>	<u>(143)</u>
Finance (costs)/income, net	<u>(98)</u>	<u>(91)</u>	<u>692</u>	<u>(18)</u>	<u>50</u>

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 RMB101 thousand in 2019, 2020 and the three months ended March 31, 2020, respectively. We recorded share of net gain of investments accounted for using equity method RMB145 thousand and RMB2.8 million in 2018 and the three months ended March 31, 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.

Changes in the Carrying Amount of Financial Instruments Issued to Investors

We recorded losses in the carrying amount of financial instruments issued to investors of RMB2.7 million in 2019, RMB6.4 million in 2020, and RMB1.6 million in each of the three months ended March 31, 2020 and 2021. Our changes in the carrying amount of 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

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 RMB1.7 million and RMB3.9 million in the three months ended March 31, 2020 and 2021, respectively.

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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. Our subsidiaries incorporated in Hong Kong had no assessable profit during the Track Record Period.

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.

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.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Period Ended March 31, 2021 Compared to Period Ended March 31, 2020

Revenues

Our revenues increased substantially from RMB29.3 million in the three months ended March 31, 2020 to RMB480.6 million in the same period of 2021, primarily attributable to (i) an RMB307.7 million increase in

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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), and (ii) an RMB131.9 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 RMB8.2 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 RMB5.2 million in the three months ended March 31, 2020 to RMB112.8 million in the same period of 2021, which was primarily due to (i) an RMB83.1 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 RMB14.6 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 RMB5.8 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 RMB24.1 million in the three months ended March 31, 2020 to RMB367.7 million in the same period of 2021. Our gross profit margin decreased from 82.1% in the three months ended March 31, 2020 to 76.5% in the same period of 2021 primarily due to an increase in the proportion of game operating revenue from our in-licensed games, which have relatively lower margins compared to our self-developed games that we publish ourselves.

Selling and Marketing Expenses

Our selling and marketing expenses increased substantially from RMB4.9 million in the three months ended March 31, 2020 to RMB182.0 million in the same period of 2021, primarily due to an RMB173.9 million increase in promotion and marketing expenses incurred primarily for *The Marvelous Snail* (最強蝸牛), which was still in the growth stage, and *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 48.3% from RMB5.6 million in the three months ended March 31, 2020 to RMB8.4 million in the same period of 2021, primarily due to an RMB2.6 million increase in employee benefits expenses due to increases in headcount and average remuneration of our R&D personnel.

General and Administrative Expenses

Our general and administrative expenses increased substantially from RMB4.0 million in the three months ended March 31, 2020 to RMB11.0 million in the same period of 2021, primarily due to (i) an RMB3.5 million increase in employee benefits expenses due to increases in headcount and average remuneration, (ii) [REDACTED] in [REDACTED] we incurred in the three months ended March 31, 2021 which we did not incur in the same period of 2020, and (iii) an RMB1.0 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 RMB2.2 million in the three months ended March 31, 2020 while we did not have these expenses in the same period of 2021.

Net Impairment Losses on Financial Assets

We recorded net impairment losses on financial assets of RMB81 thousand and RMB27 thousand in the three months ended March 31, 2020 and 2021, respectively, representing changes in provisions of expected credit losses of our financial assets.

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

We recorded fair value losses on investments measured at fair value through profit or loss of RMB78 thousand and RMB1.0 million in the three months ended March 31, 2020 and 2021, respectively, attributable to changes in fair value of our short-term investments.

Other Income

Our other income decreased by 55.9% from RMB3.3 million in the three months ended March 31, 2020 to RMB1.5 million in the same period of 2021, primarily due to an RMB725 thousand decrease in interest income from financial assets at amortized cost and an RMB719 thousand decrease in subsidies that we received.

Other Gains, Net

We recorded net other gains of RMB103 thousand and RMB2.6 million in the three months ended March 31, 2020 and 2021, respectively. The increase was primarily due to an RMB1.3 million 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, as well as an RMB1.2 million decrease in donations to charity organizations.

Finance (Costs)/Income, Net

We recorded net finance costs of RMB18 thousand in the three months ended March 31, 2020, mainly consisting of interest expenses on lease liabilities. We recorded net finance income of RMB50 thousand in the three months ended March 31, 2021, representing interest income from bank deposits.

Share of Results of Investments Accounted for Using Equity Method

We recorded share of net profit of investments accounted for using equity method of RMB2.8 million in the three months ended March 31, 2021 compared to share of net loss of investments accounted for using equity method of RMB101 thousand in the same period of 2020, attributable to results of operations of our associate companies.

Changes in the Carrying Amount of Financial Instruments Issued to Investors

Our losses in the carrying amount of financial instruments issued to investors remained at RMB1.6 million in each of the three months ended March 31, 2020 and 2021.

Income Tax Expenses

Our income tax expenses increased substantially from RMB1.7 million in the three months ended March 31, 2020 to RMB3.9 million in the same period of 2021. Our effective tax rate was 15.6% and 2.3% in the three months ended March 31, 2020 and 2021, 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 Period and Net Profit Margin

As a result of the foregoing, our profit for the period increased substantially from RMB9.4 million in the three months ended March 31, 2020 to RMB166.8 million in the same period of 2021. Our net profit margin slightly increased from 32.0% in the three months ended March 31, 2020 to 34.7% in the same period of 2021, primarily due to a significant increase in selling and marketing expenses to promote our games.

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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 promotion and marketing expenses incurred primarily for *The Marvelous Snail* (最強蝸牛), which was at its early growth stage in 2020 and required significant marketing and promotion campaigns, as well as marketing and promotion 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.

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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 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.

Changes in the Carrying Amount of Financial Instruments Issued to Investors

We recorded losses in the carrying amount of 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.

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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 substantially updated game versions 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 promotion and marketing 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

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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.

Changes in the Carrying Amount of Financial Instruments Issued to Investors

We recorded losses in the carrying amount of 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.

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DISCUSSION OF SELECTED ITEMS FROM OUR COMBINED 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.

	<u>As of December 31,</u>			<u>As of March 31,</u>
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
	<i>(RMB in thousands)</i>			
Current assets				
Trade receivables	13,872	10,233	121,536	165,261
Inventories	–	–	222	316
Prepayments, deposits and other assets	40,401	55,880	59,490	35,688
Short-term investments measured at fair value through profit or loss	15,143	10,818	1,299	1,085
Short-term investments measured at amortized cost	10,085	86,341	–	–
Restricted cash	–	–	2,250	5,012
Cash and cash equivalents	<u>21,398</u>	<u>26,092</u>	<u>443,248</u>	<u>406,497</u>
Total current assets	<u>100,899</u>	<u>189,364</u>	<u>628,045</u>	<u>613,859</u>
Current liabilities				
Trade payables	3,144	1,908	13,329	25,400
Other payables and accruals	19,806	21,469	169,464	81,487
Contract liabilities	12,345	6,017	227,949	158,669
Financial liabilities at fair value through profit or loss	–	–	–	1,614
Current income tax liabilities	3,295	2,154	10,415	14,131
Lease liabilities	<u>1,089</u>	<u>2,275</u>	<u>3,578</u>	<u>3,599</u>
Total current liabilities	<u>39,679</u>	<u>33,823</u>	<u>424,735</u>	<u>284,900</u>
Net current assets	<u>61,220</u>	<u>155,541</u>	<u>203,310</u>	<u>328,959</u>

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 due 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 by 61.8% from RMB203.3 million as of December 31, 2020 to RMB329.0 million as of March 31, 2021, primarily due to (i) an RMB43.7 million increase in trade receivables, which was generally in line with our business growth, (ii) an RMB88.0 million decrease in other payables and accruals, mainly due to decreases in salaries and benefits payables and other tax payables, and (iii) an RMB69.3 million decrease in contract liabilities, as a result of recognition of revenue for game players’ purchases of in-game virtual items. These factors were partially offset by (i) an RMB36.8 million decrease in cash and cash equivalents, mainly due to our investments in two associate companies in 2021, and (ii) an RMB23.8 million decrease in prepayments, deposits and other assets, mainly due to a decrease in prepayments for advertisements.

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We had total current assets of RMB612.1 million, total current liabilities of RMB244.9 million and net current assets of RMB367.2 million as of April 30, 2021. Our net current assets increased by 11.6% from RMB329.0 million as of March 31, 2021 to RMB367.2 million as of April 30, 2021, primarily due to an increase in cash and cash equivalents and a decrease in other payables and accruals, partially offset by a decrease in trade receivables and an increase in trade payables.

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.

	<u>As of December 31,</u>			<u>As of March 31,</u>
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
	<i>(RMB in thousands)</i>			
Distribution channels	4,186	1,880	80,000	120,555
Game publishers	10,334	7,238	34,936	42,561
Information service customers	8	1,832	6,832	2,432
	<u>14,528</u>	<u>10,950</u>	<u>121,768</u>	<u>165,548</u>
Less: allowance for impairment	656	717	232	287
Total trade receivables	<u>13,872</u>	<u>10,233</u>	<u>121,536</u>	<u>165,261</u>

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* (最强蜗牛).

Our trade receivables increased by 36.0% from RMB121.5 million as of December 31, 2020 to RMB165.3 million as of March 31, 2021, primarily due to the launch of *Lantern and Dungeon* (提燈與地下城) in March 2021, which resulted in relatively high trade receivables as of March 31, 2021.

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.

	<u>As of December 31,</u>			<u>As of March 31,</u>
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
	<i>(RMB in thousands)</i>			
Within 3 months	12,437	9,377	99,028	136,492
3 months to 6 months	1,442	852	22,698	29,051
6 months to 1 year	35	115	42	5
1 to 2 years	136	–	–	–
Over 2 years	478	606	–	–
Total	<u>14,528</u>	<u>10,950</u>	<u>121,768</u>	<u>165,548</u>

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

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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,			Three months ended
	2018	2019	2020	March 31, 2021
Trade receivables turnover days ⁽¹⁾	67	50	20	27

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 91 days for a three-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 game publishers; trade receivables from game publishers (in respect of games they published for us) generally have longer credit terms than trade receivables from distribution channels (in respect of our self-published games). Our trade receivables turnover days further decreased to 20 days in 2020, primarily due to a significant increase in trade receivables related to our self-published games. Our trade receivables turnover days increased from 20 days in 2020 to 27 days in the three months ended March 31, 2021, primarily because our newly launched game *Lantern and Dungeon* (提燈與地下城) was launched in March 2021, which resulted in relatively high trade receivables as of March 31, 2021.

As of April 30, 2021, RMB126.9 million, or 76.7%, of our trade receivables as of March 31, 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 RMB316 thousand as of March 31, 2021.

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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 March 31,
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
Prepayments for marketing and promotion services	–	–	50,788	28,767
Prepayment to service providers and game developers	138	112	4,031	3,267
Prepaid expenses and other current assets	218	–	532	913
Rental and other deposits	19	192	3,223	713
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	171
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others	566	711	427	867
Less: allowance for impairment	(121)	(230)	(43)	(15)
Total	40,401	55,880	59,490	35,688

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 40.0% from RMB59.5 million as of December 31, 2020 to RMB35.7 million as of March 31, 2021, primarily due to an RMB22 million decrease in prepayments for marketing and promotion services for our games.

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 and investments in funds that invest primarily in publicly-traded securities. 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 slightly decreased from RMB1.3 million as of December 31, 2020 to RMB1.1 million as of March 31, 2021.

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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 March 31, 2021. We recorded short-term investments measured at amortized cost of RMB10.1 million and 86.3 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 March 31, 2021.

Trade Payables

We had trade payables of RMB3.1 million, RMB1.9 million, RMB13.3 million and RMB25.4 million as of December 31, 2018, 2019 and 2020 and March 31, 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 RMB25.4 million as of March 31, 2021, primarily due to the increases in payables to third-party game developers 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 March 31,
	2018	2019	2020	2021
	(RMB in thousands)			
Within 3 months	2,447	918	12,291	24,888
Over 3 months	697	990	1,038	512
	3,144	1,908	13,329	25,400

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

	Year ended December 31,			Three months ended March 31,
	2018	2019	2020	2021
Trade payables turnover days ⁽¹⁾	59	46	10	16

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 91 days for a three-month period.

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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 16 days in the three months ended March 31, 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 March 31, 2021.

As of April 30, 2021, RMB14.2 million, or 55.9%, of our trade payables as of March 31, 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 March 31,
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
Salaries and benefits payables	18,766	20,513	115,143	64,841
Other tax payables	864	855	53,866	11,238
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others	176	101	455	383
	19,806	21,469	169,464	81,487

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 by 51.9% from RMB169.5 million as of December 31, 2020 to RMB81.5 million as of March 31, 2021, primarily due to an RMB50.3 million decrease in salaries and benefits payables and an RMB42.6 million decrease in other tax payables, both of which we paid off in the first quarter of 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 March 31,
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
Non-current:				
Game licensing	645	—	—	—
Current:				
Game operating	7,073	4,288	227,033	157,747
Game licensing	5,272	1,729	916	922
Total	12,990	6,017	227,949	158,669

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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, and (ii) unamortized balances of the initial license fees paid to us by the licensees, namely, third-party game publishers.

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* (最强蜗牛).

Our contract liabilities decreased by 30.4% from RMB227.9 million as of December 31, 2020 to RMB158.7 million as of March 31, 2021, primarily due to our recognition of revenue for certain contract liabilities.

As of April 30, 2021, RMB93.0 million, or 58.6%, of our contract liabilities as of March 31, 2021 had been subsequently recognized in revenue.

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.

	<u>Year ended December 31,</u>			<u>Three months ended</u>	
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>March 31,</u>	<u>2021</u>
	<i>(RMB in thousands)</i>			<i>(Unaudited)</i>	
Net cash generated from operating activities	40,122	6,801	443,601	550	1,700
Net cash (used in)/generated from investing activities	(23,697)	(80,252)	49,588	18,997	(40,296)
Net cash (used in)/generated from financing activities	(11,267)	78,263	(60,366)	—	—
Net (decrease)/increase in cash and cash equivalents	5,158	4,812	432,823	19,547	(38,596)
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)	90	1,845
Cash and cash equivalents at end of the year/period	<u>21,398</u>	<u>26,092</u>	<u>443,248</u>	<u>45,729</u>	<u>406,497</u>

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 three months ended March 31, 2021, our net cash generated from operating activities was RMB1.7 million, which was primarily attributable to profit before income tax of RMB170.7 million, as adjusted to add back fair value changes on investments measured at fair value through profit or loss of RMB1.0 million and depreciation of RMB1.1 million and to deduct share of results of investments accounted for using equity

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method of RMB2.8 million and net exchange differences of RMB1.8 million, and due to changes in working capital. Our net cash outflow from working capital changes was primarily due to (i) an RMB87.8 million decrease in other payables and accruals, (ii) an RMB69.3 million decrease in contract liabilities, and (iii) an RMB43.8 million increase in trade receivables, offset in part by (i) an RMB23.6 million decrease in prepayments, deposits and other assets and (ii) an RMB12.1 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 three months ended March 31, 2021, our net cash used in investing activities was RMB40.3 million, primarily attributable to acquisition of long-term investments measured at fair value through profit or loss of RMB40.0 million, partially offset by loan repayment from related parties and third parties of RMB1.5 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 three months ended March 31, 2021, we did not have any net cash used in or generated from financing activities.

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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 our subsidiaries 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 investments 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 our subsidiaries 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 April 30, 2021, we did not have any borrowings or unutilized banking facilities. The following table sets forth a breakdown of our indebtedness as of the dates indicated:

	<u>As of December 31,</u>			<u>As of</u>	<u>As of</u>
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>March 31,</u>	<u>April 30,</u>
				<u>2021</u>	<u>2021</u>
	<i>(RMB in thousands)</i>			<i>(Unaudited)</i>	
Non-current:					
Lease liabilities	1,040	–	6,816	6,916	6,340
Financial instruments issued to investors	–	82,667	89,067	90,667	91,200
Current:					
Lease liabilities	1,089	2,275	3,578	3,599	3,330
Total	<u>2,129</u>	<u>84,942</u>	<u>99,461</u>	<u>101,182</u>	<u>100,870</u>

As of April 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 March 31 and April 30, 2021.

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RELATED PARTY TRANSACTIONS

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

	<u>As of December 31,</u>			<u>As of March 31,</u>
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
	<i>(RMB in thousands)</i>			
Trade receivables from related parties				
G-bits Group	<u>10,334</u>	<u>7,238</u>	<u>34,936</u>	<u>42,561</u>
Prepayments to related parties				
G-bits Group	–	–	5,425	5,464
Shenzhen Jishiwu Technology Co., Ltd.	–	–	1,000	–
Total	<u>–</u>	<u>–</u>	<u>6,425</u>	<u>5,464</u>
Trade payables to related parties				
Guangzhou Jodo Information and Technology Co., Ltd.	–	–	3,624	3,456
Shenzhen Jishiwu Technology Co., Ltd.	–	–	–	5,145
Shenzhen Hot Zone Network Technology Co., Ltd	2,001	737	805	229
G-bits Group	763	986	2,740	3,059
Chengdu Weimei Interactive Technology Co., Ltd.	112	134	311	309
Total	<u>2,876</u>	<u>1,857</u>	<u>7,480</u>	<u>12,207</u>
Other receivables from related parties				
Brilliance Investment Limited	33,533	47,829	–	–
Mr. Yang Xu	690	807	–	–
Mr. Huang Zhiqiang	810	770	–	–
Mr. Zeng Xiangshuo	–	801	–	–
Mr. Wei Shumu	523	459	–	–
G-bits Group	114	173	343	246
Total	<u>35,670</u>	<u>50,839</u>	<u>343</u>	<u>246</u>

Our trade receivables from related parties 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 related parties during the Track Record Period were license fees paid or payable by us related to our in-licensing of games developed by associate companies, in which we had minority equity interest, and prepayments for game publishing and promotion services.

Our other receivables from related parties as of December 31, 2018, 2019 and 2020 and March 31, 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. Our other receivables from related parties also included lease deposits with G-bits Group.

See Note 35 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 believe 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.

FINANCIAL INFORMATION

CAPITAL EXPENDITURES

In 2018, 2019, 2020 and the three months ended March 31, 2021, our capital expenditures were RMB55 thousand, RMB470 thousand, RMB3.5 million and RMB163 thousand, 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 March 31,
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
Long-term investments	2,000	—	31,000	2,000

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,			Three months ended March 31,	
	2018	2019	2020	2020	2021
Profitability ratios					
Gross profit margin ⁽¹⁾	78.0%	77.5%	76.8%	82.1%	76.5%
Net profit margin ⁽²⁾	25.3%	22.1%	8.5%	32.0%	34.7%
Return on equity ⁽³⁾	31.3%	18.9%	63.3%	N/A	56.0%
Return on assets ⁽⁴⁾	20.6%	10.8%	21.5%	N/A	22.3%

	As of December 31,			As of March 31,	
	2018	2019	2020	2021	
Liquidity ratio					
Current ratio ⁽⁵⁾		2.5	5.6	1.5	2.2

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 quarter 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 quarter 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.

FINANCIAL INFORMATION

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. Our return on equity decreased to 56.0% in the three months ended March 31, 2021.

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. Our return on assets further increased slightly to 22.3% in the three months ended March 31, 2021.

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 than our total current assets. Our current ratio increased slightly from 1.5 as of December 31, 2020 to 2.2 as of March 31, 2021, primarily because of a decrease in our total current liabilities.

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 exchange 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 RMB21.3 million higher/lower in 2018, 2019, 2020 and the three months ended March 31, 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 exchange forward contracts. We enter into foreign exchange 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.

FINANCIAL INFORMATION

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 34(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.

FINANCIAL INFORMATION

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 distributed a dividend of RMB180 million to its then equity holders. Our Company has not declared or paid any dividend during the Track Record Period since the Company was incorporated on March 12, 2021. The historical dividend distributions are not indicative of our future dividend distribution policy.

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 March 31, 2021, our Group had retained earnings attributable to equity holders of our Company of RMB241.4 million.

[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 three months ended March 31, 2021 and approximately [REDACTED] was capitalized in the consolidated statements of financial position as of March 31, 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].

THIS DOCUMENT IS IN DRAFT FORM. THE INFORMATION CONTAINED HEREIN IS INCOMPLETE AND IS SUBJECT TO CHANGE. THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

FINANCIAL INFORMATION

[REDACTED]

FINANCIAL INFORMATION

[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 March 31, 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.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board consists of seven Directors, comprising four executive Directors and three independent non-executive Directors. The table below sets forth certain information of each of our Directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Time of joining our Group</u>	<u>Date of appointment as Director</u>	<u>Roles and responsibilities</u>
Mr. Yang Xu (楊煦)	40	Executive Director, president and Chairman	March 2012	June 19, 2021	Responsible for the overall strategic planning and research and development of our Group
Mr. Huang Zhiqiang (黃智強)	39	Executive Director and the chief executive officer	March 2012	March 12, 2021	Responsible for the management and development of our Group's business
Mr. Liu Siming (劉斯銘)	40	Executive Director and the chief financial officer	February 2021	June 19, 2021	Responsible for the planning and management of finance and capital market activities of our Group
Mr. Zeng Xiangshuo (曾祥碩)	38	Executive Director and the chief operating officer	February 2014	June 19, 2021	Responsible for the investment, marketing channels and overseas business of our Group
Mr. Zhang Longgen (張龍根)	57	Independent non-executive Director	N/A	June 19, 2021, effective from [REDACTED]	Responsible for supervising and providing independent judgment to our Board
Professor Lam Sing Kwong Simon (林誠光)	62	Independent non-executive Director	N/A	June 19, 2021, effective from [REDACTED]	Responsible for supervising and providing independent judgment to our Board
Ms. Fang Weijin (方焯瑾)	36	Independent non-executive Director	N/A	June 19, 2021, effective from [REDACTED]	Responsible for supervising and providing independent judgment to our Board

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. YANG Xu (楊煦), aged 40, is the founder and the president of the Group and was appointed as an executive Director and chairman of our Board on June 19, 2021. He is primarily responsible for the overall strategic planning and research and development of the Group.

Mr. Yang has been deeply involved in the game industry for more than 15 years. Mr. Yang founded our Group in March 2012, he had been the general manager until August 2019, and since then, he has been the president of our Group. In addition, he is also the executive director and general manager of QC Cultural and the director of QC HK, respectively. Prior to founding the Company, Mr. Yang served as a producer of G-bits Network Technology (Xiamen) Co., Ltd., which is an online game and web game developer in China, during the period from December 2005 to August 2012.

Mr. HUANG Zhiqiang (黃智強), aged 39, is the chief executive officer of the Group and was appointed as an executive Director on March 12, 2021. Mr. Huang is primarily responsible for the management and development of our Group’s business.

Mr. Huang served as the chief operating officer when he joined the Group in March 2012. Subsequently, he has been the chief executive officer since September 2019. Before joining our Group, he worked as a project manager of Sichuan Shengpu Information Technology Co., Ltd. from August 2005 to February 2012.

Mr. Huang graduated from the Chengdu University (成都大學) in July 2002 with a bachelor’s degree in e-commerce.

Mr. LIU Siming (劉斯銘), aged 40, is the chief financial officer of the Group and was appointed as an executive Director on June 19, 2021. Mr. Liu is mainly responsible for the planning and management of finance and capital market activities of our Group.

Mr. Liu has been the chief financial officer since he joined our Group in February 2021. Before joining our Group, Mr. Liu served in various positions at Jinko Group. From October 2018 to February 2021, Mr. Liu was the vice president of Jinko Power Technology Co Ltd. Prior to that, he was the investor relationship director of JinkoSolar Holding Co., Ltd. from December 2011 to October 2018, and responsible for investor relation matters. Mr. Liu also served as the secretary of the board of Jinko Power Technology Co Ltd. between July 2020 and February 2021. Prior to joining JinkoSolar Holding Co., Ltd., Mr. Liu also worked in the financial risk management department of KPMG LLP’s Houston office since 2008 and subsequently in the financial advisory service department of the Beijing Branch of Deloitte & Touche Financial Advisory Services Limited.

Mr. Liu received his bachelor’s degree in computer science and technology and master’s degree in management science and engineering from the Beijing Institute of Technology (北京理工大學) in July 2003 and in March 2006, respectively. He also obtained the master of business administration degree from Baylor University in December 2007.

Mr. ZENG Xiangshuo (曾祥碩), aged 38, is the chief operating officer of the Group and was appointed as an executive Director on June 19, 2021. Mr. Zeng is primarily responsible for the investment, marketing channels and oversea business of our Group.

Mr. Zeng currently serves as the chief operating officer of our Group from August 2019. Previously, he was the deputy manager of our Group from February 2014 to August 2019. Prior to joining our Group, Mr. Zeng worked at Sichuan Hongxin Software Co., Ltd. from June 2011 to February 2014. Mr. Zeng was an account manager of Chengdu Lingrui Zhitong Technology Co., Ltd. from October 2010 to June 2011. He also worked as a sales manager at Sichuan Shengpu Information Technology Co., Ltd. from November 2006 to September 2010. Before that, Mr. Zeng served in the IT department of Chengdu Yinhe Magnet Co., Ltd. from July 2005 to November 2006.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zeng obtained his bachelor’s degree with a major in computer science and technology from Xihua University (西華大學) in June 2005.

Independent Non-Executive Directors

Mr. ZHANG Longgen (張龍根), aged 57, will become our independent non-executive Director with effect from [REDACTED]. He is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Zhang is currently the chief executive officer of Daqo New Energy Corp., which is listed on the New York Stock Exchange (ticker symbol: DQ). Before joining Daqo New Energy Corp. in January 2018, he worked as the chief financial officer in JinkoSolar Holding Co., Ltd. (a company listed on the New York Stock Exchange, ticker symbol: JKS) from September 2008 to September 2014. He also worked in Xinyuan Real Estate Co., Ltd. (a company listed on the New York Stock Exchange, ticker symbol: XIN) as the chief financial officer from August 2006 to August 2008 and director from August 2006 to December 2008.

Mr. Zhang has been an independent director of X Financial (a company listed on the New York Stock Exchange, ticker symbol: XYF) since September 2018. Mr. Zhang had been an independent non-executive director of Zhongjin Technology Services Group Company (formerly known as ZZ Capital International Limited, a company listed on the Stock Exchange, stock code: 8295) from January 2018 to April 2021 and a director of JinkoSolar Holding Co., Ltd. (a company listed on the New York Stock Exchange, ticker symbol: JKS) from May 2014 to December 2020.

Mr. Zhang obtained his master’s degrees in professional accounting and business administration from West Texas A&M University in December 1992 and in December 1994, respectively. In addition, Mr. Zhang was qualified as a certified public accountant and was granted such certificate by the State Board of Public Accounting of the State of Texas in the United States in August 1995. He further obtained his membership from the American Institute of Certified Public Accountants in July 2002.

Professor LAM Sing Kwong Simon (林誠光), aged 62, will become our independent non-executive Director with effect from [REDACTED]. He is primarily responsible for supervising and providing independent judgment to our Board.

Professor Lam is currently a professor of Management and Strategy at the Faculty of Business and Economics of the University of Hong Kong. He has published a number of academic papers and case analyzes on the topics of corporate strategy, organization development and operations management. Before joining the University of Hong Kong in September 1989, Professor Lam worked as a regional support manager in the Canadian Imperial Bank of Commerce from 1987 to June 1989.

Professor Lam has been an independent non-executive director of several listed companies, including Overseas Chinese Town (Asia) Holdings Ltd. (a company listed on the Stock Exchange, stock code: 3366) since May 2009, Sinomax Group Ltd. (a company listed on the Stock Exchange, stock code: 1418) since March 2014 and Kwan On Holdings Ltd. (a company listed on the Stock Exchange, stock code: 1559) since March 2015. Professor Lam has also been a non-executive director of Jacobson Pharma Corporation Ltd. (a company listed on the Stock Exchange, stock code: 2633) since April 2016.

Professor Lam received a doctorate degree in commerce from the Australian National University in April 1996.

Professor Lam was a director of AS & T Consultants Limited which was incorporated in Hong Kong and was dissolved by means of striking off on March 8, 2002 pursuant to the then section 291(6) of the predecessor Companies Ordinance. Professor Lam confirmed that the said company was solvent and inactive at the time of it being struck off and that its dissolution has not resulted in any liability or obligation imposed against him.

DIRECTORS AND SENIOR MANAGEMENT

Ms. FANG Weijin, (方燁瑾), aged 36, will become our independent non-executive Director with effect from [REDACTED]. She is mainly responsible for supervising and providing independent judgement to our Board.

Ms. Fang is currently working as vice president, chief human resource officer, general manager of human resource department of Fosun Tourism Group (a company listed on the Stock Exchange with stock code: 1992) since November 2020, where she also serves as the vice president and chief human resources officer of Thomas Cook Group (托邁酷客集團) and co-chief human resources officer of Fosun Happiness Industry Operation Committee* (复星大快樂產業運營委員會). From April 2017 to October 2020, she has served several positions at Fosun International Limited. Before joining Fosun International Limited, Ms. Fang worked at KPMG China, Shanghai from July 2007 to April 2017 and was a senior manager at the time when she departed from KPMG China.

Ms. Fang obtained her bachelor’s degrees in international economic and trade and in business from Shanghai University (上海大學) and from University of Technology Sydney, respectively, in July 2007. Ms. Fang was also qualified as a project management professional by the Project Management Institute in December 2014.

GENERAL

Save as disclosed above, each of our Directors has confirmed that:

- (i) he or she does not and has not held any other directorships in listed companies during the three years immediately prior to the Latest Practicable Date;
- (ii) there is no other information in respect of such Director to be disclosed pursuant to Rule 13.51(2) of the Listing Rules; and
- (iii) there is no other material matter relating to our Directors that needs to be brought to the attention of our Shareholders.

None of the Directors has any interests in a business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with our Group’s business and would require disclosure under Rule 8.10 of the Listing Rules.

SENIOR MANAGEMENT

The senior management team of our Group and the details of experience of each of our senior management members are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Time of joining our Group</u>	<u>Date of appointment as senior management</u>	<u>Responsibilities within our Group</u>
Mr. Yang Xu (楊煦)	40	Executive Director, president, and Chairman	March 2012	August 2019	Responsible for the overall strategic planning and research and development of our Group
Mr. Huang Zhiqiang(黃智強)	39	Executive Director and the chief executive officer	March 2012	August 2019	Responsible for the management and development of our Group’s business

DIRECTORS AND SENIOR MANAGEMENT

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Time of joining our Group</u>	<u>Date of appointment as senior management</u>	<u>Responsibilities within our Group</u>
Mr. Liu Siming (劉斯銘)	40	Executive Director and the chief financial officer	February 2021	February 2021	Responsible for the planning and management of finance and capital market activities of our Group
Mr. Zeng Xiangshuo (曾祥碩)	38	Executive Director and the chief operating officer	February 2014	August 2019	Responsible for the investment, marketing channels and overseas business of our Group
Mr. Wei Shumu (魏樹木)	39	Chief technology officer	August 2012	August 2019	Responsible for overseeing the current technology and creating the relevant policy of our Group

Mr. YANG Xu (楊煦), aged 40, is the founder and the president of the Group and was appointed as a senior management of the Group in August 2019. For further details, please refer to the paragraph headed “—Executive Directors” in this section.

Mr. HUANG Zhiqiang (黃智強), aged 39, is the chief executive officer of the Group and was appointed as a senior management of the Group in August 2019. For further details, please refer to the paragraph headed “—Executive Directors” in this section.

Mr. LIU Siming (劉斯銘), aged 40, is the chief financial officer of the Group and was appointed as a senior management of the Group in February 2021. For further details, please refer to the paragraph headed “—Executive Directors” in this section.

Mr. ZENG Xiangshuo (曾祥碩), aged 38, is the chief operating officer of the Group and was appointed as a senior management of the Group in August 2019. For further details, please refer to the paragraph headed “—Executive Directors” in this section.

Mr. WEI Shumu (魏樹木), aged 39, has been appointed as the chief technology officer of the Group in August 2019. He is primarily responsible for overseeing the current technology and creating the relevant policy of our Group.

Prior to joining the Group, Mr. Wei had served as a program director in G-bits Network Technology (Xiamen) Co., Ltd from August 2007 to August 2012. Previously, from August 2005 to March 2006, he worked as a developmental engineer in Tencent Technology (Shenzhen) Co., Ltd.

Mr. Wei received his bachelor’s degrees in mathematics and applied mathematics as well as computer science and technology, respectively, from Wuhan University (武漢大學) in June 2004.

Each of our senior management members has confirmed that he or she does not and has not held any other directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately prior to the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. ZHU Chengyin (朱承印), aged 30, has served as a joint company secretary and the director of capital markets of our Group since May 2021 and November 2020, respectively. Before joining our Group, Mr. Zhu joined China Securities Co., Ltd. in July 2015 and was a vice president of the investment banking division when he left in November 2020.

Mr. Zhu received his bachelor’s degree in business administration and master’s degree in law from Shanghai Lixin University of Accounting and Finance (上海立信會計學院) and Fudan University (復旦大學), in July 2012 and June 2015, respectively. Mr. Zhu obtained the legal professional qualification from the Ministry of Justice of the People’s Republic of China (中華人民共和國司法部) in March 2013 and qualification for sponsor representatives from the Securities Association of China (中國證券業協會) in February 2020. In addition, Mr. Zhu received the certificate for passing all the required subjects of The National Uniform CPA Examination of the PRC, awarded by the Certified Public Accountant Examination Committee of the Ministry of Finance, PRC in December 2015.

Ms. SO Shuk Yi Betty (蘇淑儀), was appointed as a joint company secretary of our Company in May 2021. Ms. So currently serves as a vice president of SWCS Corporate Services Group (Hong Kong) Limited, which is a corporate service provider. She has over 20 years of experience in the field of company secretary.

Ms. So obtained a master’s degree in Chinese and comparative law from the City University of Hong Kong in November 2004 and a master’s degree in business administration from the University of Leicester (long distance learning course) in July 1999. Ms. So is an associate member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom since October 1997.

COMMITTEES UNDER THE BOARD OF DIRECTORS

We have established the following committees under our Board of Directors: Audit Committee, Remuneration Committee and Nomination Committee. The committees operate in accordance with their respective terms of reference established by our Board of Directors.

Audit Committee

We have established the Audit Committee with written terms of reference in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules. The Audit Committee consist of Mr. Zhang Longgen, Professor Lam Sing Kwong Simon and Ms. Fang Weijin. The chairman of the Audit Committee is Mr. Zhang Longgen.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of our Group, review the financial information of our Group and consider issues relating to the external auditors and their appointment.

Remuneration Committee

We have established the Remuneration Committee with written terms of reference in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of Professor Lam Sing Kwong Simon, Mr. Zhang Longgen and Mr. Yang Xu. The chairman of the Remuneration Committee is Professor Lam Sing Kwong Simon.

The primary duties of the Remuneration Committee are to evaluate and make recommendations to the Board on the remuneration policy covering the Directors and senior management of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Nomination Committee

We have established the Nomination Committee with written terms of reference in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of Mr. Yang Xu, Professor Lam Sing Kwong Simon and Ms. Fang Weijin. The chairman of the Nomination Committee is Mr. Yang Xu.

The primary duties of the Nomination Committee are to identify, screen and recommend to the Board appropriate candidates to serve as directors of our Company, to oversee the process for evaluating the performance of the Board and to review the structure, size and composition of the Board and to assess the independence of the independent non-executive Directors.

DIRECTORS AND SENIOR MANAGEMENT’S REMUNERATION

Our Directors and senior management members receive compensation in the form of salaries, bonuses, contributions to pension schemes, share-based compensation, housing and other allowances and benefits in kind from the Company subject to applicable laws, rules and regulations.

The aggregate amount of compensation (including fees, salaries, bonuses, contributions to pension schemes, share-based compensation, housing and other allowances) and benefits in kind paid to the Directors for the three years ended December 31, 2018, 2019 and 2020 were approximately RMB15.1 million, RMB3.8 million and RMB90.2 million, respectively.

The aggregate amount of compensation and benefits including share based compensation in kind paid to the five highest paid individual employees of our Group for the three years ended December 31, 2018, 2019 and 2020 were approximately RMB17.1 million, RMB6.2 million and RMB147.1 million, respectively.

Under the arrangements currently in force, we estimate the aggregate of the remuneration and benefits in kind payable to the Directors (excluding any discretionary bonus) for the financial year ending December 31, 2021 to be RMB10 million. The executive Directors receive compensation in the form of salaries, bonuses, contributions to pension schemes, share-based compensation, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. Please refer to the section headed “Appendix IV—Statutory and General Information—C. Further Information about our Directors and Substantial Shareholders—2. Particulars of Service Contracts” in this document for further details on the executive Directors’ compensation.

During the Track Record Period, no remuneration was paid by our Group to, or receivable by, our Directors or five highest paid individuals as an inducement to join or upon joining our Group. No compensation was paid by our Group to, or receivable by, our Directors or the five highest paid individuals for each of the three years ended December 31, 2018, 2019 and 2020 for the loss of any office in connection with the management of affairs of any Subsidiary. In addition, none of our Directors waived any emoluments for any of the three years ended December 31, 2018, 2019 and 2020.

Save as disclosed above, the Directors are not entitled to receive any other special benefits from our Company. The compensation of the Directors is determined by the Board which, following [REDACTED], will receive recommendations from the Remuneration Committee which will take into account applicable laws, rules and regulations.

COMPLIANCE ADVISOR

We have appointed Red Solar Capital Limited as our compliance advisor (the “**Compliance Advisor**”) upon the [REDACTED] in compliance with Rule 3A.19 of the Listing Rules. We have entered into a compliance advisor’s agreement with the Compliance Advisor, the material terms of which are as follows:

- (i) the term of the appointment will commence on the [REDACTED] and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [REDACTED], or until the agreement is terminated, whichever is the earlier;

DIRECTORS AND SENIOR MANAGEMENT

- (ii) pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will, inter alia, advise our Company with due care and skill on a timely basis when consulted by our Company in the following circumstances:
- before the publication by our Company of any regulatory announcement, circular or financial report;
 - where a transaction, which might be a notifiable or connected transaction under Chapters 14 or 14A of the Listing Rules, is contemplated by our Company including share issues and share repurchases;
 - where our Company proposes to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this document or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this document; and
 - where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules;
- (iii) the Compliance Adviser will, as soon as reasonably practicable, inform us of any amendment or supplement to the Listing Rules announced by the Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines;
- (iv) the Compliance Adviser will act as an additional channel of communication between our Company and the Stock Exchange; and
- (v) each of our Company and the Compliance Adviser has the right to terminate the agreement if the other party commits a material breach of the agreement.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. In order to accomplish this, we expect to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules after the [REDACTED].

Board Diversity Policy

We [have adopted] a diversity policy (the “**Board Diversity Policy**”) which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. Pursuant to the Board Diversity Policy, we seek to achieve diversity of our Board through the consideration of a number of factors when selecting candidates to our Board, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service.

Our Directors have a balanced mix of knowledge and skills, including in management, strategic development, business development, sales and marketing, finance and information science and investments. They obtained degrees in various areas such as engineering, computer science and management. Our Directors range from [36] to [62] years old. After due consideration, our Board believes that based on our existing business model and different background of our Directors, the composition of our Board upon the [REDACTED] satisfies our Board Diversity Policy.

Our Board is responsible for reviewing the diversity of our Board. After the [REDACTED], our Board will monitor the implementation of the Board Diversity Policy and review the Board Diversity Policy from time to time to ensure its continued effectiveness. We will also disclose in our annual corporate governance report a summary of the Board Diversity Policy together with information regarding the implementation of the Board Diversity Policy.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately before completion of the [REDACTED] and the [REDACTED], Mr. Yang, our founder and executive Director, through Keiskei Holding Ltd., a company indirectly controlled by Peter Yang Family Trust (through Yang Family Holding Limited, a company incorporated in the BVI wholly owned by the Peter Yang Family Trust) which was established by Mr. Yang as the settlor, has an indirect interest in [5,296,696] Ordinary Shares. Immediately before the completion of the [REDACTED] and assuming that the Series A Preferred Shares and the Series B Preferred Shares are fully converted into Ordinary Shares in accordance with the terms and conditions of the respective agreements in respect of the [REDACTED] and the Articles (“**Full Conversion of Preferred Shares**”), Mr. Yang will have an indirect interest, through Keiskei Holding Ltd., in approximately 34.34% of the total issued share capital of our Company. Immediately following completion of the [REDACTED] and assuming (i) the [REDACTED] is not exercised, and (ii) Full Conversion of Preferred Shares, Mr. Yang will have an indirect interest, through Keiskei Holding Ltd., in approximately [REDACTED] of the total issued share capital of our Company. Therefore, Mr. Yang, Yang Family Holding Limited and Keiskei Holding Ltd. will cease to be our controlling shareholders after [REDACTED]. However, Keiskei Holding Ltd. will remain as our single largest Shareholder after the [REDACTED]. For more information on Keiskei Holding Ltd.’s shareholding, please refer to the section headed “Substantial Shareholders”. For details of the shareholding structure of our Company, please refer to the section headed “History, Reorganization and Corporate Structure” of this document.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and their respective close associates after the [REDACTED].

Management Independence

Upon [REDACTED], our Board will consist of seven Directors. For more information, please refer to the section headed “Directors and Senior Management”. Mr. Yang is also the sole director of Keiskei Holding Ltd., which is an investment holding vehicle without substantive business operations.

Our Directors consider that our Board and senior management will function effectively and independently from our Controlling Shareholders and their close associates for the following reasons:

- (a) our daily management and operations are carried out by a senior management team. A majority of our senior management members held positions as senior management in our Group throughout the Track Record Period and will continue to form our core management team and discharge their duties to our Shareholders as a whole, upon and after [REDACTED]. Each of our senior management members possesses the relevant management and/or industry-related experience and will be able to make decisions that are in our best interest. Please refer to the section headed “Directors and Senior Management” for details of their experience;
- (b) each of our Directors is fully aware of the fiduciary duties of a Director which require, among other things, that he or she must act for the benefit and in the best interests of our Group and must not allow any conflict between his or her duties as a Director and his or her personal interest;
- (c) in the event that any Director to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, the interested Director(s) is required to declare the nature of his/her interest before voting/abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum at the relevant meeting(s) in respect of that transaction;
- (d) our Board comprises seven Directors, including three independent non-executive Directors, which represent at least one-third of the members of our Board. Our independent non-executive Directors have extensive experience in corporate management and governance, and they are appointed to ensure that our Board will only make decisions after due consideration of independent and impartial opinion / and certain matters of our Company must always be referred to the independent Directors for review;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (e) should there be a conflict of interest or a connected transaction between our Company (on the one hand) and Keiskei Holding Ltd. (on the other hand), Mr. Yang, as the common director, will abstain from voting on, and will not be counted in the quorum for, the relevant board resolution(s) of our Company. There would be sufficient quorum for the board meetings of our Company if Mr. Yang abstained from voting due to conflict of interest; and
- (f) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders that would support our independent management; see “Corporate Governance Measures” in this section.

Operational Independence

We hold all the relevant material licenses, qualifications, intellectual properties and permits required for conducting our Group’s business. We have sufficient capital, facilities and employees to operate our business independently from our Controlling Shareholders and their close associates. We also have independent access to our customers and an independent management team to operate our business. We have established a set of internal control procedures and adopted corporate governance practices to facilitate the effective operation of our business.

In light of the above, we believe that we are capable of carrying on our business independently from our Controlling Shareholders and their close associates. Our Directors confirmed that our Group will be able to operate independently from our Controlling Shareholders and their close associates after the [REDACTED].

Financial Independence

We have our own finance department responsible for the treasury function. We also have our own financial management system and internal control system with the ability to operate independently from our Controlling Shareholders and their respective close associates from a financial perspective.

As of the Latest Practicable Date, we did not obtain any borrowings, guarantees, or financial assistance from our Controlling Shareholders and their respective close associates and we did not have any outstanding loans granted or guaranteed by any of them to us.

Based on the above, our Directors are of the view that we have the ability to conduct our business independently from our Controlling Shareholders and their close associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders and their close associate after the [REDACTED].

DISCLOSURE UNDER RULE 8.10 OF THE HONG KONG LISTING RULES

As of the Latest Practicable Date, none of our Controlling Shareholders had any interest in a business which competes, or is likely to compete, either directly or indirectly, with our business, or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders’ interests. We have adopted the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between our Group and our Controlling Shareholders:

- (a) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company’s expense;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (b) we have appointed Red Solar Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable Laws, as well as the Hong Kong Listing Rules, including various requirements relating to corporate governance;
- (c) our Company has established internal control mechanisms to identify connected transactions. Upon and after the [REDACTED], if our Company enters into connected transactions with a Controlling Shareholder or any of his/its associates, our Company will comply with the applicable Listing Rules;
- (d) where a Board or Shareholders’ meeting is to be held for considering proposed transactions in which any of our Directors or Controlling Shareholders or any of their respective associates has a material interest, the relevant Director or Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum for the voting;
- (e) our Board will consist of a balanced composition with not less than one-third of independent non-executive Directors to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. Our independent non-executive Directors, individually and collectively, possess the requisite knowledge and experience and are committed to providing impartial and professional advice to protect the interests of our minority Shareholders;
- (f) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between the Group and the Controlling Shareholders (the “**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (g) our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review; and
- (h) our Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements.

Based on the above, our Directors are satisfied that we have sufficient corporate governance measures in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders’ interests after the [REDACTED].

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized shares and shares of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the [REDACTED] and the [REDACTED]:

As of the date of this Document

	<u>US\$</u>
Authorized share capital	
[4,994,107,574] ordinary shares	[49,941.07574]
[4,739,938] Series A Preferred Shares	[47.39938]
[1,152,488] Series B Preferred Shares	[11.52488]
Issued share capital	
[9,530,575] ordinary shares	[95.30575]
[4,739,938] Series A Preferred Shares	[47.39938]
[1,152,488] Series B Preferred Shares	[11.52488]

Immediately after the [REDACTED]

	<u>US\$</u>
Issued share capital	
[REDACTED] Shares (assuming all Preferred Shares are converted into Ordinary Shares)	[REDACTED]

Immediately after Completion of the [REDACTED]

	<u>US\$</u>
Shares to be issued under the [REDACTED] [REDACTED] Shares	[REDACTED]
Total issued Shares on completion of the [REDACTED] [REDACTED] Shares	[REDACTED]

ASSUMPTIONS

The above table assumes that the [REDACTED] becomes unconditional and the Shares are issued pursuant to the [REDACTED] and [REDACTED]. The above does not take into account any Shares which (i) may be allotted and issued pursuant to the exercise of the [REDACTED]; or (ii) may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors as described below.

RANKING

The [REDACTED] are ordinary shares in our share capital and rank equally with all Ordinary Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Companies Act and the terms of the Memorandum and Articles, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Companies Act reduce its share capital or share capital redemption reserve by its shareholders passing a special resolution. For details, see “Appendix III—Summary of the Constitution of Our Company and Cayman Islands Companies Law—2. Articles of Association—2.5 Alteration of capital”.

Pursuant to the Cayman Companies Act and the terms of the Memorandum and Articles, all or any of the special rights attached to the shares or any class of shares may be materially adversely varied either with the consent in writing of the holders of not less than two-thirds of the issued shares of that class or with the approval of a resolution passed by a majority of not less than two thirds of the votes cast at a separate general meeting of the holders of the shares of that class. For details, see “Appendix III—Summary of the Constitution of Our Company and Cayman Islands Companies Law—2. Articles of Association—2.4 Variation of rights of existing shares or classes of shares”.

Further, our Company will also hold general meetings from time to time as may be required under the Articles, a summary of which is set out in the section headed “Appendix III—Summary of the Constitution of Our Company and Cayman Islands Companies Law”.

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed “[REDACTED]” in this document, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to:

- (a) the exercise of any subscription rights, warrants which may be issued by our Company from time to time;
- (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles;
- (c) a specific authority granted by the Shareholders in general meeting of our Company,

shall not exceed the aggregate of:

- (i) 20% of the total nominal value of our share capital in issue immediately following the completion of the [REDACTED]; and
- (ii) the total nominal value of our share capital repurchased by us (if any) under the general mandate to repurchase Shares referred to in the section headed “General Mandate to Repurchase Shares” below.

This general mandate to issue Shares will expire at the earliest of:

- (1) the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of the Shareholders in general meeting, either unconditionally or subject to condition;

SHARE CAPITAL

- (2) the expiration of the period within which our Company’s next annual general meeting is required by the Articles or any other applicable laws to be held; or
- (3) the date on which it is varied or revoked by an ordinary resolution of our Shareholders in general meeting of our Company.

For further details of this general mandate, please see the section headed “Statutory and General Information—A. Further Information About the Group—4. Resolutions in Writing of Our Shareholders” in Appendix IV to this document.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed “[REDACTED]”, our Directors have been granted a general unconditional mandate to exercise all of our powers to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of our share capital in issue immediately following the completion of the [REDACTED].

The repurchase mandate relates only to repurchases made [REDACTED], or on any other stock exchange on which the Shares are [REDACTED] (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information—A. Further Information about our Group—6. Repurchases of our Own Securities” in Appendix IV to this document.

This general mandate to repurchase Shares will expire at the earliest of:

- (i) the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of the Shareholders in general meeting either unconditionally or subject to condition;
- (ii) the expiration of the period within which our Company’s next annual general meeting is required by the Articles or any other applicable laws to be held; or
- (iii) the date on which it is varied or revoked by an ordinary resolution of our Shareholders in general meeting of our Company,

For further details of this general mandate, please see the section headed “Statutory and General Information—A. Further Information about our Group—6. Repurchases of our Own Securities” in Appendix IV to this document.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [REDACTED] and the [REDACTED] and assuming that the [REDACTED] is not exercised, the following persons will have an interest or a short position in the Shares which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of shareholder	Nature of interest	Shares held immediately following the completion of [[REDACTED] and] the Reorganization ⁽¹⁾		Shares held immediately following completion of the [REDACTED] and the [REDACTED] (assuming the [REDACTED] is not exercised) ⁽¹⁾	
		Number	Percentage	Number	Percentage
Keiskei Holding Ltd.	Beneficial interest	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Yang Family Holding Limited	Interest in controlled corporation ⁽²⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Mr. Yang	Settlor of a discretionary trust ⁽²⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
HK Kunpan	Beneficial Owner ⁽³⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
G-bits	Interest in controlled corporation ⁽³⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Mr. Huang	Settlor of a discretionary trust ⁽⁴⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Interest in controlled corporation ⁽⁴⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
TMF (Cayman) Ltd.	Trustee ⁽²⁾⁽⁴⁾⁽⁵⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Note:

- (1) All interests stated are long positions.
- (2) The Company is held as to [REDACTED] by Keiskei Holding Ltd., following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). Keiskei Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Yang Family Holding Limited and 1% to Keiskei QC Ltd., a company wholly-owned by Mr. Yang. Yang Family Holding Limited is held by the Peter Yang Family Trust, which was established by Mr. Yang as the settlor. TMF (Cayman) Ltd. is the trustee of the Peter Yang Family Trust, and Mr. Yang and his family members are the beneficiaries of the Peter Yang Family Trust. Mr. Yang is also a director of Keiskei Holding Ltd.. As such, Mr. Yang, Yang Family Holding Limited and TMF (Cayman) Ltd. are deemed to be interested in our Shares held by Keiskei Holding Ltd..
- (3) HK Kunpan is a direct wholly-owned subsidiary of G-bits.
- (4) The Company is held as to [REDACTED] and [REDACTED] by Intelligence QC Holding Ltd. and Intelligence QC Ltd., respectively, following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). Intelligence QC Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Intelligence Future Holding Limited and 1% to Intelligence QC Ltd., a company wholly-owned by Mr. Huang. Intelligence Future Holding Limited is held by Intelligence Future Trust, which was established by Mr. Huang as the settlor. TMF (Cayman) Ltd. is the trustee of Intelligence Future Trust, and Mr. Huang and his family member are the beneficiaries of the Intelligence Future Trust. Mr. Huang is also a director of Intelligence QC Holding Ltd.. As such, Mr. Huang and TMF (Cayman) Ltd. is deemed to be interested in our Shares held by Intelligence QC Holding Ltd. and Intelligence QC Ltd..
- (5) TMF (Cayman) Ltd. is the trustee of Intelligence Future Trust, Peter Yang Family Trust and Sebastian Family Trust which in aggregate held [REDACTED] Shares. Hence, TMF (Cayman) Ltd. is deemed to be interested in such [REDACTED] Shares as a trustee.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following completion of the [REDACTED] and the [REDACTED] (assuming the [REDACTED] is not exercised), have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company.

FUTURE PLANS AND [REDACTED]

FUTURE PLANS

See “Business—Our Strategies” for a detailed description of our future plans and strategies.

[REDACTED]

The [REDACTED] from the [REDACTED] that we will receive after deducting the [REDACTED] and other estimated expenses paid and payable by us in connection with the [REDACTED] (assuming that the [REDACTED] is not exercised) will be:

- approximately [REDACTED] million, assuming an [REDACTED] of [REDACTED] per Share (being the minimum [REDACTED]);
- approximately [REDACTED] million, assuming an [REDACTED] of [REDACTED] per Share (being the mid-point of the [REDACTED]); or
- approximately [REDACTED] million, assuming an [REDACTED] of [REDACTED] per Share (being the maximum [REDACTED]).

The [REDACTED] from the [REDACTED] that we will receive after deducting the [REDACTED] and other estimated expenses paid and payable by us in connection with the [REDACTED] (assuming that the [REDACTED] is fully exercised) will be approximately [REDACTED], assuming an [REDACTED] of [REDACTED] per Share (being the mid-point of the [REDACTED]).

In line with our strategies, we intend to use the [REDACTED] of [REDACTED] million, assuming an [REDACTED] of [REDACTED] (being the mid-point of the [REDACTED]), from the [REDACTED] (assuming that the [REDACTED] is not exercised) for the following purposes:

Allocation of the estimated [REDACTED]

Approximately [REDACTED] of the [REDACTED], or approximately [REDACTED]

Proposed main purposes

To expand our game portfolio and invest in our game R&D capabilities and related technologies. In particular, we intend to allocate:

- approximately [REDACTED] of the [REDACTED], or approximately [REDACTED], in improving our R&D capabilities and enriching our game offerings, including by (i) recruiting more talent, including individual talent or small teams, as the case may be, specialized in game development (including game producers, designers, programmers, artists and other staff), consisting of approximately 200 to 250 additional project-based staff and approximately 40 to 60 additional general supporting staff for game development, in two to three years for our various pipeline games and for developing additional games, offering competitive compensation to our game development professionals, and providing regular training to our game development team, and (ii) developing games of new genres and enhancing gameplay, graphic design, soundtracks and other supporting elements for our games developed in-house or by engaging third-party content providers, particularly for our various pipeline games that we expect to launch in 2021, 2022 and 2023; see “Business—Our Games—Our Game Pipeline” for more information for these games;

FUTURE PLANS AND [REDACTED]

Allocation of the estimated [REDACTED]

Proposed main purposes

Approximately [REDACTED] of the [REDACTED], or approximately [REDACTED]

- approximately [REDACTED] of the [REDACTED], or approximately [REDACTED], in strengthening our IT infrastructure to support our business growth, improving our analytics tools and systems to advance our data analysis capabilities, and investing in the development and application of AI, AR/VR and other technologies in game development to optimize the gameplay experience of our players. In particular, we plan to use the [REDACTED] to (i) purchase additional cloud service, servers, software and other maintenance-related services and upgrade the systems we use for game development, publishing and operation, and (ii) develop and upgrade technologies to further improve game quality, including (a) game backend systems with high capacity, high disaster recovery capability and high availability and (b) high-quality frontend solutions based on cutting-edge game engines for 2D and 3D game development to expand our product roadmap; and
- approximately [REDACTED] of the [REDACTED], or approximately [REDACTED], in acquiring publishing or adaption rights of popular game IPs from third parties.

To expand our business in the overseas markets within the next two to three years. See “Business—Our Strategies—Continue to expand our overseas business” for details about our strategy of overseas expansion. For example, we plan to launch our existing games in the overseas markets, including *Lantern and Dungeon* (提燈與地下城) in Hong Kong, Macau and Taiwan in the fourth quarter of 2021 and *The Marvelous Snail* (最強蝸牛) in Japan in the second quarter of 2022. In addition, we plan to launch our new game *Time Voyager* (時光旅行社) in overseas markets in the fourth quarter of 2021. In particular, we intend to allocate:

- approximately [REDACTED] of the [REDACTED], or approximately [REDACTED], in marketing and promoting our games in the overseas markets, including traffic acquisition on platforms such as Facebook and TikTok, and building and operating our overseas player communities through local distribution and player acquisition channels and establishing and bolstering our relationships with overseas distribution channels, including iOS App Store and Google Play; and
- approximately [REDACTED] of the [REDACTED], or approximately [REDACTED], in expanding our overseas game development and operation team, including by recruiting talent with extensive experience and insights in game operation in our target overseas markets, including Hong Kong, Macau, Taiwan, South Korea, Japan, Europe, the U.S., Southeast Asia and the Middle East.

Approximately [REDACTED] of the [REDACTED], or approximately [REDACTED]

To strengthen our game publishing and operation capabilities in China’s mobile game market and the market recognition of our “QingCi” brand and our IPs. In particular, we intend to allocate:

- approximately [REDACTED] of the [REDACTED], or [REDACTED], in the marketing and promotion of our games, player acquisition and player community operation on multiple online and offline channels, including launching cross-industry and creative marketing campaigns to promote our games’ awareness and increase our player stickiness; and

FUTURE PLANS AND [REDACTED]

Allocation of the estimated [REDACTED]

Proposed main purposes

Approximately [REDACTED] of the [REDACTED], or approximately [REDACTED]

- approximately [REDACTED] of the [REDACTED], or [REDACTED], in promoting IPs under our “QingCi” brand and developing and distributing videos, animations and peripheral products surrounding our IPs.

To pursue strategic investments in and acquisitions of upstream and downstream companies along the mobile game industry chain. Key areas of investment and acquisition focus include:

- game developers in China and overseas with high-quality products that can expand our game portfolio, strengthen our brand and IP, and attract new players. We target game developers that (i) have distinctive games in their portfolio, (ii) have management team with expertise in the game industry and key personnel with experience participating in iconic games, (iii) have strong innovation capabilities and creativity and (iv) we can help to further grow by leveraging our methodology and resources; and
- upstream and downstream industry players in China and overseas with distinctive qualifications and capabilities such as game publishers and animation producers. We target companies that have (i) strong technology and service capabilities in the relevant segments of the game industry, and (ii) potential to create synergies with our business.

As of the Latest Practicable Date, we had not identified any specific acquisition target, or adopted a concrete timetable or expected capital expenditure plan to implement any acquisition, and we had not entered into any agreements, commitments or understandings with respect to any such transaction, to which we plan to apply the [REDACTED] from this [REDACTED]. The timetable for the deployment of the [REDACTED] will be subject to the identification of suitable targets, market conditions and the opportunistic nature of strategic acquisitions. In carrying out any acquisitions, the consideration will be determined with reference to the market value of the potential targets, and by an independent valuer where appropriate. We may also seek for additional equity and/or debt funding to facilitate the acquisitions, if necessary.

For our investment policies and strategies, see “Business—Risk Management and Internal Control—Investment Risk Management” and “Business—Our Strategies—Enter into strategic alliances, investments and acquisitions.”

Approximately [REDACTED] of the [REDACTED], or approximately [REDACTED]

Working capital and general corporate purposes.

The above allocation of the [REDACTED] will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the [REDACTED]. To the event that our [REDACTED] are either more or less than expected, we will increase or decrease the allocation of the [REDACTED] to the above purposes on a pro rata basis.

The additional [REDACTED] will be allotted to the above purposes on a pro rata basis in the event that the [REDACTED] is exercised.

FUTURE PLANS AND [REDACTED]

To the extent that the [REDACTED] of the [REDACTED] are not immediately used for the above purposes or if we are unable to put into effect any part of our plan as intended, and to the extent permitted by the relevant laws and regulations, we currently intend to hold these [REDACTED] in short-term demand deposits with licensed commercial banks or other authorized financial institutions in Hong Kong or China so long as it is deemed to be in the best interests of our Company. In this event, we will comply with the appropriate disclosure requirements under the Listing Rules.

[REDACTED]

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APPENDIX I

ACCOUNTANT’S REPORT

The following is the text of a report set out on pages I-1 to I-2, received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[Draft]

[Letterhead of PricewaterhouseCoopers]

ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF QINGCI GAMES INC., CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND CLSA CAPITAL MARKETS LIMITED

Introduction

We report on the historical financial information of Qingci Games Inc. (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-3 to I-89, which comprises the combined statements of financial position as at December 31, 2018, 2019 and 2020, and March 31, 2021, the statement of financial position of the Company as at March 31, 2021 and the combined statements of comprehensive income, the combined statement of changes in equity and the combined statements of cash flows for each of the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-3 to I-89 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [●] (the “Document”) in connection with the [REDACTED] of shares of the Company on the [REDACTED].

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant’s responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

APPENDIX I

ACCOUNTANT’S REPORT

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the Company as at March 31, 2021 and the combined financial position of the Group as at December 31, 2018, 2019 and 2020, and March 31, 2021, and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the combined statement of comprehensive income, the combined statement of changes in equity, and the combined statement of cash flows for the three months ended March 31, 2020 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the International Auditing and Assurance Standards Board (“IAASB”). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “LISTING RULES”) AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to Note 32 to the Historical Financial Information which contains information about the dividends paid by the companies now comprising the Group in respect of the Track Record Period and states that no dividend has been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

[PricewaterhouseCoopers]

Certified Public Accountants

Hong Kong, [●]

THIS DOCUMENT IS IN DRAFT FORM. THE INFORMATION CONTAINED HEREIN IS INCOMPLETE AND IS SUBJECT TO CHANGE. THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX I**ACCOUNTANT’S REPORT**

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP**PREPARATION OF HISTORICAL FINANCIAL INFORMATION**

Set out below is the Historical Financial Information which forms an integral part of this accountant’s report.

The combined financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (“Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended December 31,			Three months ended March 31,	
		2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenues	5	98,421	88,704	1,226,920	29,309	480,586
Cost of revenues	6	(21,670)	(19,967)	(284,565)	(5,236)	(112,838)
Gross profit		76,751	68,737	942,355	24,073	367,748
Selling and marketing expenses	6	(13,917)	(16,763)	(559,215)	(4,856)	(182,043)
Research and development expenses	6	(25,305)	(25,612)	(146,108)	(5,642)	(8,365)
General and administrative expenses	6	(19,090)	(9,296)	(102,897)	(4,038)	(11,017)
Net impairment losses on financial assets	6	(657)	(170)	364	(81)	(27)
Fair value changes on investments measured at fair value through profit or loss	8	143	535	594	(78)	(1,017)
Other income	9	7,042	6,394	11,406	3,339	1,474
Other gains/(losses), net	10	1,262	1,741	(27,071)	103	2,647
Operating profit		26,229	25,566	119,428	12,820	169,400
Finance income	11	53	47	795	11	193
Finance costs	11	(151)	(138)	(103)	(29)	(143)
Finance (cost)/income, net		(98)	(91)	692	(18)	50
Share of results of investments accounted for using equity method	17	145	(154)	(404)	(101)	2,844
Losses on impairment of investments accounted for using the equity method	17	–	(2,000)	–	–	–
Changes in the carrying amount of financial instruments issued to investors	29	–	(2,667)	(6,400)	(1,600)	(1,600)
Profit before income tax		26,276	20,654	113,316	11,101	170,694
Income tax expenses	12	(1,416)	(1,029)	(9,577)	(1,728)	(3,877)
Profit for the year/period attributable to equity holders of the Company		<u>24,860</u>	<u>19,625</u>	<u>103,739</u>	<u>9,373</u>	<u>166,817</u>

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

	Notes	Year ended December 31,			Three months ended March 31,	
		2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					<i>(Unaudited)</i>	
Other comprehensive (loss)/income:						
<i>Items that may be reclassified to profit or loss</i>						
— Currency translation differences		—	—	(955)	(3)	114
Other comprehensive (loss)/income for the year/period, net of tax		—	—	(955)	(3)	114
Total comprehensive income for the year/period attributable to equity holders of the Company		<u>24,860</u>	<u>19,625</u>	<u>102,784</u>	<u>9,370</u>	<u>166,931</u>
Earnings per share for profit for the year/period attributable to equity holders for the Company						
Basic and diluted earnings per share (RMB)	13	N/A	N/A	N/A	N/A	N/A

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As of December 31,			As of
		2018	2019	2020	March 31,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	861	1,017	3,931	3,905
Right-of-use assets	15	2,090	2,218	10,394	9,528
Deferred tax assets	16	3,817	3,446	2,625	2,441
Investments accounted for using the equity method	17	5,486	12,087	11,683	15,027
Long-term investments measured at fair value through profit or loss	19	1,100	21,646	77,800	118,611
Long-term investments measured at amortised cost	20	20,791	–	–	–
Prepayments, deposits and other assets	21	114	131	343	246
		34,259	40,545	106,776	149,758
Current assets					
Trade receivables	22	13,872	10,233	121,536	165,261
Inventories		–	–	222	316
Prepayments, deposits and other assets	21	40,401	55,880	59,490	35,688
Short-term investments measured at fair value through profit or loss	23	15,143	10,818	1,299	1,085
Short-term investments measured at amortised cost	20	10,085	86,341	–	–
Restricted cash	24(b)	–	–	2,250	5,012
Cash and cash equivalents	24(a)	21,398	26,092	443,248	406,497
		100,899	189,364	628,045	613,859
Total assets		135,158	229,909	734,821	763,617
EQUITY					
Combined capital	25	11,131	12,843	14,270	14,270
Other reserves	26	35,540	34,684	125,302	125,416
Retained earnings		47,123	65,892	74,631	241,448
Total equity		93,794	113,419	214,203	381,134
LIABILITIES					
Non-current liabilities					
Contract liabilities	27	645	–	–	–
Lease liabilities	28	1,040	–	6,816	6,916
Financial instruments issued to investors	29	–	82,667	89,067	90,667
		1,685	82,667	95,883	97,583
Current liabilities					
Trade payables	30	3,144	1,908	13,329	25,400
Other payables and accruals	31	19,806	21,469	169,464	81,487
Contract liabilities	27	12,345	6,017	227,949	158,669
Financial liabilities at fair value through profit or loss	23	–	–	–	1,614
Current income tax liabilities		3,295	2,154	10,415	14,131
Lease liabilities	28	1,089	2,275	3,578	3,599
		39,679	33,823	424,735	284,900
Total liabilities		41,364	116,490	520,618	382,483
Total equity and liabilities		135,158	229,909	734,821	763,617

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APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	<u>As of March 31, 2021</u>
	<i>RMB'000</i>
ASSETS	
Prepayments, deposits and other assets	1,005
Total assets	<u>1,005</u>
EQUITY	
Share capital	–
Other reserves	(53)
Accumulated losses	(3,967)
Total equity	<u>(4,020)</u>
LIABILITIES	
Current liabilities	
Other payables and accruals	5,025
Total liabilities	<u>5,025</u>
Total equity and liabilities	<u>1,005</u>

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company				
	Notes	Combined capital	Other reserves	Retained earnings	Total
		RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2018		11,131	19,521	34,282	64,934
Comprehensive income					
Profit for the year		-	-	24,860	24,860
Total comprehensive income for the year		-	-	24,860	24,860
Transaction with owners in their capacity as owners					
Appropriation to statutory reserves	26	-	2,019	(2,019)	-
Dividend distribution to the then shareholders	32	-	-	(10,000)	(10,000)
Share-based payment	6	-	14,000	-	14,000
Total transactions with owners in their capacity as owners for the year		-	16,019	(12,019)	4,000
As of December 31, 2018		11,131	35,540	47,123	93,794

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Notes	Attributable to equity holders of the Company			
		Combined capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
As of January 1, 2019		11,131	35,540	47,123	93,794
Comprehensive income					
Profit for the year		–	–	19,625	19,625
Total comprehensive income for the year		–	–	19,625	19,625
Transaction with owners in their capacity as owners					
Appropriation to statutory reserves	26	–	856	(856)	–
Insurance of financial instruments to investors		1,712	78,288	–	80,000
Recognition of financial instruments issued to investors as non-current liabilities		–	(80,000)	–	(80,000)
Total transactions with owners in their capacity as owners for the year		1,712	(856)	(856)	–
As of December 31, 2019		12,843	34,684	65,892	113,419

APPENDIX I **ACCOUNTANT’S REPORT**

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Attributable to equity holders of the Company			
Notes	Combined capital <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
As of January 1, 2020	12,843	34,684	65,892	113,419
Comprehensive income				
Profit for the year	–	–	103,739	103,739
Other comprehensive income				
— Currency translation differences	–	(955)	–	(955)
Total comprehensive income for the year	–	(955)	103,739	102,784
Transaction with owners in their capacity as owners				
Appropriation to statutory reserves	26	5,000	(5,000)	–
Dividend distribution to the then shareholders	32	–	(90,000)	(90,000)
Capital contributions from the then shareholders	25	1,427	30,556	31,983
Share-based payment	6	–	56,017	56,017
Total transactions with owners in their capacity as owners for the year	1,427	91,573	(95,000)	(2,000)
As of December 31, 2020	14,270	125,302	74,631	214,203

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ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Notes	Attributable to equity holders of the Company			
		Combined capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
(Unaudited) As of January 1, 2020		12,843	34,684	65,892	113,419
Comprehensive (loss)/income					
Profit for the period		–	–	9,373	9,373
Other comprehensive income		–	(3)	–	(3)
— Currency translation differences		–	(3)	–	(3)
Total comprehensive (loss)/income for the period		–	–	9,373	9,370
Transaction with owners in their capacity as owners					
Share-based payment	6	–	2,241	–	2,241
Total transactions with owners in their capacity as owners for the year		–	2,241	–	2,241
As of March 31, 2020		12,843	36,922	75,265	125,030

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Notes	Attributable to equity holders of the Company			
		Combined capital	Other reserves	Retained earnings	Total
		RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2021		14,270	125,302	74,631	214,203
Comprehensive income					
Profit for the period		–	–	166,817	166,817
Other comprehensive income		–	114	–	114
— Currency translation differences		–	114	–	114
Total comprehensive income for the period		–	114	166,817	166,931
As of March 31, 2021		14,270	125,416	241,448	381,134

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

COMBINED STATEMENTS OF CASH FLOWS

	Notes	Year ended December 31,			Three months ended March 31,	
		2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Cash flows from operating activities						
Cash generated from operations	33	40,585	8,599	444,097	550	1,700
Income tax paid		(463)	(1,798)	(496)	–	–
Net cash generated from operating activities		40,122	6,801	443,601	550	1,700
Cash flows from investing activities						
Purchase of property, plant and equipment	14	(55)	(470)	(3,481)	(129)	(163)
Purchase of financial assets at fair value through profit and loss	23	(15,000)	(1,891)	(8,247)	(8,247)	–
Redemption of financial assets at fair value through profit and loss	23	–	7,038	18,440	3,238	–
Acquisition of long-term investments measured at fair value through profit or loss	19	–	(20,833)	(56,234)	(2,167)	(40,000)
Payments for financial assets measured at amortised cost		(7,000)	(65,000)	–	–	–
Redemption of financial assets measured at amortised cost		7,000	10,000	85,000	40,000	–
Acquisition of investments accounted for using the equity method	17	(4,000)	(8,755)	–	–	(500)
Loan repayment from related parties and third parties (including interests)		30,172	22,619	30,375	717	1,517
Loan to related parties and third parties		(34,850)	(23,700)	(18,695)	(15,000)	(1,150)
Interest income received from financial assets measured at amortised cost		36	740	2,430	585	–
Net cash (used in)/generated from investing activities		(23,697)	(80,252)	49,588	18,997	(40,296)
Cash flows from financing activities						
Capital contributions from the then shareholders	25, 26	–	–	31,983	–	–
Proceeds from the issue of financial instruments to investors	29	–	80,000	–	–	–
Dividend paid to the then shareholders of subsidiaries	32	(10,000)	–	(90,000)	–	–
Payment for lease liabilities (including interests)	15	(1,267)	(1,737)	(2,349)	–	–
Net cash (used in)/generated from financing activities		(11,267)	78,263	(60,366)	–	–
Net (decrease)/increase in cash and cash equivalents		5,158	4,812	432,823	19,547	(38,596)
Cash and cash equivalents at the beginning of the 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)	90	1,845
Cash and cash equivalents at the end of the year/period	24(a)	21,398	26,092	443,248	45,729	406,497

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 General information, reorganization and basis of presentation

1.1 General information

Qingci Games Inc. (the “Company”) is an exempted company with limited liability incorporated under the laws of the Cayman Islands on March 12, 2021. The Company is an investment holding company. The Company and its subsidiaries, including consolidated structured entities (together, the “Group”) are principally engaged in the development and operation of mobile games and provision of information services (the “[REDACTED] Business”) in the People’s Republic of China (the “PRC”) and other countries and regions.

1.2 History and reorganization of the Group

Prior to the incorporation of the Company and the completion of the reorganization (the “Reorganization”) as described below, the [REDACTED] Business was mainly carried out by QC-Game Digital Technology (Xiamen) Co., Ltd (“QC Digital”) and its subsidiaries (collectively the “QC Digital Group”), amongst which, 13.33% of the shares of the QC Digital were in the form of ordinary shares with preferential rights which was recognized at financial instruments issued to investors and 86.67% of the shares of the QC Digital were in the form of ordinary shares which was recognized in the equity.

In preparing for the [REDACTED] of the Company’s shares on the [REDACTED], the Group underwent the Reorganization, pursuant to which the beneficial interests in the companies engaged in the [REDACTED] Business were transferred to the Company. Details of the Reorganization are set out below:

1.2.1 Incorporation of the Company and the offshore holding structure

On March 12, 2021, the Company was incorporated in the Cayman Islands with an authorized share capital of US\$50,000 divided into 5,000,000,000 shares of a par value of US\$0.00001 each. Upon incorporation, one share was allotted and issued for cash at par value to the initial subscriber and was subsequently transferred to Keiskei QC Ltd., the holding vehicle of Mr. Yang Xu, the founder, chairman and executive Director of the Group.

On April 1, 2021, Qingci Holding Limited (“Qingci Holding”) was incorporated in the British Virgin Islands (“BVI”) as a wholly owned subsidiary of the Company.

On April 22, 2021, Qingci (HK) Limited (“QC HK Limited”) was incorporated in Hong Kong as a wholly owned subsidiary of the Qingci Holding.

In April 2021, the shareholders of QC Digital went through a share transfer as disclosed in Note 37. After the share transfer, 33.21% of the shares of the QC Digital were in the form of ordinary shares with preferential rights and 66.79% of the shares of the QC Digital were in the form of ordinary shares.

On May 14, 2021, to reflect the onshore shareholding structure of QC Digital, 9,530,575 ordinary shares of the Company were allotted and issued at par value US\$0.00001 each share to 9 offshore ordinary shareholders, 4,739,938 redeemable and convertible preferred shares (“Series A Preferred Shares”) of the Company were issued to Series A investors (Note 37).

On May 26, 2021, 1,152,488 redeemable and convertible preferred shares (“Series B Preferred Shares”) of the Company were allotted and issued at par value US\$0.00001 each share to Series B Investors (Note 37).

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

1 General information, reorganization and basis of presentation (continued)

1.2 History and reorganization of the Group (continued)

1.2.2 Acquisition of QC Digital Group with restricted operation

On May 10, 2021, QC Interactive Technology Co., Ltd. (廈門青瓷互動科技有限公司, the “WFOE”) was incorporated in the PRC as a wholly owned subsidiary of the QC HK Limited.

On May 26, 2021, WFOE entered into a series of contractual agreements (collectively the “Contractual Arrangements”) with QC Digital and the shareholders of QC Digital. Pursuant to the Contractual Arrangements, WFOE is able to effectively control the operating and financing decisions of QC Digital and its PRC subsidiaries with restricted operation (collectively “the PRC Consolidated Affiliated Entities”) and receives substantially all the economic benefits generated by the PRC Consolidated Affiliated Entities. Accordingly, the PRC Consolidated Affiliated Entities are treated as controlled structured entities of the Company and consolidated by the Company. Further details of the Contractual Arrangements are set out in Note 2.2.1.

1.2.3 Restructuring of the non-restricted and/or non-prohibited operation

As part of the Reorganization, the business which are not subject to any foreign investment restrictions or prohibition were transferred from QC Digital Group to Qingci Holding. Accordingly, on May 11, 2021, QC Digital transferred 100% equity interests of QC-Game Digital Technology (Hongkong) Co., Limited (“QC HK”), to Qingci Holding and QC HK became a wholly owned subsidiary of Qingci Holding.

Upon completion of the Reorganization, the Company became the holding company of the companies now comprising the Group.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

1 General information, reorganization and basis of presentation (continued)
 1.2 History and reorganization of the Group (continued)

Upon the completion of the Reorganization and as at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name	Place of incorporation / establishment and kind of legal entity	Date of incorporation / establishment	Particulars of issued / paid-in capital	Effective interest held				Principal activities and place of operation	Notes	
				2018	2019	As of December 31, 2020	As of March 31, 2021			
				2018	2019	2020	2021			
Subsidiaries Directly held: Qingci Holding Limited (“Qingci Holding”)	British Virgin Islands, limited liability company	April, 2021	USD1	NA	NA	NA	NA	100%	Investment holding	
Indirectly held: Qingci (HK) Limited (“QC HK Limited”)	Hong Kong, limited liability company	April, 2021	HKD100	NA	NA	NA	NA	100%	Investment holding	
QC Interactive Technology Co., Ltd. (廈門青瓷互動科技有限公司, the “WFOE”)	Xiamen, China, limited liability company	May, 2021	RMB100,000,000	NA	NA	NA	NA	100%	Investment holding	
QC-Game Digital Technology (Hongkong) Co., Limited (香港青瓷數碼技術有限公司, “QC HK”)	Hong Kong, limited liability company	October, 2019	USD1,000,000	NA	NA	100%	100%	100%	Game operation	(i)
Structured entities controlled via the Contractual Arrangements: QC-Game Digital Technology (Xiamen) Co., Ltd (廈門青瓷數碼技術有限公司, “QC Digital”)	Xiamen, China, limited liability company	March, 2012	RMB14,270,513	100%	100%	100%	100%	100%	Game development and operation	(ii)
QC-Game Cultural Communication (Xiamen) Co., Limited (廈門青瓷文化傳播有限公司, “QC Cultural”)	Xiamen, China, limited liability company	August, 2014	RMB10,000,000	100%	100%	100%	100%	100%	Game development and operation	(iii)
QC-Game Digital Technology (Chengdu) Co., Ltd (成都青瓷數碼技術有限公司, “QC Chengdu”)	Chengdu, China, limited liability company	April, 2016	RMB100,000	100%	100%	100%	100%	NA	Game operation	(iv)
Xiamen Changleyou Network technology Co., Limited (廈門暢樂游網絡科技有限公司, “CHANGLEYOU”)	Xiamen, China, limited liability company	December, 2015	RMB100,000	100%	NA	NA	NA	NA	Game operation	(v)
Xiamen Changwan Network technology Co., Limited (廈門暢玩網絡科技有限公司, “Changwan”)	Xiamen, China, limited liability company	September, 2015	RMB100,000	100%	NA	NA	NA	NA	Game operation	(v)

The English names of certain subsidiaries referred herein represent the directors’ best effort at translating the Chinese names of these companies as no English names have been registered.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

1 General information, reorganization and basis of presentation (continued)

1.2 History and reorganization of the Group (continued)

- (i) The statutory financial statements of QC HK for the period from October 10, 2019 to December 31, 2019 and the year of 2020 have not yet been audited.
- (ii) The statutory financial statements of QC Digital was audited by ZhongHui Certified Public Accountants LLP. (中匯會計師事務所(特殊普通合夥)) for the year ended December 31, 2018. The statutory financial statements for the year ended December 31, 2019 were audited by Rongcheng Certified Public Accountants (容誠會計師事務所(特殊普通合夥)). The statutory financial statements for the year ended December 31, 2020 were audited by Youndax certified public accountant’s firm (永大會計師事務所).
- (iii) The statutory financial statements of QC Cultural for the years ended December 31, 2018 and 2019 have not yet been audited. The statutory financial statements for the year ended December 31, 2020 were audited by Youndax certified public accountant’s firm (永大會計師事務所).
- (iv) The statutory financial statements of QC Chengdu for the years ended December 31, 2018, 2019 and 2020 have not yet been audited.
- (v) No audited financial statements were issued for these subsidiaries because they were newly disposed and dissolved in February 2018 and July 2019 respectively.

All companies comprising the Group have adopted December 31 as their financial year end date.

1.3 Basis of presentation

Immediately prior to the Reorganization, the [REDACTED] Business was carried out by QC Digital Group. After the completion of the Reorganization, the [REDACTED] Business is ultimately under effective control of the Company through direct equity holding or through Contractual Arrangements. The Company and those companies newly set up during the Reorganization have not been involved in any other business prior to the Reorganization and their operations do not meet the definition of a business. The Reorganization is merely a reorganization of the [REDACTED] Business and does not result in any changes in business substance, nor in any management or the ultimate owners of the [REDACTED] Business. The reorganization does not constitute a business combination. The Historical Financial Information of the companies comprising the Group is presented using the carrying value presented in the consolidated financial statements of the [REDACTED] Business for all periods presented.

For companies acquired from or disposed of to a third party, their financial information is included in or excluded from the Historical Financial Information from the respective dates of the acquisitions or disposals.

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

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the International Financial Reporting Standards (“IFRSs”). The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liability at fair value through profit or loss, which are carried at fair value.

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4 below.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning January 1, 2021, are consistently applied to the Group for the Track Record Period.

The following new standards, amendments and new interpretations that have been issued but are not effective for the Track Record Period, and have not been early adopted. The Group plans to adopt these new standards, amendments to standards and new interpretations when they become effective:

	<u>Effective for annual periods beginning on or after</u>
IFRS 10 (Amendment) and IAS 28 (Amendment) ‘Sales or contribution of assets between an investor and its associate or joint venture’	To be determined
IFRS 16 (Amendment) ‘Covid-19-Related Rent Concessions beyond June 30, 2021’	1 April 2021
IAS 16 (Amendment) ‘Property, plant and equipment – proceeds before intended use’	1 January 2022
IAS 37 (Amendment) ‘Onerous contracts – cost of fulfilling a contract’	1 January 2022
IFRS 3 (Amendment) ‘Reference to the conceptual Framework’	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
IAS 1 (Amendment) ‘Classification of liabilities as current or non-current’	1 January 2023
IFRS 17 ‘Insurance Contracts’	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 ‘Disclosure of Accounting Policies’	1 January 2023
Amendments to IAS 8 ‘Definition of Accounting Estimates’	1 January 2023
Amendments to IAS 12 ‘Deferred Tax related to Assets and Liabilities arising from a Single Transaction’	1 January 2023

The Group has already commenced an assessment of the impact of these new or revised standards, and amendments. According to the preliminary assessment made by the directors, no significant impact on the financial performance and positions of the Group is expected when they become effective.

For IFRS 16 (Amendment) ‘Covid-19-Related Rent Concessions beyond June 30, 2021’, there were no lease concession related to Covid-19 for the Group. The Group considers the amendment has no significant impact on the Group’s financial performance and positions.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement (including structured entities) with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the combined income statements, combined statements of comprehensive income, combined statement of changes in equity and combined statements of financial position respectively.

2.2.1 Subsidiaries controlled through Contractual Arrangements

The wholly-owned subsidiary of the Company, the WFOE, has entered into the Contractual Arrangements with QC Digital, which enable the WFOE and the Group to:

- exercise power to direct the PRC Consolidated Affiliated Entities’ relevant activities;
- exercise equity holders’ voting rights of the PRC Consolidated Affiliated Entities;
- receive substantially all of the economic interest returns generated by the PRC Consolidated Affiliated Entities, in consideration for the business support by the WFOE, at the WFOE’s discretion;
- obtain an irrevocable and exclusive right to purchase all equity interests in QC Digital from its registered equity holders at a nominal consideration unless the relevant government authorities request that another amount be used as the purchase consideration and in which case the purchase consideration shall be such amount. Where the purchase consideration is required by the relevant government authorities to be an amount other than a nominal amount, the registered equity holders of QC Digital shall return the amount of purchase consideration they have received to the WFOE. At the WFOE’s request, the registered equity holders of QC Digital will promptly and unconditionally transfer their respective equity interests in QC Digital to the WFOE (or its designee within the Group) after the WFOE exercises its purchase right; and
- obtain a pledge over the entire ownership interests of QC Digital from its registered equity holders to secure performance of their obligations under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Company has rights to exercise power over the PRC Consolidated Affiliated Entities, receive variable returns from its involvement with the PRC Consolidated Affiliated Entities, and has the ability to affect those returns through its power over the PRC Consolidated Affiliated Entities. Therefore, the Company is considered to control the PRC Consolidated Affiliated Entities. Consequently, the Company regards the PRC Consolidated Affiliated Entities as controlled structured entities and consolidates the financial positions and results of operations of these entities in the combined financial statements of the Group.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Subsidiaries controlled through Contractual Arrangements (continued)

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the PRC Consolidated Affiliated Entities and such uncertainties presented by the PRC legal system could impede the Group’s beneficiary rights of the results, assets and liabilities of the PRC Consolidated Affiliated Entities. The directors, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

2.2.2 Business combination

The Group applies the acquisition method to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest’s proportionate share of the acquired entity’s net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss. Amounts classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognized in profit or loss.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.3 Changes in ownership interests in subsidiaries without change of control

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

2.2.4 Disposal of subsidiaries

When the Group ceases to consolidate a subsidiary because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the combined financial statements of the investee's net assets including goodwill.

2.4 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. All investments in associates in the form of ordinary shares with significant influence are accounted for using the equity method of accounting, after initially being recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an investment accounted for using the equity method equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.4 Associates (continued)

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group’s interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognizes the amount in “Losses on impairment of investments accounted for using the equity method” in the combined income statements.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive directors of the Company.

2.6 Foreign currency translation

2.6.1 Functional and presentation currency

Items included in the financial information of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currencies of the Company and its subsidiaries outside mainland China are USD, while the functional currencies of the Company’s subsidiaries in the mainland China are RMB. As the major operations of the Group during the Track Record Period are within the mainland China, the Group determined to present its Financial Information in RMB (unless otherwise stated).

2.6.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in combined statements of comprehensive income on a net basis within “Other (losses)/gains, net”.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in combined statements of comprehensive income as part of the “Fair value changes on investments measured at fair value through profit or loss”.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.6 Foreign currency translation (continued)

2.6.3 Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statements of comprehensive income during the financial period in which they are incurred.

Depreciation on Property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- | | |
|-------------------------------|---------|
| • Servers and other equipment | 5 years |
| • Office appliances | 5 years |
| • Vehicles | 5 years |

Property, plant and equipment arising from business acquisition is depreciated over the remaining useful life.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within ‘Other gains/(losses), net’ in the statements of comprehensive income.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.8 Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (OCI). For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.9.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (a) the contractual rights to receive the cash flows from the financial asset expire; or (b) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (c) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows (“pass through” requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.9 Financial assets (continued)

2.9.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other (losses)/gains together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statements of comprehensive income.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other (losses)/gains. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other (losses)/gains and impairment expenses are presented as separate line item in the statements of comprehensive income.

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within “Fair value changes on investments measured at fair value through profit or loss” in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group’s management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss when the Group’s right to receive payments is established.

Changes in the fair value of financial assets measured at FVPL are recognized in other (losses)/gains in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.9 Financial assets (continued)

2.9.4 Impairment

The Group has 2 types of financial assets subject to IFRS 9’s new expected credit loss model:

- trade receivables; and
- other receivables

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at a amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The Group uses practical expedients when estimating lifetime expected credit losses on trade receivables, which is calculated using a provision matrix where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

2.10 Financial liabilities

Financial liabilities are classified as at FVPL (including foreign currency forward contracts) when the financial liability is held for trading.

Financial liabilities at FVPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the “Fair value changes on investments measured at fair value through profit or loss” line item.

2.11 Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in Note 3.3.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. As the derivative financial instruments do not qualify for hedge accounting treatment, the resulting gain or loss is recognized in profit or loss immediately.

The Group’s derivative financial instruments mainly represented foreign exchange forward contracts within one year. The group presents these contracts as current financial assets at FVPL or current financial liabilities at FVPL according to the fair value position of foreign exchange forward contracts at each period end.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.12 Financial instruments issued to investors

Financial instruments issued to investors represented issuance of ordinary shares with certain preferential rights to certain investors of QC Digital. According to the agreement, the ordinary shares will become redeemable by the holder under certain events which are out of the Group’s control.

As the Group does not have the unconditional right to avoid delivering cash or another financial assets to settle contractual obligation, the Group recognized a financial liability which recognized initially at the present value of the redemption amount. The financial liabilities are subsequently measured at amortized cost. Interests from the financial instruments are charged in “Changes in the carrying amount of financial instruments issued to investors”. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect the present value of revised estimated future cash outflows at the financial instrument’s original effective interest rate, and the adjustments will be recognized as “Changes in the carrying amount of financial instruments issued to investors” (Note 29). The redemption liabilities are classified as current liabilities unless the preferential rights can only be exercised within 12 months after the end of each reporting period.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.15 Cash and cash equivalents

In the combined statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, deposits held by financial institutions and other short-term highly liquid investments with original maturities of three months or less.

2.16 Inventories

Inventories are mainly merchandise and are stated at the lower of cost and net realizable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventories are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.18 Trade payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Current and deferred income tax

The income tax expense or credit for the 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.

Current and deferred tax is recognized 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.

2.19.1 Current income tax

The 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 the Company’s subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.19.2 Deferred income tax inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. The 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.

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

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.19 Current and deferred income tax (continued)

2.19.3 Deferred income tax outside basis differences

Deferred income tax liabilities are provided 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 the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group 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.

Deferred income tax assets are recognized 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.

2.19.4 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.

2.20 Employee benefits

2.20.1 Pension and social obligations

The Group companies operate various defined contribution plan in accordance with the local conditions and practices in which they operate. Defined contribution plans are pensions and the other social benefit plans under which the Group pay fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as labor costs when they are due.

2.20.2 Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

2.20.3 Bonus plans

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.20 Employee benefits (continued)

2.20.3 Bonus plans (continued)

estimate of the obligation can be made. Liabilities for profit sharing and bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2.20.4 Share-based payments

The Group operates share incentive plan, under which it receives services from employees, directors who has contributed or will contribute to the Group as consideration for equity instruments of the Group. The fair value of the services received in exchange for the grant of the equity instruments is recognized as an expense in the combined statements of comprehensive income with a corresponding increase in equity.

In terms of the shares, the total amount to be expensed is determined by reference to the fair value of equity instruments granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions; and
- Including the impact of any non-vesting conditions.

Non-marketing performance and service conditions are included in calculation of the number of options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statements, with a corresponding adjustment to equity.

When the share options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

2.21 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition

Revenue is recognized 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 the Group’s principal revenue streams:

The Group is a publisher of mobile games developed by itself or game developers. The Group publishes its self-developed mobile games or licensed mobile games from game developers and earns game operating revenue by publishing them to the game players through distribution channels, e.g. online application stores (such as Apple Inc.’s App Store (“Apple App”) and Google LLC’s Google Play (“Google App”)), as well as web-based and mobile game portals, including the Group’s own websites (collectively referred to as “Distribution Channels”).

The games published by the Group are operated 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 (the “Payment Channels”).

When the Group publishes mobile games developed by game developers, proceeds earned from selling in-game virtual items, are shared between the Group and the game developers, with the amount paid to the developers generally calculated based on amounts paid by players, after deducting the fees paid to Payment Channels and Distribution Channels and multiplied by a predetermined percentage for each game.

The Group evaluates agreements with the game players, game developers, Distribution Channels and Payment Channels in order to determine whether or not the Group acts as the principal or as an agent for the goods or service provided to the customer in the arrangement with each party respectively, which it considers in determining if relevant revenues should be reported gross or net of the predetermined amount of the proceeds shared with the other parties. The determination of whether to record the revenues gross or net is based on an assessment of various factors, including but not limited to whether the Group (i) is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibilities for acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specification); (ii) has 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) has latitude in establishing the prices for the specified goods or services; (iv) has discretion in selection of suppliers.

2.22.1 Game operating revenue

During the Track Record Period, the Group takes primary responsibilities in game operation. The Group considered itself as a principal in game operating arrangements and recorded game operating revenues on a gross basis.

Under the arrangements that the Group takes primary responsibilities, the Group considered that (i) the Group is generally the initiator who raise ideas and plans for providing specification, modification or update of the game products or services desired by the game players; (ii) for licensed games, the Group has power to determine game content and to provide game services and products relating to gaming experience to game players; (iii) besides publishing, providing payment solution and marketing promotion, the Group has 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.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

2.22.1 Game operating revenue (continued)

Thus, the Group views game players to be its customers and considers itself as the principal to provide goods or service to game players. Accordingly, the Group records the online 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 developer (if any) are recorded as cost of revenues.

Where the Group is acting as a principal under the free-to-play model, the Group has determined that it is obligated to provide on-going services to game players, who purchased virtual items to gain an enhanced game-playing experience, and accordingly, the Group recognizes the revenues derive from sale of virtual items as below:

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.

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 the Group makes best estimates to be the average playing period of paying players (“Player Relationship Period”).

The Group estimates 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, it estimates the Player Relationship Period based on other similar types of games developed by the Group or by third-party developers until the new game establishes its own patterns and history. The Group considers the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period. While the Group believes its estimates to be reasonable based on available game player information, it 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 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.

2.22.2 Game licensing revenue

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

The Group has evaluated the respective roles and responsibilities of the Group and game publishers in the delivery of game experience to players and concluded that 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

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

2.22.2 Game licensing revenue (continued)

licensing arrangements. Accordingly, the variable licensing fees (revenue share), which are calculated based on a prescribed percentage of the proceeds received from game publishers, are recognized as revenue on a net basis when the sales occur. The non-refundable fixed licensing fees are initially recorded as contract liabilities and are then recognized as revenue rateably over the license period as the licensing arrangements are considered to be right-to-access licensing arrangements.

2.22.3 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 provided by the Group. Performance based marketing and promotion contracts are signed between the Group and advertisers or their agencies to establish the service to be provided by the Group and relevant performance measures.

Revenue from performance based in-game marketing and promotion services is recognized when relevant actual performance measures of in-game marketing and promotion services are fulfilled, such as delivery of download, purchase or registration etc.

2.22.4 Practical expedients applied

The Group generally expenses contract acquisition cost when incurred because the amortization period would have been 1 year or less. Accordingly, the Group does not capitalize any incremental costs to obtain a contract.

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of the Group’s contracts have a duration of 1 year or less.

2.23 Contract liabilities

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

2.24 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Interest income from term deposits is included in “Interest income”.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.25 Government subsidies

Subsidies from government are recognized at their fair value where there is a reasonable assurance that the subsidies will be received and the Group will comply with all attached conditions.

Government subsidies relating to costs are recognized in the combined statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

2.26 Leases

The Group leases offices, properties, land and buildings, and servers and other equipment as lessee. Rental contracts are typically made for fixed periods of 1 to 4 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received any initial direct costs, and
- restoration costs.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

2 Summary of significant accounting policies (continued)

2.26 Leases (continued)

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Payments associated with short-term leases are recognized on a straight-line basis as an expense in consolidated statements of comprehensive income. Short-term leases are leases with a lease term of 12 months or less and leases with a remaining term of 12 months or less as of the date of initial adoption of IFRS 16.

The right-of-use assets and the lease liabilities are present separately on the consolidated statement of financial position.

The Group applied the practical expedient by electing not to separate the non-lease components, such as maintenance services provided by the landlord from lease components for the property rental contracts, and instead account for each lease component and any associated non-lease components as a single lease component.

2.27 Dividends distribution

Dividend distribution to the Company’s shareholders is recognized as a liability in the Group’s financial statements in the period in which the dividends are approved by the Company’s shareholders or directors, where appropriate.

3 Financial risk management

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance. Risk management is carried out by the senior management of the Group.

3.1 Financial risk factors

(a) Market risk

Foreign exchange risk

The Group operates internationally through overseas publishers and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk primarily arose from recognized assets and liabilities when receiving or to receive foreign currencies from overseas counterparties. Exchange rate exposures are managed within approved policy parameters utilizing foreign exchange forward contracts during the Track Record Period.

For the Group’s subsidiaries in mainland China whose functional currency is RMB, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, net profits would have been approximately RMB0.38 million, RMB0.32 million, RMB22.78 million and RMB21.33 million

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

higher/lower for the years ended December 31, 2018, 2019 and 2020, and three months ended March 31, 2021, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD, regardless of the foreign exchange forward contracts.

The Group manages its foreign exchange risk by performing regular reviews of the Group’s net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible and may enter into forward foreign exchange contracts, when necessary.

Price risk

The Group is exposed to price risk in respect of long-term and short-term investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

Cash flow and fair value interest rate risk

The Group’s income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents, other receivables from related parties and third parties, and details of which have been disclosed in Note 24, 21, 35(c).

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, short-term investments measured at amortised cost, trade receivables, deposits and other assets. The carrying amounts of each class of the above financial assets represent the Group’s maximum exposure to credit risk in relation to financial assets.

(i) Credit risk of cash and cash equivalents

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

(ii) Credit risk of trade receivables

Trade receivables at the end of each reporting period were due from Distribution Channels and game publishers, as well as due from information service customers. If the strategic relationship with Distribution Channels and game publishers and information service customers are terminated or scaled-back; or if Distribution Channels and game publishers and information service customers alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group’s corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with Distribution Channels and game publishers and

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Credit risk of trade receivables (continued)

information service customers to ensure the effective credit control. In view of the history of cooperation with Distribution Channels and game publishers and information service customers and the sound collection history of receivables due from them, the directors of the Group believe that the credit risk inherent in the Group's outstanding trade receivable balances due from Distribution Channels and game publishers and information service customers is low.

(iii) Credit risk of deposits and other assets

For deposits and other assets, management makes periodic collective assessments as well as individual assessment on the recoverability of deposits and other assets based on historical settlement records and past experiences.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counter party's ability to meet its obligations;
- actual or expected significant changes in the operating results of the counter party;
- significant increases in credit risk on other financial instruments of the same counter party;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behavior of the counter party, including changes in the payment status of debtor in the Group and changes in the operating results of the counter party.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment/repayable demanded.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Credit risk of deposits and other assets (continued)

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demanded within 180 days of when they fall due.

The Group makes periodic assessment on the credit risk of the deposits and other assets based on the history of cooperation with counterparties settlement records and past experience, the 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. Based on the assessment, the directors believe that allowance for impairment of deposits and other assets is immaterial to the Group.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categories deposits and other assets for write off when a debtor fails to make contractual payments/repayable demanded greater than 720 days past due. Where deposits and other assets have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the Group’s finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyzes the Group’s non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Less than 1 year</u>	<u>Between 1 and 2 year</u>	<u>Between 2 and 5 year</u>	<u>Over 5 year</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As of December 31, 2018					
Trade payables	3,144	–	–	–	3,144
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	176	–	–	–	176
Lease liabilities	<u>1,124</u>	<u>1,125</u>	–	–	<u>2,249</u>
	<u>4,444</u>	<u>1,125</u>	<u>–</u>	<u>–</u>	<u>5,569</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	<u>Less than 1 year</u>	<u>Between 1 and 2 year</u>	<u>Between 2 and 5 year</u>	<u>Over 5 year</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As of December 31, 2019					
Trade payables	1,908	–	–	–	1,908
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	101	–	–	–	101
Lease liabilities	<u>2,349</u>	–	–	–	<u>2,349</u>
	<u>4,358</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,358</u>

	<u>Less than 1 year</u>	<u>Between 1 and 2 year</u>	<u>Between 2 and 5 year</u>	<u>Over 5 year</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As of December 31, 2020					
Trade payables	13,329	–	–	–	13,329
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	455	–	–	–	455
Lease liabilities	<u>3,666</u>	<u>3,760</u>	<u>3,813</u>	–	<u>11,239</u>
	<u>17,450</u>	<u>3,760</u>	<u>3,813</u>	<u>–</u>	<u>25,023</u>

	<u>Less than 1 year</u>	<u>Between 1 and 2 year</u>	<u>Between 2 and 5 year</u>	<u>Over 5 year</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As of March 31, 2021					
Trade payables	25,400	–	–	–	25,400
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	5,408	–	–	–	5,408
Lease liabilities	3,666	3,760	3,813	–	11,239
Financial liabilities at fair value through profit or loss	<u>1,614</u>	–	–	–	<u>1,614</u>
	<u>36,088</u>	<u>3,760</u>	<u>3,813</u>	<u>–</u>	<u>43,661</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Details of the description of financial instrument issued to investors are presented in Note 29.

3.2 Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for owners and benefits for other owners and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, the directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to owners, return capital to owners, issue new shares or repurchase the Company’s shares. In the opinion of the directors of the Company, the Group’s capital risk is low.

3.3 Fair value estimation

This section explains the judgments and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements.

(a) Fair value hierarchy

The table below analyzes the Group’s financial instruments carried at fair value as of December 31, 2018, 2019 and 2020, and March 31, 2021, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- 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 liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

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;

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(a) Fair value hierarchy (continued)

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

The following table presents the Group’s assets and liabilities that are measured at fair value as of December 31, 2018.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As of December 31, 2018				
Financial assets				
Short-term investments measured at fair value through profit or loss (i)	–	15,143	–	15,143
Long-term investments measured at fair value through profit or loss	19	–	1,100	1,100
	<u>–</u>	<u>15,143</u>	<u>1,100</u>	<u>16,243</u>

The following table presents the Group’s assets and liabilities that are measured at fair value as of December 31, 2019.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As of December 31, 2019				
Financial assets				
Short-term investments measured at fair value through profit or loss (i)	–	10,818	–	10,818
Long-term investments measured at fair value through profit or loss	19	–	21,646	21,646
	<u>–</u>	<u>10,818</u>	<u>21,646</u>	<u>32,464</u>

The following table presents the Group’s assets and liabilities that are measured at fair value as of December 31, 2020.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As of December 31, 2020				
Financial assets				
Short-term investments measured at fair value through profit or loss (i)	–	1,059	–	1,059
Derivative financial instruments—Foreign currency forward contracts (ii)	–	240	–	240
Long-term investments measured at fair value through profit or loss	19	–	77,800	77,800
	<u>–</u>	<u>1,299</u>	<u>77,800</u>	<u>79,099</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(a) Fair value hierarchy (continued)

The following table presents the Group’s assets and liabilities that are measured at fair value as of March 31, 2021.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As of March 31, 2021				
Financial assets				
Short-term investments measured at fair value through profit or loss (i)	–	1,085	–	1,085
Long-term investments measured at fair value through profit or loss	19	–	118,611	118,611
	<u>–</u>	<u>1,085</u>	<u>118,611</u>	<u>119,696</u>
Financial liabilities				
Derivative financial instruments—Foreign currency forward contracts (ii)	–	1,614	–	1,614
	<u>–</u>	<u>1,614</u>	<u>–</u>	<u>1,614</u>

- (i) Short-term investments measured at fair value through profit or loss are private equity funds of which principal and returns are not guaranteed. The Group invested in private equity funds which holds a combination of term deposits, securities and futures. The fair values of the financial assets were recognized based on the periodic reports from private equity funds and were within level 2 of the fair value hierarchy. Changes in fair value of these financial assets had been recognized in “Fair value changes on investments measured at fair value through profit or loss” in the combined statements of comprehensive income.
- (ii) The Group entered into foreign exchange forward contracts to manage its foreign currency exposure. The outstanding notional amount of foreign exchange forward contracts as of December 31, 2020 and March, 31, 2021 were USD 10 million and USD 28 million respectively that due in one year. Fair value gain amounting to RMB 0.24 million for the year ended December 31, 2020 and fair value loss amounting to RMB 1.85 million for the three months ended March 31, 2021, were recognized in profit or loss, respectively. The Group recognized current financial assets measured at FVPL and current financial liabilities measured at FVPL accordingly in the respective periods. Changes in fair value of these foreign exchange forward contracts had been recognized in “Fair value changes on investments measured at fair value through profit or loss” in the combined statements of comprehensive income.

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(b) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items including investments in unlisted companies for the years ended December 31, 2018, 2019 and 2020, and three months ended March 31, 2021.

Investments in unlisted companies

	<u>Year ended December 31,</u>			<u>Three months</u>
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>ended March 31,</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<u>2021</u>
				<i>RMB’000</i>
At the beginning of the year/period	1,100	1,100	21,646	77,800
Addition	–	20,833	56,234	40,000
Changes in fair value	–	(287)	(80)	811
At the end of the year/period	1,100	21,646	77,800	118,611
Net unrealized (losses)/gains	–	(287)	(80)	811

(c) Valuation process and techniques

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once a year, the team uses valuation techniques to determine the fair value of the Group’s level 3 instruments. External valuation experts will be involved when necessary.

As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including:

- the use of quoted market prices or dealer quotes for similar instruments;
- the discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate;
- the latest round financing, i.e. the prior transaction price or the third-party pricing information; and;
- a combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

There were no change to valuation techniques during the Track Record Period.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(d) Valuation inputs and relationship to fair value

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

Description	Fair value at			Range of inputs			Relationship of unobservable inputs to fair value	
	December 31,		March 31,	December 31,		March 31,		
	2018	2019	2020	2018	2019	2020		2021
Investments in unlisted companies and private equity funds	RMB’000	RMB’000	RMB’000	62.05%	– 40.30%– 62.05%	44.79%– 72.05%	41.59%– 67.22%	The higher the expected volatility, the higher the fair value
	1,100	21,646	77,800	118,611	Expected volatility	– 30.00%	30%–40%	The higher the DLOM, the lower the fair value

If expected volatility is 10% higher, the fair value of investments in unlisted companies will be RMB0.31 million, RMB0.61 million and RMB0.75 million lower for the years ended December 31, 2019, 2020 and three months ended March 31, 2021 respectively, and the profit after tax will be RMB0.27 million, RMB0.53 million and RMB0.66 million lower respectively.

If expected volatility is 10% lower, the fair value of investments in unlisted companies will be RMB0.31 million, RMB0.48 million and RMB0.57 million higher for the years ended December 31, 2019, 2020 and three months ended March 31, 2021 respectively, and the profit after tax will be RMB0.27 million, RMB0.42 million and RMB0.50 million higher respectively.

If discount for lack of marketability (“DLOM”) is 10% higher or lower, the fair value of investments in unlisted companies will be RMB0.1 million, RMB0.2 million and RMB2.2 million lower or higher for the years ended December 31, 2019 and 2020, three months ended March 31, 2021, respectively, and the profit after tax will be RMB0.1 million, RMB0.2 million and RMB1.9 million lower or higher respectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Estimates of Player Relationship Period in the Group’s online game services

As described in Note 2.22, the Group recognizes certain revenue from sale of virtual items in online game services ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is made based on the Group’s best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

4.2 Determination of fair value of long-term and short-term investments

The fair value of long-term and short-term investments that are not traded in an active market is determined using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these financial assets (Note 3.3).

4.3 Principal versus agent considerations

Pursuant to game publishing and operation arrangements signed between the Group and the third party game developers or Distribution Channels, the Group’s responsibilities in publishing and operating the licensed games vary for each game. The determination of whether to record these revenues using gross or net basis is based on an assessment of various factors, including but not limited to whether the Group (i) is the primary obligor to the game developers and game players in the arrangements; (ii) has latitude in establishing the selling price of virtual items; (iii) changes the products or performs part of the services; (iv) has involvement in the determination of product and service specifications; and (v) has the rights to determine Distribution Channels and Payment Channels.

4.4 Expected credit loss for receivables

The impairment provisions for trade receivables and other receivables are based on assumptions about the expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group’s history, existing market conditions as well as forward-looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 3.1(b) and Note 22. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the combined statements of comprehensive income.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4 Critical accounting estimates and judgments (continued)

4.5 Income tax

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

5 Segment information and revenue

The Group’s business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the directors of the Company consider that the Group’s operation is operated and managed as a single segment and no segment information is presented, accordingly.

As at December 31, 2018, 2019 and 2020, and March 31, 2020 and 2021, substantially all of the non-current assets of the Group were located in the PRC.

The Group considered itself as an agent in arrangements of “Game Licensing revenue” and “Information service revenue”, and recorded revenue on a net basis; whereas, the Group considered itself as a principal in arrangements of “Game operating revenues”, and recorded revenue on a gross basis.

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

5 Segment information and revenue (continued)

Revenue for the years ended December 31, 2018, 2019 and 2020, three months ended March 31, 2020 and 2021 are as follows:

	Year ended December 31			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Game operating revenues					
— Self-developed	35,481	43,318	1,082,298	16,374	324,076
— Licensed	15,110	10,054	11,150	2,713	134,576
Subtotal	50,591	53,372	1,093,448	19,087	458,652
Game Licensing revenue	47,822	33,582	58,576	8,290	11,816
Information service revenue	8	1,750	74,896	1,932	10,118
Total revenues	98,421	88,704	1,226,920	29,309	480,586
Cost of revenues	(21,670)	(19,967)	(284,565)	(5,236)	(112,838)
Gross profit	76,751	68,737	942,355	24,073	367,748

Revenues of approximately RMB48 million, RMB35 million and RMB134 million, RMB10 million and RMB23 million for the years ended December 31, 2018, 2019 and 2020, three months ended March 31, 2020 and 2021, respectively, were from five largest single customers.

The following table summarizes the percentage of revenue from one single customer individually exceeding 10% of the Group’s revenue during the year ended December 31, 2018, 2019 and 2020, three months ended March 31, 2020 and 2021, respectively. Customer A is also one of the Groups related parties, refer to Note 35(b)(i).

	Year ended December 31			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Total revenues					
Customer A	45%	36%	*	27%	*

* The amounts of revenue from corresponding customer were less than 10% of the total revenue for the relevant periods.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

5 Segment information and revenue (continued)

The table below sets forth a breakdown of the Group’s total revenues by geographical areas for the years ended December 31, 2018, 2019 and 2020, three months ended March 31, 2020 and 2021, respectively:

	Year ended December 31			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Mainland China	67,044	62,686	1,178,903	24,825	468,754
Outside Mainland China (a)	31,377	26,018	48,017	4,484	11,832
Total	98,421	88,704	1,226,920	29,309	480,586

(a) Outside Mainland China revenue mainly include revenue from local versions operated in America, HongKong, Taiwan and Macau.

6 Expenses by nature

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Promotion and marketing expenses	10,013	11,277	524,259	3,561	177,466
Commissions charged by distribution channels	13,787	12,899	243,710	2,264	84,438
Employee benefits expenses (Note 7)	31,951	37,328	226,319	8,364	17,721
Share-based compensation (a)	14,000	–	56,017	2,241	–
Bandwidth and server custody fee	1,293	1,996	16,022	900	6,707
Professional services fee	90	89	2,670	10	402
Outsourced technical services	281	676	5,925	218	2,906
Commissions charged by game developers	5,180	2,922	2,430	1,133	15,711
Commissions charged by payment channel	142	169	5,397	91	1,036
Rental expenses and utilities	161	425	395	55	64
Depreciation of right-of-use assets	1,045	1,631	2,218	554	866
Net impairment losses on financial assets	657	170	(364)	81	27
Depreciation of property, plant and equipment (Note 14)	434	310	367	72	189
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Tax surcharges	494	302	3,764	88	1,057
Office expenses	807	1,013	3,158	181	1,570
Others	304	601	134	40	163
Total	80,639	71,808	1,092,421	19,853	314,290

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

6 Expenses by nature (continued)

- (a) Pursuant to the shareholders’ resolution on December 25, 2018, Mr. Yang Xu transferred 3.5% shares of QC Digital to Mr. Huang Zhiqiang (CEO of QC Digital) with a consideration of RMB 1 Yuan to reward Mr. Huang Zhiqiang’s contribution and performance in past years. The fair value of the transferred shares of RMB 14 million was recognized as share-based compensation expenses accordingly.

In February 2020, subscription right for 8% shares of QC Digital were granted to two senior managements with performance conditions and agreed exercise price. The two senior managements completed performance conditions in December 2020 and injected capitals into QC Digital through their holding vehicle with the agreed exercise price. The fair value of the share option at grant date were recognized as share-based compensation expenses accordingly, and recorded over the period from February 2020 to December 2020, amounting to approximately RMB 22 million.

In December 2020, 2% shares of QC Digital were granted to a senior management upon signing employment offer with agreed exercise price. The senior management completed capital injection in the same month with the agreed exercise price. The fair value of the share option at grant date was recognized as share-based compensation expenses accordingly in December 2020, amounting to approximately RMB 34 million.

7 Employee benefits expenses (including directors’ emoluments)

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Share-based compensation (Note 6)	14,000	–	56,017	2,241	–
Wages, salaries and bonuses	26,149	31,857	218,749	7,131	14,197
Pension and other social security costs	3,923	4,072	3,558	814	1,359
Other benefits	1,879	1,399	4,012	419	2,165
Total	<u>45,951</u>	<u>37,328</u>	<u>282,336</u>	<u>10,605</u>	<u>17,721</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

7 Employee benefits expenses (including directors’ emoluments) (continued)

(a) Directors’ and chief executive’s emoluments

The remuneration of every director and the chief executive is set out below:

	Year ended December 31, 2018				
	Wages and salaries	Bonuses	Pension and other social security costs	Share-based compensation	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Chairman					
Yang Xu	341	48	33	–	422
Executive directors					
Huang Zhiqiang	245	14	33	14,000	14,292
Zeng Xiangshuo	200	170	31	–	401
Total	<u>786</u>	<u>232</u>	<u>97</u>	<u>14,000</u>	<u>15,115</u>

	Year ended December 31, 2019				
	Wages and salaries	Bonuses	Pension and other social security costs	Share-based compensation	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Chairman					
Yang Xu	570	1,048	36	–	1,654
Executive directors					
Huang Zhiqiang	460	1,046	36	–	1,542
Zeng Xiangshuo	390	162	36	–	588
Total	<u>1,420</u>	<u>2,256</u>	<u>108</u>	<u>–</u>	<u>3,784</u>

	Year ended December 31, 2020				
	Wages and salaries	Bonuses	Pension and other social security costs	Share-based compensation	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Chairman					
Yang Xu	1,166	30,145	27	–	31,338
Executive directors					
Huang Zhiqiang	1,280	24,144	27	18,827	44,278
Zeng Xiangshuo	747	10,250	27	3,586	14,610
Total	<u>3,193</u>	<u>64,539</u>	<u>81</u>	<u>22,413</u>	<u>90,226</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

7 Employee benefits expenses (including directors’ emoluments) (continued)

(a) Directors’ and chief executive’s emoluments (continued)

	Three months ended March 31, 2020 (Unaudited)				
	Wages and salaries	Bonuses	Pension and other social security costs	Share-based compensation	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Chairman					
Yang Xu	110	–	7	–	117
Executive directors					
Huang Zhiqiang	104	–	7	1,883	1,994
Zeng Xiangshuo	98	–	7	358	463
Total	<u>312</u>	<u>–</u>	<u>21</u>	<u>2,241</u>	<u>2,574</u>

	Three months ended March 31, 2021				
	Wages and salaries	Bonuses	Pension and other social security costs	Share-based compensation	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Chairman					
Yang Xu	471	–	7	–	478
Executive directors					
Huang Zhiqiang	562	–	7	–	569
Zeng Xiangshuo	295	–	7	–	302
Liu Siming	297	–	10	–	307
Total	<u>1,625</u>	<u>–</u>	<u>31</u>	<u>–</u>	<u>1,656</u>

(i) Benefits and interests of directors

Save as disclosed above, there is no other benefit offered to the other directors.

(ii) Directors’ retirement and termination benefits

No director’s retirement or termination benefit subsisted at the end of each period disclosed or at any time during the Track Record Period.

(iii) Consideration provided to third parties for making available directors’ services

No consideration provided to third parties for making available director’s services subsisted at the end of each period disclosed or at any time during the Track Record Period.

(iv) Information about borrowings, quasi-borrowings and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors.

Except for the amounts due from directors of the Company as disclosed in Note 35, there are no loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors during the Track Record Period.

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

7 Employee benefits expenses (including directors’ emoluments) (continued)

(a) Directors’ and chief executive’s emoluments (continued)

(v) Directors’ material interests in transactions, arrangements or contracts

Except for the transactions as disclosed in Note 35, no significant transactions, arrangements and contracts in relation to the Group’s business to which the Company was a party and in which a director of the Company had a material interest whether directly or indirectly, subsisted at the end of each period disclosed or at any time during the Track Record Period.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2018, 2019 and 2020, and three months ended March 31, 2020 and 2021, include 1, 2, 3, 3 and 4 directors respectively, whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments for the remaining 4, 3, 2, 2 and 1 individuals for each of the years ended December 31, 2018, 2019 and 2020, and three months ended March 31, 2020, 2021, respectively, are set out below:

	<u>Year ended December 31,</u>			<u>Three months ended March 31,</u>	
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2020</u>	<u>2021</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
				<i>(Unaudited)</i>	
Wages and salaries	1,043	1,118	1,091	219	311
Bonuses	1,500	1,657	22,185	–	–
Pension and other social security costs	244	182	40	23	16
Share-based compensation	–	–	33,604	–	–
Total	<u>2,787</u>	<u>2,957</u>	<u>56,920</u>	<u>242</u>	<u>327</u>

	<u>Number of individuals</u>					
	<u>Year ended December 31,</u>			<u>Three months ended March 31,</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2020</u>	<u>2021</u>	
				<i>(Unaudited)</i>		
Emolument bands (in HKD)						
HKD0 – HKD500,000	–	–	–	2	1	
HKD500,001 – HKD1,000,000	4	2	–	–	–	
HKD1,500,001 – HKD2,000,000	–	1	–	–	–	
HKD14,500,001 – HKD15,000,000	–	–	1	–	–	
HKD36,000,001 – HKD36,500,000	–	–	1	–	–	
Total	<u>4</u>	<u>3</u>	<u>2</u>	<u>2</u>	<u>1</u>	

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

8 Fair value changes on investments measured at fair value through profit or loss

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fair value changes in long-term investments measured at fair value through profit or loss (Note 3.3 & Note 19)	–	(287)	(80)	73	811
Fair value changes in short-term investments measured at fair value through profit or loss (Note 23)	143	822	674	(151)	(1,828)
	<u>143</u>	<u>535</u>	<u>594</u>	<u>(78)</u>	<u>(1,017)</u>

9 Other income

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest income from loans to third parties and related parties	1,458	1,368	2,627	421	–
Interest income from financial assets at amortised cost	634	1,205	1,090	725	–
Subsidies	4,950	3,821	7,689	2,193	1,474
Total	<u>7,042</u>	<u>6,394</u>	<u>11,406</u>	<u>3,339</u>	<u>1,474</u>

The subsidies are mainly government subsidies and VAT-in super deduction. There are no unfilled conditions or contingencies related to the above government subsidies.

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

10 Other gains/(losses), net

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Foreign exchange gain/(loss), net	1,235	1,681	(24,712)	1,316	2,621
Donations to charity organizations	–	–	(2,254)	(1,211)	(3)
Others	27	60	(105)	(2)	29
Total	<u>1,262</u>	<u>1,741</u>	<u>(27,071)</u>	<u>103</u>	<u>2,647</u>

11 Finance (costs)/income, net

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Finance income					
Interest income from bank deposits	53	47	795	11	193
Finance costs					
Interest expenses on lease liabilities	(136)	(124)	(74)	(27)	(121)
Bank charges	(15)	(14)	(29)	(2)	(22)
Finance (costs)/income, net	<u>(98)</u>	<u>(91)</u>	<u>692</u>	<u>(18)</u>	<u>50</u>

12 Income Tax

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 British Virgin Islands, entities incorporated in British Virgin Islands are not subject to tax on their income or capital gains.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

12 Income Tax (continued)

Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit in respect of operations in Hong Kong. There was no assessable profit for the subsidiaries incorporated in Hong Kong during the Track Record Period.

PRC corporate income tax (“CIT”)

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% during the Track Record Period.

QC Digital and QC Cultural are 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 generating from prior years (the “tax holiday”) since 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 onwards, 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”). The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits during the Track Record Period.

PRC Withholding Tax (“WHT”)

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% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5% in certain circumstances.

Since the Group intends to permanently reinvest earnings from QC Digital Group to further expand its businesses in PRC after the Reorganization, it does not intend to declare dividends to its immediate foreign holding entities in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period. Cumulative undistributed earnings of the Company’s PRC subsidiaries intended to be permanently reinvested were RMB241 million as of March 31, 2021.

The income tax expense of the Group for the years ended December 31, 2018, 2019 and 2020, and the three months periods ended March 31, 2020 and 2021 is analyzed as follows:

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Current income tax	3,295	658	8,756	413	3,693
Deferred income tax (Note 16)	(1,879)	371	821	1,315	184
Total income tax expenses	<u>1,416</u>	<u>1,029</u>	<u>9,577</u>	<u>1,728</u>	<u>3,877</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

12 Income Tax (continued)

The tax on the Group’s profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended December 31, 2018, 2019 and 2020, three months ended March 31, 2020 and 2021, being the statutory income tax rate of the major subsidiaries of the Group.

The difference is analyzed as follows:

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Profit before income tax	26,276	20,654	113,316	11,101	170,694
Tax calculated at statutory income tax rate of 25% in mainland China	6,569	5,164	28,329	2,775	42,674
Tax effects of:					
Effect of different tax rates available to different jurisdictions	–	–	(1,061)	–	611
Preferential income tax rates applicable to subsidiaries	(4,867)	(2,806)	(92,081)	(906)	(60,020)
Expenses not deductible for income tax purposes	3,969	680	13,635	255	1,492
Tax effect of changes in the carrying amount of financial instruments issued to investors	–	333	800	200	200
Super Deduction for research and development expenses	(4,245)	(2,422)	(16,985)	(616)	(1,301)
Tax losses for which no deferred income tax assets were recognized	27	61	25	7	–
Temporary differences for which no deferred income tax assets were recognized, net (a)	(37)	19	76,915	13	20,221
Total income tax expenses	<u>1,416</u>	<u>1,029</u>	<u>9,577</u>	<u>1,728</u>	<u>3,877</u>

(a) In the year ended December 31, 2020 and the three months ended March 31, 2021, RMB 307 million and RMB82 million of the Group’s promotion and marketing expenses exceeded 15 percent of total revenue which can be deducted in future years. The Group assessed the likelihood of utilization of such deferred tax assets according to its forecasts and business plans and conclude that no deferred tax assets were recognized from such temporary differences.

13 Earning per share

No earnings per share information is presented because its inclusion, for the purpose of this Historical Financial Information, is not considered meaningful due to the Reorganization and the presentation of the Group’s financial result for the Track Record Period on a combined basis as disclosed in Notes 1.2 and 1.3.

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

14 Property, plant and equipment

	<u>Servers and other equipment</u> <i>RMB’000</i>	<u>Furniture and appliances</u> <i>RMB’000</i>	<u>Vehicles</u> <i>RMB’000</i>	<u>Total</u> <i>RMB’000</i>
At January 1, 2018				
Cost	1,170	1,183	567	2,920
Accumulated depreciation	<u>(931)</u>	<u>(690)</u>	<u>(54)</u>	<u>(1,675)</u>
Net book amount	<u>239</u>	<u>493</u>	<u>513</u>	<u>1,245</u>
Year ended December 31, 2018				
Opening net book amount	239	493	513	1,245
Additions	–	55	–	55
Depreciation	(138)	(188)	(108)	(434)
Disposal	<u>–</u>	<u>(5)</u>	<u>–</u>	<u>(5)</u>
Closing net book amount	<u>101</u>	<u>355</u>	<u>405</u>	<u>861</u>
At December 31, 2018				
Cost	1,170	1,212	567	2,949
Accumulated depreciation	<u>(1,069)</u>	<u>(857)</u>	<u>(162)</u>	<u>(2,088)</u>
Net book amount	<u>101</u>	<u>355</u>	<u>405</u>	<u>861</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

14 Property, plant and equipment (continued)

	<u>Servers and other equipment</u> <i>RMB'000</i>	<u>Furniture and appliances</u> <i>RMB'000</i>	<u>Vehicles</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
At January 1, 2019				
Cost	1,170	1,212	567	2,949
Accumulated depreciation	<u>(1,069)</u>	<u>(857)</u>	<u>(162)</u>	<u>(2,088)</u>
Net book amount	<u>101</u>	<u>355</u>	<u>405</u>	<u>861</u>
Year ended December 31, 2019				
Opening net book amount	101	355	405	861
Additions	–	470	–	470
Depreciation	(101)	(101)	(108)	(310)
Disposal	<u>–</u>	<u>(4)</u>	<u>–</u>	<u>(4)</u>
Closing net book amount	<u>–</u>	<u>720</u>	<u>297</u>	<u>1,017</u>
At December 31, 2019				
Cost	1,170	1,673	567	3,410
Accumulated depreciation	<u>(1,170)</u>	<u>(953)</u>	<u>(270)</u>	<u>(2,393)</u>
Net book amount	<u>–</u>	<u>720</u>	<u>297</u>	<u>1,017</u>
	<u>Servers and other equipment</u> <i>RMB'000</i>	<u>Furniture and appliances</u> <i>RMB'000</i>	<u>Vehicles</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
At January 1, 2020				
Cost	1,170	1,673	567	3,410
Accumulated depreciation	<u>(1,170)</u>	<u>(953)</u>	<u>(270)</u>	<u>(2,393)</u>
Net book amount	<u>–</u>	<u>720</u>	<u>297</u>	<u>1,017</u>
Year ended December 31, 2020				
Opening net book amount	–	720	297	1,017
Additions	–	1,339	2,142	3,481
Depreciation	–	(268)	(99)	(367)
Disposal	<u>–</u>	<u>–</u>	<u>(200)</u>	<u>(200)</u>
Closing net book amount	<u>–</u>	<u>1,791</u>	<u>2,140</u>	<u>3,931</u>
At December 31, 2020				
Cost	1,170	3,012	2,140	6,322
Accumulated depreciation	<u>(1,170)</u>	<u>(1,221)</u>	<u>–</u>	<u>(2,391)</u>
Net book amount	<u>–</u>	<u>1,791</u>	<u>2,140</u>	<u>3,931</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

14 Property, plant and equipment (continued)

	<u>Servers and other equipment</u> <i>RMB'000</i>	<u>Furniture and appliances</u> <i>RMB'000</i>	<u>Vehicles</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
(Unaudited)				
At January 1, 2020				
Cost	1,170	1,673	567	3,410
Accumulated depreciation	<u>(1,170)</u>	<u>(953)</u>	<u>(270)</u>	<u>(2,393)</u>
Net book amount	<u>–</u>	<u>720</u>	<u>297</u>	<u>1,017</u>
Period ended March 31, 2020				
Opening net book amount	–	720	297	1,017
Additions	–	129	–	129
Depreciation	<u>–</u>	<u>(45)</u>	<u>(27)</u>	<u>(72)</u>
Closing net book amount	<u>–</u>	<u>804</u>	<u>270</u>	<u>1,074</u>
At March 31, 2020				
Cost	1,170	1,802	567	3,539
Accumulated depreciation	<u>(1,170)</u>	<u>(998)</u>	<u>(297)</u>	<u>(2,465)</u>
Net book amount	<u>–</u>	<u>804</u>	<u>270</u>	<u>1,074</u>
	<u>Servers and other equipment</u> <i>RMB'000</i>	<u>Furniture and appliances</u> <i>RMB'000</i>	<u>Vehicles</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
At January 1, 2021				
Cost	1,170	3,012	2,140	6,322
Accumulated depreciation	<u>(1,170)</u>	<u>(1,221)</u>	<u>–</u>	<u>(2,391)</u>
Net book amount	<u>–</u>	<u>1,791</u>	<u>2,140</u>	<u>3,931</u>
Period ended March 31, 2021				
Opening net book amount	–	1,791	2,140	3,931
Additions	–	163	–	163
Depreciation	<u>–</u>	<u>(88)</u>	<u>(101)</u>	<u>(189)</u>
Closing net book amount	<u>–</u>	<u>1,866</u>	<u>2,039</u>	<u>3,905</u>
At March 31, 2021				
Cost	1,170	3,175	2,142	6,487
Accumulated depreciation	<u>(1,170)</u>	<u>(1,311)</u>	<u>(101)</u>	<u>(2,582)</u>
Net book amount	<u>–</u>	<u>1,864</u>	<u>2,041</u>	<u>3,905</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

14 Property, plant and equipment (continued)

Depreciation expenses have been charged to the combined statements of comprehensive income as follows:

	<u>Year ended December 31,</u>			<u>Three months ended March 31,</u>	
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2020</u>	<u>2021</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i>
Cost of revenues	138	101	87	17	45
General and administrative expenses	296	209	280	55	144
	<u>434</u>	<u>310</u>	<u>367</u>	<u>72</u>	<u>189</u>

15 Right-of-use assets

	<u>Properties</u> <i>RMB'000</i>
At January 1, 2018	
Cost	4,180
Accumulated depreciation	<u>(1,045)</u>
Net book amount	<u>3,135</u>
Year ended December 31, 2018	
Opening net book amount	3,135
Depreciation (Note 6)	<u>(1,045)</u>
Closing net book amount	<u>2,090</u>
At December 31, 2018	
Cost	4,180
Accumulated depreciation	<u>(2,090)</u>
Net book amount	<u>2,090</u>
At January 1, 2019	
Cost	4,180
Accumulated depreciation	<u>(2,090)</u>
Net book amount	<u>2,090</u>
Year ended December 31, 2019	
Opening net book amount	2,090
Additions	1,759
Depreciation (Note 6)	<u>(1,631)</u>
Closing net book amount	<u>2,218</u>
At December 31, 2019	
Cost	5,939
Accumulated depreciation	<u>(3,721)</u>
Net book amount	<u>2,218</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

15 Right-of-use assets (continued)

	<u>Properties</u> <i>RMB’000</i>
At January 1, 2020	
Cost	5,939
Accumulated depreciation	(3,721)
Net book amount	<u>2,218</u>
Year ended December 31, 2020	
Opening net book amount	2,218
Additions	10,394
Depreciation (Note 6)	(2,218)
Closing net book amount	<u>10,394</u>
At December 31, 2020	
Cost	16,333
Accumulated depreciation	(5,939)
Net book amount	<u>10,394</u>
Properties <i>RMB’000</i>	
(Unaudited)	
At January 1, 2020	
Cost	5,939
Accumulated depreciation	(3,721)
Net book amount	<u>2,218</u>
Period ended March 31, 2020	
Opening net book amount	2,218
Depreciation (Note 6)	(554)
Closing net book amount	<u>1,664</u>
At March 31, 2020	
Cost	5,939
Accumulated depreciation	(4,275)
Net book amount	<u>1,664</u>
Properties <i>RMB’000</i>	
At January 1, 2021	
Cost	16,333
Accumulated depreciation	(5,939)
Net book amount	<u>10,394</u>
Period ended March 31, 2021	
Opening net book amount	10,394
Depreciation (Note 6)	(866)
Closing net book amount	<u>9,528</u>
At March 31, 2021	
Cost	16,333
Accumulated depreciation	(6,805)
Net book amount	<u>9,528</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

15 Right-of-use assets (continued)

The combined statements of comprehensive income and the combined statements of cash flows contain the following amounts relating to leases:

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation charge of right-of-use assets	1,045	1,631	2,218	554	866
Interest expenses	136	124	74	27	121
Expenses relating to short-term leases	161	425	395	55	64
The cash outflow for leases payment related to short-term lease as operating activities	161	425	395	55	64
The cash outflow for leases as financing activities	<u>1,267</u>	<u>1,737</u>	<u>2,349</u>	<u>—</u>	<u>—</u>

16 Deferred income taxes

The following amounts, determined after appropriate offsetting, are shown in the combined statements of financial position:

Deferred tax assets

	As of December 31,			As of
	2018	2019	2020	March 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The balance comprises temporary differences attributable to:				
— Right-of-use assets and lease liabilities		5	7	—
— Tax losses		1,189	1,288	434
— Long-term investments measured at fair value through profit or loss		—	36	46
— Short-term investments measured at fair value through profit or loss		—	—	—
— Loss allowance for financial assets		97	110	7
— Contract liabilities		1,624	752	583
— Temporary difference related to payroll payables		920	1,356	1,743
Total gross deferred tax assets		<u>3,835</u>	<u>3,549</u>	<u>2,813</u>
Set-off of deferred tax liabilities pursuant to set-off provisions		(18)	(103)	(188)
Net deferred tax assets		<u>3,817</u>	<u>3,446</u>	<u>2,625</u>
				<u>2,441</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

16 Deferred income taxes (continued)

	As of December 31,			As of
	2018	2019	2020	March 31,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Deferred tax assets:				
— to be recovered within 12 months	3,731	3,446	2,625	2,419
— to be recovered after 12 months	86	—	—	22
	<u>3,817</u>	<u>3,446</u>	<u>2,625</u>	<u>2,441</u>

Deferred tax liabilities

	As of December 31,			As of
	2018	2019	2020	March 31,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
The balance comprises temporary differences attributable to:				
— Long term investments measured at fair value through profit or loss	—	—	—	56
— Short term investments measured at fair value through profit or loss	18	103	188	—
Total gross deferred tax liabilities	<u>18</u>	<u>103</u>	<u>188</u>	<u>56</u>
Set-off of deferred tax assets pursuant to set-off provisions	(18)	(103)	(188)	(56)
Net deferred tax liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

16 Deferred income taxes (continued)

Deferred tax assets

The movement on the gross deferred income tax assets is as follows:

	Tax losses	Loss allowance for financial assets	Long term investments measured at fair value through profit or loss	Short term investments measured at fair value through profit or loss	Right-of-use assets and lease liabilities	Contract liabilities	Temporary difference related to payroll payables	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2018	874	90	–	–	16	587	371	1,938
(Credited)/charged to combined income statement	315	7	–	–	(11)	1,037	549	1,897
At December 31, 2018	1,189	97	–	–	5	1,624	920	3,835
At January 1, 2019	1,189	97	–	–	5	1,624	920	3,835
(Credited)/charged to combined income statement	99	13	36	–	2	(872)	436	(286)
At December 31, 2019	1,288	110	36	–	7	752	1,356	3,549
At January 1, 2020	1,288	110	36	–	7	752	1,356	3,549
(Credited)/charged to combined income statement	(854)	(103)	10	–	(7)	(169)	387	(736)
At December 31, 2020	434	7	46	–	–	583	1,743	2,813
(Unaudited)								
At January 1, 2020	1,288	110	36	–	7	752	1,356	3,549
(Credited)/charged to combined income statement	(1,288)	10	(9)	–	(5)	(131)	89	(1,334)
At March 31, 2020	–	120	27	–	2	621	1,445	2,215
At January 1, 2021	434	7	46	–	–	583	1,743	2,813
(Credited)/charged to combined income statement	(434)	(3)	(46)	41	13	7	106	(316)
At March 31, 2021	–	4	–	41	13	590	1,849	2,497

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

16 Deferred income taxes (continued)

The Group only recognizes deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As of December 31, 2018, 2019 and 2020, and March 31, 2021, the Group did not recognize deferred income tax assets of RMB0.02 million, RMB0.04 million, RMB0.05 million and RMB0.05 million in respect of cumulative tax losses amounting to RMB0.11 million, RMB0.27 million, RMB0.37 million and RMB0.37 million. These tax losses will expire from 2019 to 2026.

Deferred tax liabilities

The movement on the gross deferred income tax liabilities is as follows:

	Long term investments measured at fair value through profit or loss	Short term investments measured at fair value through profit or loss	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2018	–	–	–
(Charged)/credited to combined income statement	–	18	18
At December 31, 2018	–	18	18
At January 1, 2019	–	18	18
(Charged)/credited to combined income statement	–	85	85
At December 31, 2019	–	103	103
At January 1, 2020	–	103	103
(Charged)/credited to combined income statement	–	85	85
At December 31, 2020	–	188	188
(Unaudited)			
At January 1, 2020	–	103	103
(Charged)/credited to combined income statement	–	(19)	(19)
At March 31, 2020	–	84	84
At January 1, 2021	–	188	188
(Charged)/credited to combined income statement	56	(188)	(132)
At March 31, 2021	56	–	56

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

17 Investments accounted for using the equity method

	Year ended December 31,			Three months
	2018	2019	2020	ended March 31,
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	2021
				<i>RMB’000</i>
At the beginning of the year/period	1,341	5,486	12,087	11,683
Additions	4,000	8,755	–	500
Share of results of associates	145	(154)	(404)	2,844
Losses on impairment of long-term equity investments (a)	–	(2,000)	–	–
At the end of the year/period	<u>5,486</u>	<u>12,087</u>	<u>11,683</u>	<u>15,027</u>

- (a) In 2019, one of the Group’s associate underwent difficulties in operation and liquidated in December 2019. The Group recognized full impairment of the associate amounting to RMB2 million in 2019 accordingly.
- (b) The Group has interests in a number of individually immaterial associates that are accounted for using the equity method.

	Year ended December 31,			Three months
	2018	2019	2020	ended March 31,
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	2021
				<i>RMB’000</i>
Aggregate carrying amount of individually immaterial associates	5,486	12,087	11,683	15,027
Aggregate amounts of the Group’s share of:				
— Profit/(loss) from operations	145	(154)	(404)	2,844

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

18 Financial instruments by category

The Group holds the following financial instruments:

	As of December 31,			As of
	2018	2019	2020	March 31,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Assets as per combined statements of financial position				
Financial assets at fair value through profit or loss:				
— Long term investments measured at fair value through profit or loss (Note 19)	1,100	21,646	77,800	118,611
— Short-term investments measured at fair value through profit or loss (Note 23)	15,143	10,818	1,299	1,085
	16,243	32,464	79,099	119,696
Financial assets at amortised costs:				
— Trade receivables (Note 22)	13,872	10,233	121,536	165,261
— Short term investments measured at amortised cost (Note 20)	10,085	86,341	—	—
— Refundable prepayments, deposits and other assets (Note 21)	40,025	55,758	9,406	6,897
— Cash and cash equivalents (Note 24(a))	21,398	26,092	443,248	406,497
— Restricted cash (Note 24(b))	—	—	2,250	5,012
	85,380	178,424	576,440	583,667
Liabilities as per combined statement of financial position				
Financial liabilities at fair value through profit or loss:				
— Short-term liabilities measured at fair value through profit or loss (Note 23)	—	—	—	1,614
	—	—	—	1,614
Financial liabilities at amortised costs:				
— Lease liabilities (Note 28)	2,129	2,275	10,394	10,515
— Trade payables (Note 30)	3,144	1,908	13,329	25,400
— Other payables (excluding salaries and benefits payable and other tax payables) (Note 31)	176	101	455	5,408
— Financial instruments issued to investors (Note 29)	—	82,667	89,067	90,667
	5,449	86,951	113,245	131,990

All Financial assets and liabilities measured at fair value through profit or loss are denominated in RMB.

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

19 Long-term investments measured at fair value through profit or loss

Movements in long term investments measured at fair value through profit or loss during the years ended December 31, 2018, 2019 and 2020, and three months ended March 31, 2020 and 2021 are as follows:

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	1,100	1,100	21,646	21,646	77,800
Additions(a)	–	20,833	56,234	2,167	40,000
Change in fair value	–	(287)	(80)	73	811
At the end of the year/period	1,100	21,646	77,800	23,886	118,611

As at and during the years ended December 31, 2018, 2019 and 2020, and three months period ended March 31, 2020 and 2021, long term investments measured at fair value through profit or loss mainly represented: 1) investments in associates with significant influence in the form of redeemable instruments and measured at fair value through profit or loss; 2) equity investments in private equity funds in which the Group act as limited partners without significant influence. The Group has determined the fair value of these financial assets based on certain valuation techniques as disclosed in Note 3.3.

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Investments in private equity funds	–	17,713	17,633	17,786	58,257
Investments in unlisted companies	1,100	3,933	60,167	6,100	60,354
At the end of the year/period	1,100	21,646	77,800	23,886	118,611

- (a) During the year ended December 31, 2019, the Group obtained 7.81% and 4.95% shares in two private equity funds which mainly invested in internet and game industry, with a consideration of RMB 10 million and RMB 8 million, respectively. The Group acted as limited partners with no seat in investment committee. The Group had no significant influence in the private equity funds and measured the investments as long term investments measured at fair value through profit or loss.

During the year ended December 31, 2020, the Group obtained 10% shares of an unlisted company which mainly engaged in promotion services and game operation with a consideration of RMB 50 million. The Group made the investment in the form of redeemable instruments and obtained one board seat in the unlisted company. Accordingly, the Group recognized the investment as long term investments measured at fair value through profit or loss.

During the three months period ended March 31, 2021, the Group obtained 10.31% and 3.58% shares in two private equity funds which mainly invested in internet and game industry, with a consideration of RMB 30 million and RMB 10 million, respectively. The Group acted as limited partners with no seat in investment committee. The Group had no significant influence in the private equity funds and measured the investments as long term investments measured at fair value through profit or loss.

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

20 Financial assets at amortised cost

	As of December 31,			As of
	2018	2019	2020	March 31,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Financial assets at amortised cost				
—Short-term investments measured at amortised cost				
(a)	10,085	86,341	—	—
—Long-term investments measured at amortised cost				
(b)	20,791	—	—	—
	30,876	86,341	—	—

(a) Short-term investments measured at amortised cost

Short-term investments measured at amortised cost are term deposits with fixed rate of return and maturity from 3 months to 1 year. Short-term investments measured at amortised cost are subject to the impairment requirements of IFRS 9, the expected credit loss was immaterial as of December 31, 2018 and 2019.

(b) Long-term investments measured at amortised cost

Long-term investments measured at amortised cost are term deposits with fixed rate of return and maturity above 1 year. Long-term investments measured at amortised cost are subject to the impairment requirements of IFRS 9, the expected credit loss was immaterial as of December 31, 2018.

All financial assets at amortised cost are denominated in RMB.

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

21 Prepayments, deposits and other assets

	As of December 31,			As of
	2018	2019	2020	March 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2021
				<i>RMB'000</i>
Non-current				
Rental and other deposits	114	131	343	246
	114	131	343	246
Current				
Prepayments for marketing and promotion services	–	–	50,788	28,767
Prepayments to service providers and game developers	138	112	4,031	3,267
Prepaid expenses and other current assets	218	–	532	913
Rental and other deposits	19	192	3,223	713
Advance to employees	3,250	4,090	367	–
Amounts due from a related party (Note 35(b)(iv))	33,533	47,829	–	–
Loans due from related parties	2,024	2,838	–	–
Loans due from third parties	774	338	165	171
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others	566	711	427	867
Less: allowance for impairment	(121)	(230)	(43)	(15)
	40,401	55,880	59,490	35,688

22 Trade receivables

	As of December 31,			As of
	2018	2019	2020	March 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2021
				<i>RMB'000</i>
Distribution channels	4,186	1,880	80,000	120,555
Game publishers	10,334	7,238	34,936	42,561
Information service customers	8	1,832	6,832	2,432
	14,528	10,950	121,768	165,548
Less: allowance for impairment	(656)	(717)	(232)	(287)
	13,872	10,233	121,536	165,261

	As of December 31,			As of
	2018	2019	2020	March 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2021
				<i>RMB'000</i>
Third parties	4,194	3,712	86,832	122,987
Related parties	10,334	7,238	34,936	42,561
	14,528	10,950	121,768	165,548
Less: allowance for impairment	(656)	(717)	(232)	(287)
	13,872	10,233	121,536	165,261

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

22 Trade receivables (continued)

- (a) Distribution Channels and game publishers and information service customers usually settle the amounts within 30-60 days. Aging analysis of trade receivables based on the recognition date of the gross trade receivables at the respective reporting dates are as follows:

	As of December 31,			As of
	2018	2019	2020	March 31,
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	2021
Within 3 months	12,437	9,377	99,028	136,492
3 months to 6 months	1,442	852	22,698	29,051
6 months to 1 year	35	115	42	5
1 to 2 years	136	–	–	–
Over 2 years	478	606	–	–
	<u>14,528</u>	<u>10,950</u>	<u>121,768</u>	<u>165,548</u>

- (b) The Group applies 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. The Group overall considers the shared credit risk characteristics and the days past due of each type of the trade receivables to measure the expected credit losses. During the Track Record Period, the expected loss rate for related parties is low and immaterial; the expected credit loss rates for trade receivables are determined according to provision matrix as follows:

	As of December 31,			As of
	2018	2019	2020	March 31,
Within 3 months	1.74%	1.39%	0.19%	0.20%
3 months to 6 months	1.96%	3.91%	3.12%	3.24%
6 months to 1 year	26.61%	27.70%	18.41%	19.08%
1 to 2 years	54.82%	75.88%	67.48%	69.90%
Over 2 years	100.00%	100.00%	100.00%	100.00%

The expected loss rates are based on the payment profiles of sales over a period of 24 month before December 31, 2018, 2019 and 2020, and March 31, 2021 respectively and the corresponding historical credit losses experienced within the period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the CPI and Retail Sales of Consumer Goods (“RSCG”) of the countries in which it operates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

22 Trade receivables (continued)

Movements on the Group’s allowance for impairment of trade receivables are as follows:

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
At the beginning of the year/period	610	656	717	717	232
Provision	46	240	231	41	73
Reversal	–	(179)	(504)	(100)	(18)
Receivables written off during the year as uncollectable	–	–	(212)	–	–
At the end of the year/period	656	717	232	658	287

The provisions and reversal of provisions for impaired receivables have been included in “Net impairment losses on financial assets” in the combined statements of comprehensive income.

- (c) The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as of December 31, 2018, 2019 and 2020, and March 31, 2021.
- (d) The carrying amount of the Group’s trade receivables is denominated in the following currencies:

	As of December 31,			As of
	2018	2019	2020	March 31,
	RMB’000	RMB’000	RMB’000	RMB’000
USD	516	657	87,182	141,691
RMB	14,012	10,293	34,586	23,857
	14,528	10,950	121,768	165,548

- (e) The maximum exposure to credit risk as of December 31, 2018, 2019 and 2020, and March 31, 2021 was the carrying value of the trade receivables. The Group did not hold any collateral as security.

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

23 Financial assets/(liabilities) measured at fair value through profit or loss (current)

The financial assets/(liabilities) measured at fair value through profit or loss (current) are foreign exchange forward contracts and private equity funds of which principal and returns are not guaranteed. The fair values of the foreign exchange forward contracts and private equity funds were recognized based on the periodic valuation reports from commercial banks and private equity funds and were within level 2 of the fair value hierarchy. The fair values of investment in listed companies were recognized at quoted price in active markets. (Note 3.3)

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	–	15,143	10,818	10,818	1,299
Additions	15,000	1,891	8,247	8,247	–
Change in fair value	143	822	674	(151)	(1,828)
Disposals	–	(7,038)	(18,440)	(3,238)	–
At the end of the year/period	15,143	10,818	1,299	15,676	(529)

24 Cash and balances with bank and financial institutions

(a) Cash and cash equivalents

	As of December 31,			As of March 31,
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand and cash in bank	20,845	25,656	440,059	400,206
Cash held by other financial institutions (Note i)	553	436	3,189	6,291
	21,398	26,092	443,248	406,497

- (i) As of December 31, 2018, 2019 and 2020, and March 31, 2021, the Group had certain amounts of cash held in accounts managed by other financial institutions, such as Alipay and WeChat Pay in connection with the provision of online and mobile payment services which have been classified as cash and cash equivalents on the combined statements of financial position.

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,			As of March 31,
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	14,387	20,418	79,446	124,385
USD	7,011	5,674	362,963	279,462
HKD	–	–	839	2,650
	21,398	26,092	443,248	406,497

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

24 Cash and balances with bank and financial institutions (continued)

(b) Restricted Cash

Restricted Cash are denominated in the following currencies:

	As of December 31,			As of
	2018	2019	2020	March 31,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
RMB	–	–	1,321	255
USD	–	–	929	4,757
	<u>–</u>	<u>–</u>	<u>2,250</u>	<u>5,012</u>

As of December 31, 2020 and March 31, 2021, RMB1.32 million and USD0.14 million (equivalent to approximately RMB0.93 million), RMB0.26 million and USD0.73 million (equivalent to approximately RMB4.76 million), respectively, were cash deposits held by bank as performance guarantee for foreign exchange forward contracts signed with the same bank.

25 Combined capital

The Reorganization has not been completed as at March 31, 2021. As mentioned in Note 1.3, the Historical Financial Information has been prepared on a combined basis. Combined capital as at December 31, 2018, 2019 and 2020, and March 31, 2021 represent the combined share capital of the companies now comprising the Group. Movements in combined capital are disclosed in the combined statements of changes in equity.

	As of December 31,			As of March 31,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At the beginning of the year/period	11,131	11,131	12,843	12,843	14,270
Insurance of financial instruments to investors	–	1,712	–	–	–
Capital contributions from the then shareholders (Note a)	–	–	1,427	–	–
At the end of the year/period	<u>11,131</u>	<u>12,843</u>	<u>14,270</u>	<u>12,843</u>	<u>14,270</u>

- (a) During the year ended December 31, 2020, approximately 1.43 million ordinary shares of QC Digital with RMB1.00 per share were issued to certain senior managements at a consideration of RMB31.98 million. The excess of total consideration over par value amounting to RMB30.56 million was recognized as other reserves. (Note 26)

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

26 Other reserves

	<u>Capital reserve</u>	<u>Statutory reserve</u>	<u>Share-based compensation expense</u>	<u>Currency translation differences</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2018	15,974	3,547	–	–	19,521
Appropriation to statutory reserves	–	2,019	–	–	2,019
Share-based payment (Note 6)	–	–	14,000	–	14,000
At December 31, 2018	<u>15,974</u>	<u>5,566</u>	<u>14,000</u>	<u>–</u>	<u>35,540</u>
At January 1, 2019	15,974	5,566	14,000	–	35,540
Insurance of financial instruments to investors	78,288	–	–	–	78,288
Recognition of financial instruments issued to investors as non-current liabilities	(80,000)	–	–	–	(80,000)
Appropriation to statutory reserves	–	856	–	–	856
At December 31, 2019	<u>14,262</u>	<u>6,422</u>	<u>14,000</u>	<u>–</u>	<u>34,684</u>
At January 1, 2020	14,262	6,422	14,000	–	34,684
Appropriation to statutory reserves	–	5,000	–	–	5,000
Capital contributions from the then shareholders (Note 25)	30,556	–	–	–	30,556
Share-based payment (Note 6)	–	–	56,017	–	56,017
Currency translation differences	–	–	–	(955)	(955)
At December 31, 2020	<u>44,818</u>	<u>11,422</u>	<u>70,017</u>	<u>(955)</u>	<u>125,302</u>
(Unaudited)					
At January 1, 2020	14,262	6,422	14,000	–	34,684
Share-based payment (Note 6)	–	–	2,241	–	2,241
Currency translation differences	–	–	–	(3)	(3)
At March 31, 2020	<u>14,262</u>	<u>6,422</u>	<u>16,241</u>	<u>(3)</u>	<u>36,922</u>
At January 1, 2021	44,818	11,422	70,017	(955)	125,302
Currency translation differences	–	–	–	114	114
At March 31, 2021	<u>44,818</u>	<u>11,422</u>	<u>70,017</u>	<u>(841)</u>	<u>125,416</u>

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

27 Contract liabilities

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

	As of December 31,			As of
	2018	2019	2020	March 31,
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>2021</i>
				<i>RMB’000</i>
Non-current				
Game licensing	645	–	–	–
Current				
Game licensing	5,272	1,729	916	922
Game operating	7,073	4,288	227,033	157,747
	12,345	6,017	227,949	158,669
	12,990	6,017	227,949	158,669

The following table shows the amount of revenue recognized in the combined statements of comprehensive income for the respective years relating to contract liabilities brought forward:

	Year ended December 31,			Three months ended	
	2018	2019	2020	2020	2021
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
				<i>(Unaudited)</i>	
Revenue recognized that was included in the contract liabilities balance at the beginning of the year/period					
Game licensing	4,644	4,188	813	496	–
Game operating	7,572	7,073	4,288	4,288	226,264
	12,216	11,261	5,101	4,784	226,264

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

28 Lease liabilities

	As of December 31,			As of
	2018	2019	2020	March 31,
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	2021
				<i>RMB’000</i>
Minimum lease payments due				
— Within 1 year	1,124	2,349	3,666	3,666
— Between 1 and 2 years	1,125	–	3,760	3,760
— Between 2 and 5 years	–	–	3,813	3,813
— Over 5 years	–	–	–	–
	2,249	2,349	11,239	11,239
Less: future finance charges	(120)	(74)	(845)	(724)
Present value of lease liabilities	<u>2,129</u>	<u>2,275</u>	<u>10,394</u>	<u>10,515</u>

	As of December 31,			As of
	2018	2019	2020	March 31,
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	2021
				<i>RMB’000</i>
Lease liabilities				
— Within 1 year	1,089	2,275	3,578	3,599
— Between 1 and 2 years	1,040	–	3,477	3,518
— Between 2 and 5 years	–	–	3,339	3,398
— Over 5 years	–	–	–	–
	<u>2,129</u>	<u>2,275</u>	<u>10,394</u>	<u>10,515</u>

29 Financial instruments issued to investors

In July 2019, QC Digital entered into an investment agreement with G-bits, pursuant to which G-bits made a total investment of RMB80 million in QC Digital as consideration for subscription of QC Digital’s paid-in capital of RMB1.7 million, representing 13.33% of equity interest in QC Digital. According to the agreement, these ordinary shares will become redeemable by G-bits under certain events which are out of the Group’s control. 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 the Group.

The Group recognized the aforementioned investment made by G-bits (the “Financial Instruments Issued to Investors”) as financial liabilities which recognized initially at the present value of the redemption amount, which is computed based on the investment amount of RMB80 million plus an interest of 8% per annum. Any changes in the carrying amount of the financial liabilities were recorded in “changes in the carrying amount of financial instruments issued to investors” of combined statements of comprehensive income.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

29 Financial instruments issued to investors (continued)

The movements of the Financial Instruments Issued to Investors are set out below:

	As of December 31,			As of
	2018	2019	2020	March 31,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
At the beginning of the year/period	–	–	82,667	89,067
Issue	–	80,000	–	–
Changes in the carrying amount	–	2,667	6,400	1,600
At the end of the year/period	<u>–</u>	<u>82,667</u>	<u>89,067</u>	<u>90,667</u>

30 Trade payables

	As of December 31,			As of
	2018	2019	2020	March 31,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Trade payables	<u>3,144</u>	<u>1,908</u>	<u>13,329</u>	<u>25,400</u>

Trade payables are primarily related to the purchase of services for server custody, advertisement and sharing of proceeds due to game developers. The credit terms of trade payables granted to the Group are usually 30 to 90 days.

The carrying amount of the Group’s trade payables is denominated in the following currencies:

	As of December 31,			As of
	2018	2019	2020	March 31,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
RMB	3,144	1,908	13,319	25,400
USD	–	–	10	–
	<u>3,144</u>	<u>1,908</u>	<u>13,329</u>	<u>25,400</u>

As of December 31, 2018, 2019 and 2020, and March 31, 2021, the fair value of trade payables approximated to their carrying amount.

Aging analysis of trade payables based on the recognition date of the trade payables at the respective reporting dates are as follows:

	As of December 31,			As of
	2018	2019	2020	March 31,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Within 3 months	2,447	918	12,291	24,888
Over 3 months	697	990	1,038	512
	<u>3,144</u>	<u>1,908</u>	<u>13,329</u>	<u>25,400</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

31 Other payables and accruals

	As of December 31,			As of
	2018	2019	2020	March 31,
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	2021
Salaries and benefits payables	18,766	20,513	115,143	64,841
Other tax payables	864	855	53,866	11,238
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others	176	101	455	383
	19,806	21,469	169,464	81,487

The carrying amount of the Group’s other payables is denominated in the following currencies:

	As of December 31,			As of
	2018	2019	2020	March 31,
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	2021
RMB	19,806	21,469	169,422	81,444
USD	–	–	42	43
	19,806	21,469	169,464	81,487

32 Dividend Distribution

	As of December 31,			As of March 31,	
	2018	2019	2020	2020	2021
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Dividend Distribution	10,000	–	90,000	–	–

(Unaudited)

Pursuant to the resolutions of the shareholders’ meetings of QC Digital in May 2018 and December 2020 respectively, dividends of RMB10,000,000 and RMB90,000,000 were approved and paid to the then shareholders in cash in the same year.

No dividends had been paid by the Company during the Track Record Period since the Company was incorporated on March 12, 2021.

Pursuant to the resolutions of the shareholders’ meetings of QC Digital in May 2021, dividends of RMB180,000,000 were approved and paid to the then shareholders in cash.

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

33 Note to combined statements of cash flows

(a) Cash generated from operations

	Notes	Year ended December 31,			Three months ended March 31,	
		2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2020 <i>RMB'000</i> <i>(Unaudited)</i>	2021 <i>RMB'000</i>
Profit before income tax		26,276	20,654	113,316	11,101	170,694
Adjustments for						
Depreciation	6	1,479	1,941	2,585	626	1,055
Net impairment losses on financial assets	6	657	170	(364)	81	27
Impairment of long-term investments accounted for using the equity method	17	–	2,000	–	–	–
Share-based payments	6	14,000	–	56,017	2,241	–
Share of results of investments accounted for using equity method	17	(145)	154	404	101	(2,844)
Fair value changes on investments measured at fair value through profit or loss	8	(143)	(535)	(594)	78	1,017
Other income	9	(2,092)	(2,573)	(3,717)	(1,146)	–
Finance costs — net	11	136	124	74	27	121
Changes in the carrying amount of financial instruments issued to investors	29	–	2,667	6,400	1,600	1,600
Losses/(gains) on disposal of non-current assets	14	5	4	200	–	–
Net exchange differences		(285)	118	15,667	(90)	(1,845)
		39,888	24,724	189,988	14,619	169,825
Changes in working capital						
— Trade receivables		8,568	3,648	(110,676)	(4,360)	(43,780)
— Prepayments, deposits and other assets		(6,605)	(13,226)	(13,136)	(5,454)	23,560
— Restricted cash		–	–	(2,250)	–	(2,762)
— Inventories		–	–	(222)	–	(95)
— Trade payables		(677)	(1,236)	11,421	1,204	12,071
— Contract liabilities		(5,144)	(6,973)	221,932	(1,050)	(69,280)
— Other payables and accruals		4,555	1,662	147,040	(4,409)	(87,839)
Cash generated from operations		40,585	8,599	444,097	550	1,700

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

33 Note to combined statements of cash flows (continued)

(b) Net debt reconciliation

	As of December 31,			As of
	2018	2019	2020	March 31,
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>2021</u>
Cash and cash equivalents	21,398	26,092	443,248	406,497
Financial instruments issued to investors	–	(82,667)	(89,067)	(90,667)
Lease liabilities	(2,129)	(2,275)	(10,394)	(10,515)
Net debt	<u>19,269</u>	<u>(58,850)</u>	<u>343,787</u>	<u>305,315</u>

	Cash and cash equivalents	Financial instruments issued to investors	Lease liabilities	Total
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
As at January 1, 2018	15,955	–	(3,260)	12,695
Cash flows	5,158	–	1,267	6,425
Accrual interest for lease liabilities	–	–	(136)	(136)
Foreign exchange adjustments	285	–	–	285
As at December 31, 2018	<u>21,398</u>	<u>–</u>	<u>(2,129)</u>	<u>19,269</u>
As at January 1, 2019	21,398	–	(2,129)	19,269
Cash flows	4,812	(80,000)	1,737	(73,451)
Increase of right-of-use assets	–	–	(1,759)	(1,759)
Accrual interest for lease liabilities	–	–	(124)	(124)
Changes in the carrying amount of financial instruments issued to investors	–	(2,667)	–	(2,667)
Foreign exchange adjustments	(118)	–	–	(118)
As at December 31, 2019	<u>26,092</u>	<u>(82,667)</u>	<u>(2,275)</u>	<u>(58,850)</u>
As at January 1, 2020	26,092	(82,667)	(2,275)	(58,850)
Cash flows	432,823	–	2,349	435,172
Increase of right-of-use assets	–	–	(10,394)	(10,394)
Accrual interest for lease liabilities	–	–	(74)	(74)
Changes in the carrying amount of financial instruments issued to investors	–	(6,400)	–	(6,400)
Foreign exchange adjustments	(15,667)	–	–	(15,667)
As at December 31, 2020	<u>443,248</u>	<u>(89,067)</u>	<u>(10,394)</u>	<u>343,787</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

33 Note to combined statements of cash flows (continued)

(b) Net debt reconciliation (continued)

	<u>Cash and cash equivalents</u>	<u>Financial instruments issued to investors</u>	<u>Lease liabilities</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)				
As at January 1, 2020	26,092	(82,667)	(2,275)	(58,850)
Cash flows	19,547	–	–	19,547
Accrual interest for lease liabilities	–	–	(27)	(27)
Changes in the carrying amount of financial instruments issued to investors	–	(1,600)	–	(1,600)
Foreign exchange adjustments	90	–	–	90
As at March 31, 2020	<u>45,729</u>	<u>(84,267)</u>	<u>(2,302)</u>	<u>(40,838)</u>
As at January 1, 2021	443,248	(89,067)	(10,394)	343,787
Cash flows	(38,596)	–	–	(38,596)
Accrual interest for lease liabilities	–	–	(121)	(121)
changes in the carrying amount of financial instruments issued to investors	–	(1,600)	–	(1,600)
Foreign exchange adjustments	1,845	–	–	1,845
As at March 31, 2021	<u>406,497</u>	<u>(90,667)</u>	<u>(10,515)</u>	<u>305,315</u>

34 Commitments

(a) Capital commitments

The Group made capital expenditure in respect of long-term equity investments as of December 31, 2018, 2019 and 2020, and March 31, 2021. The Group has commitments to make the following future installments under non-cancelable agreements are as follows:

	<u>As of December 31,</u>			<u>As of March 31,</u>	
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2020</u>	<u>2021</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Long-term investments	<u>2,000</u>	<u>–</u>	<u>31,000</u>	<u>–</u>	<u>2,000</u>

35 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of key management and their close family members of the Group are also considered as related parties.

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

35 Related party transactions (continued)

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the Track Record Period.

<u>Name of related parties</u>	<u>Relationship</u>
Shenzhen Hot Zone Network Technology Co., Ltd.	Associate
Chengdu Weimei Interactive Technology Co., Ltd.	Associate
Shenzhen Jishiwu Technology Co., Ltd.	Associate
Guangzhou Jodo Information and Technology Co., Ltd.	Associate
G-bits Group (Note a)	Shareholder
Mr. Yang Xu	Shareholder and director
Mr. Huang Zhiqiang	Shareholder and director
Xiamen Wofanqihang Venture Capital Partnership (L.P.)	Shareholder
Xiamen Zhongkedexing Equity Investment Fund Partnership (L.P.)	Shareholder
Xiamen Guohai Nut Venture Capital Partnership (L.P.)	Shareholder
Mr. Ye Jiting	Shareholder
Mr. Wei Shumu	Shareholder
Ms. Wang Yunling	Shareholder
Mr. Lin Yiwei	Shareholder
Mr. Zeng Xiangshuo	Shareholder and director
Brilliance Investment Limited	Entity controlled by Mr. Yang Xu

Note(a): G-bits Group mainly represents G-bits Network Technology (Xiamen) Co., Ltd., which is a shareholder of the Company, and Shenzhen Leiting Information Technology Co., Ltd., Xiamen Leiting Network Technology Co., Ltd. and Hongkong Leiting Information Technology Co., Ltd., which is subsidiaries of G-bits Network Technology (Xiamen) Co., Ltd.

(b) Significant transactions with related parties

(i) Game licensing revenue

	<u>Year ended December 31,</u>			<u>Three months ended March 31,</u>	
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2020</u>	<u>2021</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
G-bits Group	<u>44,135</u>	<u>31,591</u>	<u>57,196</u>	<u>8,026</u>	<u>11,799</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

35 Related party transactions (continued)

(ii) Commission to game developers

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Shenzhen Jishiwu Technology Co., Ltd.	–	–	–	–	15,631
Shenzhen Hot Zone Network Technology Co., Ltd.	4,697	2,694	2,111	553	77
Chengdu Weimei Interactive Technology Co., Ltd.	463	265	1,152	119	–
Total	5,160	2,959	3,263	672	15,708

(iii) Promotion and marketing expenses

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Guangzhou Jodo Information and Technology Co., Ltd.	–	–	79,388	–	7,102
G-bits Group	–	–	66,843	–	4,823
Total	–	–	146,231	–	11,925

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

35 Related party transactions (continued)

(iv) Rental expenses

	Year ended December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
				<i>(Unaudited)</i>	
G-bits Group	<u>1,342</u>	<u>2,180</u>	<u>2,292</u>	<u>581</u>	<u>987</u>

(v) Interest income from related party

	As of December 31,			Three months ended March 31,	
	2018	2019	2020	2020	2021
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
				<i>(Unaudited)</i>	
Brilliance Investment Limited	727	1,121	1,454	363	–
Mr. Yang Xu	651	117	–	–	–
Mr. Huang Zhiqiang	34	32	29	7	–
Mr. Wei Shumu	22	20	16	4	–
Mr. Zeng Xiangshuo	–	1	30	8	–
Total	<u>1,434</u>	<u>1,291</u>	<u>1,529</u>	<u>382</u>	<u>–</u>

(c) Year end balances with related parties

(i) Trade receivables from related parties

	As of December 31,			As of March 31,
	2018	2019	2020	2021
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
G-bits Group	<u>10,334</u>	<u>7,238</u>	<u>34,936</u>	<u>42,561</u>

The above balances with related parties were mainly denominated in RMB. They were unsecured, trade in nature, non-interest bearing and repayable to the Group on demand.

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

35 Related party transactions (continued)

(ii) Trade payables to related parties

	As of December 31,			As of
	2018	2019	2020	March 31,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Guangzhou Jodo Information and Technology Co., Ltd.	–	–	3,624	3,465
Shenzhen Jishiwu Technology Co., Ltd.	–	–	–	5,145
Shenzhen Hot Zone Network Technology Co., Ltd.	2,001	737	805	229
G-bits Group	763	986	2,740	3,059
Chengdu Weimei Interactive Technology Co., Ltd.	112	134	311	309
Total	2,876	1,857	7,480	12,207

The above balances with related parties were mainly denominated in RMB. They were unsecured, trade in nature, non-interest bearing and repayable on demand.

(iii) Prepayments to related parties

	As of December 31,			As of
	2018	2019	2020	March 31,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
G-bits Group	–	–	5,425	5,464
Shenzhen Jishiwu Technology Co., Ltd.	–	–	1,000	–
	–	–	6,425	5,464

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

35 Related party transactions (continued)

(iv) Other receivables from related parties

	As of December 31,			As of
	2018	2019	2020	March 31,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Non-trade				
Brilliance Investment Limited (a)	33,533	47,829	–	–
G-bits Group	114	173	343	246
Mr. Yang Xu	690	807	–	–
Mr. Huang Zhiqiang	810	770	–	–
Mr. Zeng Xiangshuo	–	801	–	–
Mr. Wei Shumu	523	459	–	–
Total	35,670	50,839	343	246

- (a) Brilliance Investment Limited, a limited liability company incorporated in the Cayman Islands and controlled by Mr. Yang Xu, signed certain overseas game operation contracts with third party suppliers on behalf of the Group. Amounts due from related party represented the operation revenue received by Brilliance Investment Limited on behalf of the Group which have not been timely repaid to the Group during the years ended December 31, 2018 to 2020, which bears annual interest rate of 2.25% and were fully received by the Group in 2020. (Note 37)
- (b) Other receivables due from related parties mainly represented receivable due from Mr. Yang Xu, Mr. Huang Zhiqiang, Mr. Zeng Xiangshuo and Mr. Wei Shumu, which are unsecured, with an interest rate 4.35% and are generally repayable within 1-2 years.

All non-trade amount to related parties have been fully repaid in 2020.

36 Contingencies

The Group did not have any material contingent liabilities as of December 31, 2018, 2019 and 2020, and March 31, 2021.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

37 Subsequent events

Before April 21, 2021, G-bits’ equity interest in QC Digital includes i) the equity investment in the form of ordinary shares of 19.88%; ii) equity investment in the form of ordinary shares with preferential rights of 13.33% (Note 29). On April 21, 2021, Guangxi Tencent Venture Capital Co., Ltd. (廣西騰訊創業投資有限公司) (“Tencent”), Shanghai Hode Information Technology Co., Ltd. (上海幻電信息科技有限公司) (“Shanghai Hode”), Guangzhou Lingxi Interactive Entertainment Limited (廣州靈犀互動娛樂有限公司) (“Guangzhou Lingxi”) entered into a share transfer agreement with G-bits, pursuant to which G-bits transferred each 3.37% equity interests in QC Digital to Tencent, Shanghai Hode and Guangzhou Lingxi, respectively (10.11% in aggregate), at a consideration of RMB101.15 million each (RMB303.45 million in aggregate). After this share transfer, the equity investments held by G-bits, Tencent, Shanghai Hode and Guangzhou Lingxi (collectively “Series A Investors”), amounting to 23.10%, 3.37%, 3.37%, 3.37%, respectively, are entitled to preferential rights. According to the agreement, these ordinary shares held by Series A Investors will become redeemable by Series A Investors under certain events which are out of the Group’s control. Since QC Digital does not have the unconditional right to avoid delivering cash or another financial assets to settle the contractual obligation, the Group recognized the investments held by Series A Investors as a financial liability, which initially recognized at the present value of the redemption amount. The redemption amount is calculated based on the agreed fixed amount plus an interest at eight percent per annum. Although the Series A Investors did not contribute consideration in QC Digital during this share transfer, QC Digital agreed with the Series A Investors a fixed amount (using as the basis to calculate the redemption amount) of RMB90 million for G-bits, and RMB101.15 million each for Tencent, Shanghai Hode and Guangzhou Lingxi. After the share transfer, G-bits has equity interest of 23.10% in QC Digital left, with preferential rights as disclosed above. On May 14, 2021, to reflect the onshore shareholding structure of QC Digital, 4,739,938 Series A Preferred Shares of the Company were issued to Series A Investors’ offshore affiliates (“Series A Preferred Shareholders”). The Group recognized Series A Preferred Shares as financial liabilities measured at fair value through profit or loss. Upon entering into the Contractual Arrangements on May 26, 2021, shareholders of QC Digital became nominee shareholders and the preferential rights held by Series A Investors in QC Digital were cancelled accordingly.

On May 26, 2021, Wildlife Willow Limited, Bilibili Inc., Qookka Entertainment Limited and Tencent Mobility Limited (collectively “Series B Preferred Shareholders”) entered into share purchase agreement with the Company, pursuant to which an aggregate of 1,152,488 convertible redeemable preferred shares of the Company were allotted to the Series B Preferred Shareholders with a consideration of USD 62.61 million, equivalent to approximately RMB404 million. The Group recognized Series B Preferred Shares as financial liabilities measured at fair value through profit or loss.

On May 17, 2021, RMB180 million dividends have been declared by QC Digital and were paid in the same month.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to March 31, 2021 and up to the date of this report.

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the Accountant’s Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I in this document, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this document and the Accountant’s Report set out in Appendix I to this document.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM. THE INFORMATION CONTAINED HEREIN IS INCOMPLETE AND IS SUBJECT TO CHANGE. THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX II

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[REDACTED]

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[REDACTED]

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[REDACTED]

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on [●] and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed “Documents available for inspection”.

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on [●] and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is [US\$/HK\$[●]] divided into [●] shares of [US\$/HK\$[●]] each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Act and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Act and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Act expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Act and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

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(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for

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subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of traveling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so

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appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may also by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than,

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one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairperson of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the

Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company’s benefit;

- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so canceled subject to the provisions of the Companies Act; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Companies Act.

2.6 Special resolution—majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Act, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

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In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairperson of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorize). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Act.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Act or any other relevant law or regulation or as authorized by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

2.10 Auditors

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

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- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is canceled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date.

Where a general meeting is postponed:

- (a) the Company shall endeavor to cause a notice of such postponement, which shall set out the reason for the postponement in accordance with the Listing Rules, to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of a general meeting due to a gale warning or black rainstorm warning being in force on the day of the general meeting;
- (b) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and
- (c) only the business set out in the notice of the original meeting shall be transacted at the reconvened meeting, and notice given for the reconvened meeting does not need to specify the business to be transacted at the reconvened meeting, nor shall any accompanying documents be required to be recirculated. Where new business is to be transacted at such reconvened meeting, the Company shall give a fresh notice for such reconvened meeting in accordance with the Articles of Association.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be canceled) and such

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other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favor of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as canceled upon the repurchase.

2.14 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Act and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which

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the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by check or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every check or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such check or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such checks for dividend entitlements or dividend warrants by post if such checks or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending checks for dividend entitlements or dividend warrants after the first occasion on which such a check or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any

difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other monies due in respect thereof.

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If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or installment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairperson which shall not be treated as part of the business of the meeting.

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Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Act, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Act, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all checks or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell

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such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

3 Introduction

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

4 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on March 12, 2021 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

5 Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

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The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

6 Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 5 above for details).

7 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

8 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

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The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

9 Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

10 Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

11 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

12 Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

13 Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

14 Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

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15 Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

16 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

17 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

18 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

19 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the

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company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

20 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

21 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

The undertaking is for a period of twenty years from March 23, 2021.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

22 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

23 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisors on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix [V]. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

We were incorporated in the Cayman Islands under the Cayman Companies Act as an exempted company with limited liability on March 12, 2021. Our registered office is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. We have established a principal place of business in Hong Kong at 40th Floor, Dah Sing Financial Centre, No. 248 Queen’s Road East, Wanchai, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on June 4, 2021 under the same address. Ms. So Shuk Yi Betty has been appointed as our authorized representative for the acceptance of service of process and notices on our behalf in Hong Kong.

As we were incorporated in the Cayman Islands, our operations are subject to the relevant laws of the Cayman Islands and our constitution comprising our Memorandum and the Articles. A summary of certain provisions of our constitution and relevant aspects of the Cayman Companies Act is set out in Appendix III to this document.

2. Changes in our share capital

As at the date of incorporation of our Company, the authorized share capital of our Company was US\$50,000 divided into 5,000,000,000 Shares of par value of US\$0.00001 each.

The following sets out the changes in our Company’s share capital within the two years immediately preceding the issue of this document.

- (a) On March 12, 2021, our Company issued 1 share with par value of US\$0.00001 to Mapcal Limited, which was subsequently transferred to Keiskei QC Ltd. on the same day for a consideration of US\$0.00001;
- (b) On March 22, 2021, our Company issued and allotted an aggregate of 9,044,312 Shares to the following persons with a par value of US\$0.00001:

<u>Name</u>	<u>Number of Shares Allotted</u>
Keiskei QC Ltd.	5,292,414
Intelligence QC Ltd.	1,571,563
Fantasy QC Ltd.	223,000
Rapid Yacht Ltd.	672,000
Bright Purport Ltd.	617,262
Wisdom Code Ltd.	200,000
Gentle Tiger Ltd.	285,410
Cloud Rings Ltd.	182,663

- (c) On May 14, 2021, our Company issued and allotted an aggregate of 486,262 Shares to Xiamen Sealand with a par value of US\$0.00001;
- (d) On May 14, 2021, our Company issued and allotted an aggregate of 3,296,488 Series A Preferred Shares to HK Kunpan with a par value of US\$0.00001;
- (e) In connection with the Series A [REDACTED], our Company allotted and issued a total of 1,443,450 Series A Preferred Shares with a par value of US\$0.00001 to the investors on May 14, 2021;

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- (f) In connection with the Series B [REDACTED], our Company allotted and issued a total of 1,152,488 Series B Preferred Shares at an aggregate purchase price of US\$62,610,307.12 to the investors on May 26, 2021.

Immediately following the [REDACTED] and before the [REDACTED], the issued share capital of our Company will be [REDACTED] divided into [REDACTED] Shares of a par value of US\$[0.00001] each, all fully paid or credited as fully paid and [REDACTED] Shares of a par value of US\$[0.00001] each will remain unissued.

Immediately following the completion of the [REDACTED] (but not taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]), our issued share capital will be US\$[REDACTED] divided into [REDACTED] Shares, all fully paid or credited as fully paid and [REDACTED] Shares will remain unissued.

Save as disclosed above and as mentioned in the paragraph headed “4. Resolutions in writing of our Shareholders” below, there has been no alteration in our share capital within the two years immediately preceding the date of this document.

3. Changes in the share capital of our subsidiaries and PRC Consolidated Affiliated Entities

Our subsidiaries and PRC Consolidated Affiliated Entities are set out in the Accountant’s Report in Appendix I to this document.

The following subsidiaries and PRC Consolidated Affiliated Entities have been established/incorporated within two years immediately preceding the date of this document:

<u>Name of subsidiary/PRC Consolidated Affiliated Entities</u>	<u>Place of establishment/incorporation</u>	<u>Date of establishment/incorporation</u>	<u>Issued and paid in capital/registered capital</u>
Qingci Holding Limited	BVI	April 1, 2021	US\$1
Qingci (HK) Limited 青瓷(香港)有限公司	Hong Kong	April 22, 2021	HK\$100
QC Interactive	PRC	May 17, 2021	RMB100,000,000
QC-Game Digital Technology (HONGKONG) Co., Limited 香港青瓷數碼技術 有限公司	Hong Kong	October 10, 2019	US\$1,000,000

Saved as disclosed in the section headed “History, Reorganization and Corporate Structure” in this document, there has been no alteration in the share capital of any of our subsidiaries and the PRC Consolidated Affiliated Entities within the two years immediately preceding the date of this document.

4. Resolutions in writing of our Shareholders

Written resolutions of our Shareholders were passed on [●], pursuant to which, among others:

- the Memorandum and Articles were approved and adopted conditional upon [REDACTED];
- increase in authorized share capital from [●] divided into [●] ordinary shares of a par value of [●] each to [●] divided into [●] ordinary shares of a par value of [●] each by the creation of an additional [●] ordinary shares of a par value of [●] each was approved;
- following the change in authorized share capital of our Company as referred to in paragraph (b) above and conditional on the share premium account of our Company having sufficient balance, or otherwise

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being credited as a result of the issue of the [REDACTED] by our Company pursuant to the [REDACTED], the Directors were authorized to capitalize US\$[●] standing to the credit of the share premium account of our Company by applying such sum to pay up in full at par [●] Shares for allotment and issue to the persons whose names appear on the register of members of our Company at the close of business on the date immediately preceding the date on which the [REDACTED] becoming unconditional in proportion to their respective shareholdings (as nearly as possible without involving fractions) in our Company or in accordance with the direction of such member;

- (d) conditional on (1) the Listing Committee granting [REDACTED] of, and permission to [REDACTED] in, the Shares in issue and to be issued as stated in this document and such [REDACTED] and permission not subsequently having been revoked prior to the [REDACTED]; (2) the [REDACTED] having been determined and (3) the obligations of the [REDACTED] under the [REDACTED] becoming unconditional and the [REDACTED] not being terminated in accordance with their terms or otherwise:
- (i) all the issued Series A Preferred Shares and Series B Preferred Shares, of a par value of US\$0.00001, be redesignated and reclassified into Shares, on a one-to-one basis, following which:
 - (A) our authorized share capital be redesignated and reclassified to US\$ [●] divided into [●] shares, with par value of US\$0.00001 each; and
 - (B) all the ordinary shares of a par value of US\$0.00001 in issue to remain as Shares.
 - (ii) the [REDACTED] was approved, and the [REDACTED] of the [REDACTED] under the [REDACTED] were approved, and the Board was authorized to determine the [REDACTED] for, and to allot and issue the [REDACTED];
 - (iii) the [REDACTED] was approved and the Directors were authorized to effect the same and to allot and issue up to [REDACTED] Shares upon the exercise of the [REDACTED];
 - (iv) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers or agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted, issued or dealt with, otherwise than pursuant to the [REDACTED], a right issue or pursuant to the exercise of any subscription rights attaching to any warrants which may be allotted and issued by our Company from time to time on a specific authority granted by the Shareholders in general meeting or, pursuant to the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, Shares not exceed 20% of the aggregate nominal value of the Shares in issue immediately following completion of the [REDACTED], such mandate to remain in effect until (1) the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of the Shareholders in general meeting either unconditionally or subject to condition, or (2) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws or (3) when revoked or varied by an ordinary resolution of Shareholders in general meeting of the Company, whichever is the earliest;
 - (v) a general unconditional mandate was given to the Directors authorizing them to exercise all the powers of our Company to repurchase its own [REDACTED] or on any other approved stock exchange on which the securities of our Company may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares will represent up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the [REDACTED], such mandate to remain in effect until whichever is the earliest of (i) the conclusion of the next annual general meeting of our Company unless renewed

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by an ordinary resolution of the Shareholders in general meeting either unconditionally or subject to condition, or (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or (iii) when revoked or varied by an ordinary resolution of Shareholders in general meeting of the Company; and

- (vi) the general mandate mentioned in paragraph (c)(iv) above be extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted, or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to purchase shares referred to in paragraph (c)(v) above.

5. Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the [REDACTED] of our Shares [REDACTED]. See the section headed “History, Reorganization and Corporate Structure” in this document for information relating to the Reorganization.

6. Repurchases of our own securities

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

- (i) Shareholders’ approval

All proposed repurchases of Shares (which must be fully paid up) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a written resolution passed by our then Shareholders on [date], a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorizing any repurchase by us of [REDACTED] or on any other stock exchange on which the securities of our Company may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the [REDACTED] but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED], such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of the Shareholders in general meeting either unconditionally or subject to condition, or (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held by our Articles or any other applicable laws, or (iii) when revoked or varied by an ordinary resolution of Shareholders in general meeting of the Company.

- (ii) Source of funds

Repurchases must be funded out of funds legally available for such purpose in accordance with our Memorandum and Articles, the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under the Cayman Companies Act, the par value of any Shares repurchased by us may be provided for out of our profits, out of share premium, or out of the proceeds of a fresh issue of Shares made for the purpose

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of the repurchase or, if so authorized by the Articles and subject to the provisions of the Cayman Companies Act, out of capital. Any premium payable on a repurchase over the par value of the Shares to be repurchased must be provided for out of our profits or from sums standing to the credit of our share premium account or, if authorized by the Articles and subject to the provisions of the Cayman Companies Act, out of capital.

(iii) Trading restrictions

The total number of Shares which we may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the [REDACTED] (but not taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]). We may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, whether on the Stock Exchange or otherwise, without the prior approval of the Stock Exchange. We are also prohibited from repurchasing [REDACTED] if the repurchase would result in the number of [REDACTED] Shares which are in the hands of the [REDACTED] falling below the relevant prescribed minimum percentage as required by the Stock Exchange. We are required to procure that the broker appointed by us to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. An issuer shall not purchase its [REDACTED] if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(iv) Status of repurchased Shares

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically [REDACTED] and the certificates for those Shares must be canceled and destroyed. Under Cayman Companies Law, unless, prior to the repurchase the directors of the company resolve to hold the shares repurchased by the Company as treasury shares, the repurchased shares shall be treated as canceled and the amount of the company's issued share capital shall be reduced by the aggregate value of the repurchased shares accordingly although the authorized share capital of the company will not be reduced.

(v) Suspension of repurchase

Pursuant to the Listing Rules, we may not make any repurchases of Shares at any time after inside information has come to our knowledge until the information is made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

- (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for us to publish an announcement of our results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, we may not repurchase Shares [REDACTED] unless the circumstances are exceptional.

(vi) Procedural and reporting requirements

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which we may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

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(vii) Connected parties

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a “core connected person”, that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or any of their respective close associates (as defined in the Listing Rules) and a core connected person shall not knowingly sell its securities to the company on the Stock Exchange.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of our Company and the Shareholders for the Directors to have general authority from the Shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) *Funding of repurchases*

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position as disclosed in this document and taking into account the current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this document. The Directors, however, do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or gearing levels which in the opinion of the Directors are from time to time appropriate for us.

The exercise in full of the Repurchase Mandate, on the basis of [●] Shares in issue immediately following the completion of the [REDACTED] (but not taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]), could accordingly result in [●] Shares being repurchased by us during the period prior to the earliest of (i) the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of the Shareholders in general meeting either unconditionally or subject to condition; (ii) the expiration of the period within which we are required by any applicable laws or our Articles to hold our next annual general meeting; or (iii) the revocation or variation of the mandate by an ordinary resolution of the Shareholders in general meeting of the Company (the “**Relevant Period**”).

(d) *General*

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to us or our subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of any repurchase of Shares, a shareholder’s proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate. Any repurchase of Shares which results in the number of Shares held by the [REDACTED] being reduced to less than 25% of our Shares in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the [REDACTED] shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

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No connected person has notified us that he or she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this document that are or may be material:

- a) a capital increase agreement dated December 17, 2020, entered into by, among others, Wofan Qihang and QC Digital, pursuant to which Wofan Qihang subscribed to 10.00% equity interests in QC Digital;
- b) a share transfer agreement dated April 21, 2021, entered into among Mr. Yang, Mr. Liu, Mr. Huang, Mr. Wei, Mr. Zeng and Mr. Lin, pursuant to which Mr. Lin transferred 0.03%, 0.31%, 0.21%, 0.28% and 0.06% equity interests in QC Digital to Mr. Yang, Mr. Liu, Mr. Huang, Mr. Wei, and Mr. Zeng, respectively, at a consideration of approximately RMB0.9 million, RMB9.4 million, RMB6.4 million, RMB8.5 million and RMB1.8 million respectively;
- c) a share transfer agreement dated April 21, 2021, entered into among Guangxi Tencent, Alibaba Lingxi, Shanghai Hode, G-bits and QC Digital, pursuant to which each of Guangxi Tencent, Alibaba Lingxi and Shanghai Hode purchased 3.37% equity interests in QC Digital from G-bits (10.11% in aggregate), at a consideration of approximately RMB101.15 million (RMB303.45 million in aggregate);
- d) a share transfer agreement dated May 7, 2021, entered into between QC Digital and Qingci Holding Limited, pursuant to which all shares in QC HK held by QC Digital were transferred to Qingci Holding Limited for a total consideration of RMB842,263.05;
- e) a share purchase agreement dated May 26, 2021, entered into by, among others, Tencent, Alibaba Qookka, Bilibili Inc., Boyu and the Company, pursuant to which each of Tencent, Alibaba Qookka, Bilibili Inc. and Boyu subscribed to 1.87% equity interests in the Company (7.47% in aggregate) for a total consideration of US\$15,652,576.78 each (US\$62,610,307.12 in aggregate).
- f) the Exclusive Business Cooperation Agreement, as further described in “Contractual Arrangements”;
- g) the Exclusive Option Agreement, as further described in “Contractual Arrangements”;
- h) the Equity Pledge Agreement, as further described in “Contractual Arrangements”;
- i) the Voting Rights Proxy Agreement and Powers of Attorney, as further described in “Contractual Arrangements”;
- j) the Spouse Undertakings, as further described in “Contractual Arrangements”; and
- k) [REDACTED].










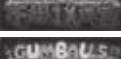
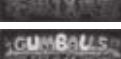
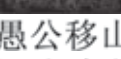




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2. Intellectual Property Rights of our Group




As of the Latest Practicable Date, we have registered the following intellectual property rights which, in the opinion of our Directors, are material to our business.

(a) Trademarks


















As of the Latest Practicable Date, we have registered the following trademarks which we consider to be material to the business of our Group:

No.	Trademark	Registration Number	Name of Registered Proprietor	Class	Place of Registration	Date of Registration	Expiry Date
1.	 网布奥	21102123	QC Digital	9	PRC	October 28, 2017	October 27, 2027
2.	 网布奥	21102369	QC Digital	26	PRC	October 28, 2017	October 27, 2027
3.	 网布奥	21102234	QC Digital	28	PRC	October 28, 2017	October 27, 2027
4.	 网布奥	21103192	QC Digital	38	PRC	October 28, 2017	October 27, 2027
5.	 网布奥	21102656	QC Digital	41	PRC	October 28, 2017	October 27, 2027
6.	 网布奥	21102779	QC Digital	42	PRC	October 28, 2017	October 27, 2027
7.		01853707	QC Digital	9	Taiwan	July 16, 2017	July 15, 2027
8.		24427857	QC Digital	9	PRC	June 7, 2018	June 6, 2028
9.		24429507	QC Digital	35	PRC	June 7, 2018	June 6, 2028
10.		24426537	QC Digital	38	PRC	June 7, 2018	June 6, 2028
11.		24421640	QC Digital	41	PRC	June 7, 2018	June 6, 2028
12.		24421657	QC Digital	42	PRC	June 7, 2018	June 6, 2028
13.	愚公移山	16733518	QC Digital	38	PRC	June 21, 2016	June 20, 2026
14.	愚公移山	16732995	QC Digital	9	PRC	August 28, 2016	August 27, 2026
15.		38381547A	QC Digital	41	PRC	July 14, 2020	July 13, 2030
16.		02078157	QC Cultural	9	Taiwan	August 16, 2020	August 15, 2030
17.		02080179	QC Cultural	41	Taiwan	August 16, 2020	August 15, 2030
18.		44598137	QC Cultural	35	PRC	November 7, 2020	November 6, 2030

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No.	Trademark	Registration Number	Name of Registered Proprietor	Class	Place of Registration	Date of Registration	Expiry Date
19.		44633186	QC Cultural	9	PRC	December 14, 2020	December 13, 2030
20.		44620823	QC Cultural	38	PRC	December 7, 2020	December 6, 2030
21.		44717750	QC Cultural	41	PRC	November 21, 2020	November 20, 2030






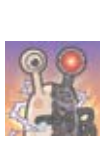
As of the latest Practicable Date, we have applied for registration of the following trademarks which we consider material to the business of our Group:

No.	Trademark	Place of Application	Name of Applicant	Class	Date of Application	Trademark/Registration Number
1.		Hong Kong	QC Interactive	6,9,16,25,28,35,38,41,42	May 28, 2021	305640273
2.		PRC	QC Interactive	9	June 3, 2021	56621778
3.		PRC	QC Interactive	35	June 3, 2021	56644093
4.		PRC	QC Interactive	38	June 3, 2021	56644127
5.		PRC	QC Interactive	41	June 3, 2021	56644146
6.		PRC	QC Interactive	42	June 3, 2021	56634929
7.		PRC	QC Interactive	8	June 4, 2021	56654598
8.		PRC	QC Interactive	9	June 4, 2021	56662361
9.		PRC	QC Interactive	11	June 4, 2021	56655747
10.		PRC	QC Interactive	14	June 4, 2021	56659419
11.		PRC	QC Interactive	16	June 4, 2021	56683448
12.		PRC	QC Interactive	18	June 4, 2021	56660577
13.		PRC	QC Interactive	20	June 4, 2021	56664414
14.		PRC	QC Interactive	21	June 4, 2021	56671950
15.		PRC	QC Interactive	24	June 4, 2021	56671984
16.		PRC	QC Interactive	25	June 4, 2021	56653074
17.		PRC	QC Interactive	28	June 4, 2021	56679798

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(b) Copyrights

As of the Latest Practicable Date, we have registered the following copyrights which we consider to be material to the business of our Group:

No.	Copyright	Version/Product	Copyright owner	Registration Number	Place of registration	Registration Date
Software						
1.	<i>Gumballs & Dungeons</i> Game Software (不思議迷宮遊戲軟件)	Version 0.2	QC Digital	2016SR059743	PRC	June 17, 2016
2.	<i>Yu Gong 3</i> Game Software (愚公移山3 智叟的反擊遊戲軟件)	Version 1.0	QC Digital	2016SR198885	PRC	July 29, 2016
3.	<i>Shimo Jihua</i> Game Software (使魔計畫遊戲軟件)	Version 1.0	QC Digital	2017SR439534	PRC	August 11, 2017
4.	<i>Qingci</i> gaming platform (青瓷遊戲平臺)	Version 1.0	QC Digital	2018SR581753	PRC	July 25, 2018
5.	<i>Shiguang Lyuxingshe</i> Game Software (時光旅行社遊戲軟件)	Version 1.0	QC Digital	2019SR0735099	PRC	July 16, 2019
6.	<i>Eternal Adventure</i> Game Software (無盡大冒險遊戲軟件)	Version 2.0	QC Cultural	2019SR0797664	PRC	July 31, 2019
7.	<i>The Marvelous Snail</i> Game Software (最強蝸牛遊戲軟件)	Version 2.0.0	QC Cultural	2019SR0961109	PRC	September 17, 2019
8.	<i>Shimo Damaoxian</i> Game Software (使魔大冒險遊戲軟件)	Version 1.0	QC Cultural	2020SR1595627	PRC	November 17, 2020
Artwork						
9.	<i>Yu Gong</i> (愚公移山)		QC Digital	2015-F-00223655	PRC	September 14, 2015
10.	<i>Gumballs & Dungeons</i> (不思議迷宮)		QC Digital	2017-F-00466067	PRC	August 10, 2017
11.	<i>Gumballs</i> (岡布奧)		QC Digital	2016-F-00326457	PRC	October 19, 2016
12.	<i>The Marvelous Snail</i> main character image (最強蝸牛主形象)		QC Digital	2019-F-00797412	PRC	July 8, 2019
13.	<i>The Marvelous Snail</i> game name logo (最強蝸牛遊戲名稱標識)		QC Cultural	2020-F-01018688	PRC	April 14, 2020
14.	<i>The Marvelous Snail</i> game logo (最強蝸牛遊戲標識)		QC Cultural	2020-F-01039597	PRC	June 19, 2020
Music						
15.	<i>Snail and Oriole</i> (蝸牛與黃鸝鳥)	N/A	QC Cultural	2020-B-00000985	PRC	October 27, 2020

(c) Domain Names

As of the Latest Practicable Date, we have registered the following domain names which we consider to be material to the business of our Group:

No.	Domain Name	Registered Owner	Date of Registration
1.	qcplay.com	QC Digital	February 16, 2012
2.	qingcigame.com	QC Cultural	December 12, 2014

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C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations*

Immediately following the completion of the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED]), the interests or short positions of our Directors or chief executives in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, under Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (“Model Code”), once the Shares are [REDACTED] will be as follows:

Interest in Shares

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number of Shares or underlying Shares⁽¹⁾</u>	<u>Approximate percentage of shareholding interest⁽²⁾</u>
Mr. Yang	Settlor of a discretionary trust ⁽³⁾	[REDACTED]	[REDACTED]
Mr. Huang	Settlor of a discretionary trust	[REDACTED]	[REDACTED]
	Interest in controlled corporation ⁽⁴⁾	[REDACTED]	[REDACTED]
Mr. Liu	Settlor of a discretionary trust ⁽⁵⁾	[REDACTED]	[REDACTED]
Mr. Zeng	Interest in controlled corporation ⁽⁶⁾	[REDACTED]	[REDACTED]

(1) All interest stated are long positions.

(2) The calculation is based on the total number of [REDACTED] Shares in issue immediately after the completion of the [REDACTED] and the [REDACTED] (assuming that the [REDACTED] is not exercised).

(3) The Company is held as to [REDACTED] by Keiskei Holding Ltd., following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). Keiskei Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Yang Family Holding Limited and 1% to Keiskei QC Ltd., a company wholly-owned by Mr. Yang. Yang Family Holding Limited is held by the Peter Yang Family Trust, which was established by Mr. Yang as the settlor. TMF (Cayman) Ltd. is the trustee of the Peter Yang Family Trust, and Mr. Yang and his family members are the beneficiaries of the Peter Yang Family Trust. As such, Mr. Yang is deemed to be interested in our Shares held by Keiskei Holding Ltd.. Mr. Yang is also a director of Keiskei Holding Ltd..

(4) The Company is held as to [REDACTED] and [REDACTED] by Intelligence QC Holding Ltd. and Intelligence QC Ltd., respectively, following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). Intelligence QC Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Intelligence Future Holding Limited and 1% to Intelligence QC Ltd., a company wholly-owned by Mr. Huang. Intelligence Future Holding Limited is held by Intelligence Future Trust, which was established by Mr. Huang as the settlor. TMF (Cayman) Ltd. is the trustee of Intelligence Future Trust, and Mr. Huang and his family member are the beneficiaries of the Intelligence Future Trust. As such, Mr. Huang is deemed to be interested in our Shares held by Intelligence QC Holding Ltd. and Intelligence QC Ltd.. Mr. Huang is also a director of Intelligence QC Holding Ltd..

(5) The Company is held as to [REDACTED] by Gentle Tiger Holding Ltd., following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). Gentle Tiger Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Sebastian Family Holding Limited and 1% to Gentle Tiger Ltd., a company wholly-owned by Mr. Liu. Sebastian Family Holding Limited is held by the Sebastian Family Trust, which was established by Mr. Liu as the settlor. TMF (Cayman) Ltd. is the trustee of the Sebastian Family Trust, and Mr. Liu and his family members are the beneficiaries of the Sebastian Family Trust. As such, Mr. Liu is deemed to be interested in our Shares held by Gentle Tiger Holding Ltd.. Mr. Liu is also a director of Gentle Tiger Holding Ltd..

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(6) Cloud Rings Ltd. is a company incorporated in the BVI which owns [7,439,214] shares of the Company and is wholly-owned by Mr. Zeng. As such, Mr. Zeng is deemed to be interested in the [7,439,214] Shares held by Cloud Rings Ltd..

(b) *Interests and short positions of the Substantial Shareholders in the Shares and underlying Shares of the Company*

Save as disclosed in the section headed “Substantial Shareholders” in this document, our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has an interest or short position in the Shares and underlying Shares of our Company which, once the Shares are [REDACTED], would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

(c) *Interests of the Substantial Shareholders of Any Member of Our Group (Other than Our Company)*

So far as the Directors are aware, immediately following the completion of the [REDACTED], no persons will, directly or indirectly, be interested in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (other than us).

2. Particulars of Service Contracts

(a) *Executive Directors*

Each of the executive Director [has entered into] a service contract with us under which he agreed to act as executive Director for an initial term of three years or until the third annual general meeting of our Company since the [REDACTED], subject to the Articles and the Listing Rules (whichever is sooner), which may be terminated by not less than three months’ notice in writing served by either the executive Director or us.

The appointment of the executive Director is subject to the provisions of retirement and rotation of Directors under the Articles.

(b) *Independent Non-executive Directors*

Each of the independent non-executive Directors [has signed] an appointment letter with us for an initial term of three years or until the third annual general meeting of our Company since the [REDACTED], subject to the Articles and the Listing Rules (whichever is sooner). Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director’s fee. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

(c) *Others*

Save as disclosed above:

- (i) none of the Directors has entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).
- (ii) During the year ended December 31, 2020, the aggregate of the remuneration and benefits in kind payable to the Directors was approximately RMB90.2 million. Details of the Directors’ remuneration are also set out in note 7 of the Accountant’s Report set out in Appendix I to this document. Save as disclosed in this document, no other emoluments have been paid or are payable, in respect of the year ended December 31, 2020 by us to the Directors.
- (iii) Under the arrangement currently in force, the aggregate of the remuneration and benefits in kind payable to the Directors (excluding any discretionary bonus) for the year ending December 31, 2021 is estimated to be approximately RMB10 million.

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- (iv) None of the Directors or any past Directors of any members of our Group has been paid any sum of money for the Track Record Period (i) as an inducement to join or upon joining us or (ii) for loss of office as a Director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (v) There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind during the Track Record Period.
- (vi) None of the Directors has been or is interested in the promotion of, or in the property proposed to be acquired by, us, and no sum has been paid or agreed to be paid to any of them in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him in connection with the promotion or formation of the Company.

3. Substantial Shareholders

For information on the persons who will, immediately following the completion of the [REDACTED] and the [REDACTED], (without taking into account any Shares which may be issued upon the exercise of the [REDACTED]), have or deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFC, please refer to “Substantial Shareholders” of this document.

Save as set out above, as of the Latest Practicable Date, our Directors are not aware of any person who will, immediately following the completion of the [REDACTED] and the [REDACTED], be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such capital.

4. Fees or commissions received

Save as disclosed in this document, none of the Directors or any of the persons whose names are listed under the paragraph headed [“D. Other Information – 8. Consents of Experts”] below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this document.

5. Disclaimers

Save as disclosed in this document:

- (a) none of our Directors or chief executives has any interests and short positions in the Shares, underlying Shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to us and the Stock Exchange, in each case once our Shares are [REDACTED];
- (b) so far as is known to any of our Directors or chief executives, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;
- (c) none of our Directors nor any of the parties listed in the paragraph headed “[D]. Other Information—[7]. Qualification of Experts” below is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this document, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to us;

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- (d) save in connection with the [REDACTED], none of our Directors nor any of the parties listed in the paragraph headed “[D]. Other Information—[7]. Qualification of Experts” below is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group;
- (e) save in connection with the [REDACTED], none of the parties [REDACTED] in the paragraph headed “[D]. Other Information—[7]. Qualification of Experts” below: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (f) none of our Directors or their respective associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

D. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries under the laws of Hong Kong, the Cayman Islands and the PRC.

2. Litigation

As of the Latest Practicable Date, we are not aware of any other litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

3. [REDACTED]

The Joint Sponsors have made an application on behalf of our Company to the [REDACTED] for the [REDACTED], the Shares in issue and to be issued as mentioned in this document. All necessary arrangements have been made to enable such Shares into [REDACTED].

4. Joint Sponsors

The Joint Sponsors satisfy the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules. The fee payable to each of the Joint Sponsors in respect of its services as sponsor for the [REDACTED] is US\$500,000 and payable by us.

5. Preliminary Expenses

The preliminary expenses incurred by us in relation to our incorporation were approximately US\$3,710 and were paid by us.

6. Promoter

We have no promoter for the purpose of the Listing Rules. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this document.

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7. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

China International Capital Corporation Hong Kong Securities Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
CLSA Capital Markets Limited	Licensed corporation under the SFO to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
PricewaterhouseCoopers	Certified Public Accountants under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) and Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
JunHe LLP	PRC legal advisor
Maples and Calder (Hong Kong) LLP	Cayman Islands legal advisors
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultants

8. Consents of Experts

Each of the persons named in [“—7. Qualification of experts”] has given and has not withdrawn its respective written consent to the issue of this document with the inclusion of its report and/or letter and/or opinion and/or the references to its name included in this document in the form and context in which it is respectively included.

9. Binding Effect

This document shall have the effect, if an [REDACTED] is made in pursuance of this document, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

10. Bilingual Document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Reserves available for distribution

As of March 31, 2021, our Group had retained earnings attributable to equity holders of our Company of RMB241.4 million.

12. Miscellaneous

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:
 - (i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founders or management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;
 - (iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries; and
 - (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries.
- (b) Save as disclosed in this document, our Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities.
- (c) Our Directors confirm that:
 - (i) there has been no material adverse change in the financial or trading position or prospects of the Group since March 31, 2021 (being the date to which the latest audited consolidated financial statements of the Group were prepared); and
 - (ii) there is no arrangement under which future dividends are waived or agreed to be waived; and
 - (iii) there has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this document.
- (d) There are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong.
- (e) Our principal register of members will be maintained by our [REDACTED] in the Cayman Islands and our Hong Kong register of members will be maintained by our [REDACTED], in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our [REDACTED] and may not be lodged in the Cayman Islands.
- (f) All necessary arrangements have been made to enable our Shares to be admitted [REDACTED].
- (g) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (h) The English and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX V

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of the [REDACTED];
- (b) a copy of each of the material contracts referred to the section headed [“Statutory and General Information—B. Further Information About Our Business—1. Summary of Material Contracts”] in Appendix [IV] to this document; and
- (c) the written consents referred to in the section headed [“Statutory and General Information—D. Other Information—8. Consents of experts”] in Appendix [IV] to this document.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Cleary Gottlieb Steen & Hamilton (Hong Kong) at 37/F, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- (a) our Memorandum and Articles;
- (b) the Accountant’s Report for the three years ended December 31, 2020 and three months ended March 31, 2021 issued by PricewaterhouseCoopers, the text of which is set out in Appendix [I] to this document;
- (c) the audited consolidated financial statements of our Group for the three years ended December 31, 2020 and three months ended March 31, 2021;
- (d) the report on the unaudited pro forma financial information from PricewaterhouseCoopers, the text of which is set out in Appendix [II] to this document;
- (e) the legal opinions issued by JunHe LLP, our PRC legal advisor, dated [●] in respect of certain aspects of the Group and the property interests of the Group;
- (f) the letter of advice issued by Maples and Calder (Hong Kong) LLP, our Cayman legal advisor, in respect of certain aspects of the Cayman Companies Act referred to in Appendix [III] to this document;
- (g) the Cayman Companies Act;
- (h) the industry report prepared by Frost & Sullivan, our industry consultant;
- (i) the material contracts referred to the section headed [“Statutory and General Information—B. Further Information About Our Business—1. Summary of Material Contracts”] in Appendix [IV] to this document;
- (j) the written consents referred to in the section headed [“Statutory and General Information—D. Other Information—8. Consents of Experts”] in Appendix [IV] to this document; and
- (k) service contracts and letters of appointment entered into between the Company and each of the Directors.