

SUMMARY

This summary aims to give you an overview of the information contained in this document and should be read in conjunction with the full text of 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, including our financial statements and the accompanying notes, before you decide to invest in the [REDACTED].

There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in “Risk Factors” in this document. You should read that section carefully before you decide to invest in the [REDACTED].

OVERVIEW

We are an internet company in China, offering video- and audio-based live entertainment and social networking services to our users. China’s online video and audio social entertainment market consists of platforms offering video (i.e., short video and video-based live streaming) and audio (i.e., online music, audio and other innovative audio interactive services) social entertainment services. As a segment of video social entertainment market, China’s live streaming market includes platforms that offer live streaming services and primarily generate revenues from virtual gifting and other monetization methods. Based on content offerings, China’s live streaming market can be further divided into sub-segments of entertainment, gaming and e-commerce, with entertainment live streaming currently being the largest market segment by revenue. We operate one of the leading online entertainment live streaming platforms in China. Total revenue of entertainment live streaming platforms in China accounted for approximately 7.0% of China’s online video and audio social entertainment market in terms of revenue in 2021. We ranked among the top two online entertainment live streaming platforms in China in terms of monthly active users and monthly paying users from apps and websites on mobile and PC, as well as WeChat mini programs, and monthly usage time on mobile apps and PC clients in 2021, according to the iResearch Report. According to the same source, we ranked third among all online entertainment live streaming platforms in China in terms of revenue generated from apps and websites on mobile and PC, as well as WeChat mini programs in 2021, accounting for approximately 13.1% of total revenue of China’s entertainment live streaming platforms and approximately 0.9% of total revenue of China’s video and audio social entertainment market in 2021.

We focus on the sphere of online social entertainment, with a business portfolio from live streaming to a suite of multi-faceted video- and audio-based social networking products and services. We believe we have crafted our platforms to meet the needs and interests of users in China and selected overseas markets, popular among the Generation Z users in particular. We had 414.9 million registered users as of May 31, 2022, with Generation Z users accounting for approximately 61.3% of average MAUs of *Huajiao* (花椒)⁽¹⁾ in the five months ended May 31, 2022, based on the information provided by our users. In 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, the revenue generated from *Huajiao* (excluding *Naitang*) was RMB2,165.7 million, RMB2,809.5 million, RMB3,251.9 million, RMB1,312.7 million and RMB1,379.3 million, respectively, representing 76.5%, 76.3%, 70.7%, 72.9% and 66.1% of our total revenue in the same periods, respectively. From 2017 to 2020 and in 2022, we were ranked among the “China’s Top 100 Internet Companies,” an award to internet companies with social influence, growth potential and social responsibility.

We have continued to capture user needs and industry trends to refine our products and services. Capitalizing on our know-how and experience accumulated through the operations of our flagship products, *Huajiao* and *6.cn* (六間房), we are a popular destination for entertainment live streaming experience. We have also introduced our audio-based social entertainment and networking products, in addition to our investment in or incubation of various specialty social networking services in scenarios such as social discovery, friend making and group chat. As of the Latest Practicable Date, we launched products and services to cover various media channels, including mobile apps and PC clients, content expression forms, including live streaming, short videos and audio communications, and service genres, including general entertainment and social networking, to reach and engage a broad user base.

The viability of our content ecosystem is critical to our success. We provide opportunities that transform beginner hosts into influencers, enabling them to gain proficiency and popularity and to develop with us professionally. On the supply side, we collaborate with talent

(1) Throughout this document, unless stated otherwise, *Huajiao*’s operating results included those of *Naitang*, formerly known as *Huazhi* until the official change of name in August 2022, a stand-alone audio-based product introduced in May 2019.

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agencies to facilitate a smooth supply of hosts to stream and perform on our platform. We have developed a talent fostering system to identify, develop and train hosts, with execution plans on host training and promotion, content production and monitoring. We have also aggregated a large number of viable hosts, leveraging our brand, career advancement opportunities and favorable collaboration policies. On the demand side, supported by our technology capability, we connect users with relevant content, creating a cycle evolving around the positive interaction between our content production and user base.

We have grown rapidly during the Track Record Period. Our revenue was RMB2,830.9 million, RMB3,683.5 million, RMB4,599.7 million, RMB1,801.6 million and RMB2,087.4 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively. Our gross profit was RMB705.7 million, RMB1,011.4 million, RMB1,222.6 million, RMB499.7 million and RMB541.7 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively, representing a gross profit margin of 24.9%, 27.5%, 26.6%, 27.7% and 26.0% of the same periods, respectively. Our net profit/(loss) was RMB191.3 million, RMB(1,524.7) million, RMB325.0 million, RMB136.2 million and RMB177.9 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively. Our adjusted net profit/(loss) (non-IFRS measure) was RMB210.6 million, RMB(1,505.9) million, RMB430.6 million, RMB156.2 million and RMB194.0 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively. See “Financial Information — Key Components of Our Results of Operations — Non-IFRS Measure” for details. Our adjusted net loss (non-IFRS measure) position in 2020 was primarily due to the impact of the recognition of an impairment loss of RMB1,777.7 million in 2020 for the goodwill arising from the Huajiao-6.cn Merger. See “Financial Information — Key Components of Our Results of Operations — Impairment Loss of Goodwill” for details.

OUR PLATFORM

Huajiao

Launched in May 2015, *Huajiao* is our mobile app flagship product, which offers a stage for people who aspire to show their talents and share their skills, experience and lifestyles through interactive and entertaining experience delivered in live streaming sessions. Users have easy access to our live streaming features, which allow them to watch, follow and explore content that interest them and chat with hosts and other users on a real-time basis. Leveraging the fast-growing “Ear Economy,” we have also introduced a variety of audio contents, such as audio live streaming, podcasts, music and talk shows on *Huajiao* since 2018. Such interactive atmosphere and our user-centric feedback mechanism have created an open community for users to interact with their preferred hosts and fellow users, via a variety of features, including virtual gift giving, live chat and comment.

Naitang

Unlike real-time video interaction, audio live streaming does not require hosts to reveal their appearance online, which provides greater privacy and protection against identity leak in real life, offering a less stressful streaming experience for some hosts. In addition, audio live streaming enables users to use fragmented time and enjoy entertainment in a wider application scenarios, such as smart wearable devices, smart home devices and in-vehicle devices, since users can connect with hosts and listen to audio content at any time without paying close attention on screen. This new interactive mode subverts traditional video-based social interaction and has become increasingly popular among Generation Z users. Riding on the popularity of audio contents offered on *Huajiao*, we launched *Naitang* (formerly known as *Huazhi* until the official change of name in August 2022) in May 2019, which is an audio-based product aiming to capture the growing online audio social entertainment market. We developed *Naitang*, initially utilizing substantially the same underlying technologies and product development philosophy as that of *Huajiao*. Since its launch, *Naitang* has been managed under the same senior management team as that of *Huajiao*. Due to the similar operations of *Naitang* and *Huajiao*'s audio content, as well as the relatively small size of *Naitang* in terms of revenue and operation scale, we have included the operating and financial results of *Naitang* in that of *Huajiao*. *Naitang* enables users to create, edit, store and share audio contents to showcase their vocal talent. *Naitang* primarily provides group audio chat rooms and other audio contents, such as podcasts and audio live streaming covering a broad range of topics, including lifestyle, music radio and virtual idol performance.

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In 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, we generated revenue of nil, RMB16.4 million, RMB217.3 million, RMB47.8 million and RMB113.9 million from *Naitang*, respectively, representing nil, 0.6%, 6.3%, 3.5% and 7.6% of the revenue generated from *Huajiao* during the same period, respectively.

6.cn

6.cn⁽¹⁾ is our PC client flagship product with its own mobile apps, *6.cn live streaming* (六間房直播), *Shiliu live streaming* (石榴直播) and *Huafang live streaming* (花房直播), which enable users to access content offered on *6.cn* through mobile phones. *6.cn* has more than 10 years of operating history and is one of the earliest live streaming products in China, according to the iResearch Report. The *Huajiao-6.cn* Merger in 2019 has allowed us to leverage the media and operational experiences of *6.cn* to diversify our service offerings and create an engaging experience for users. In addition, utilizing *Huajiao*'s extensive experience in operating mobile-based live streaming products, *6.cn* has launched several mobile-based apps to reach a wider user base.

At *6.cn*, hosts can form streaming clans and fan bases and compete against one another in karaoke and dancing contests, debates and gameplays, fostering a competitive environment that encourages user engagement. PC client-based hosts are more likely to attract a large pool of dedicated users with a high level of engagement and form a close community with their fans. We believe that the competitive features of *6.cn* have helped us attract an engaged user base.

Overseas Social Networking Products

Our experienced overseas business team has operated several international products in North America, Europe, Far East and MENA under our HOLLA Group. Among countries in Far East and MENA, our overseas social networking products primarily target users in Indonesia and Saudi Arabia. As of the Latest Practicable Date, we operated several social networking products under HOLLA Group, primarily including *HOLLA*, *Omega*, *Camsea* and *Monkey*, that offer social discovery and video and audio chat services to enable users to meet new people. Our social networking products focus on exploring the demand for socialization in overseas markets. For example, *HOLLA* is a mobile app primarily targeting the North American and European markets that features instant video and audio chat matching function, which enables users to chat with fellow users through a brief video or audio introduction. If they are interested in keeping in touch, they can become friends and chat or interact with each other in the future. Similarly, *Camsea* and *Monkey* are social networking products that primarily focus on the North American and European markets. We have also introduced other video-based social networking products such as *Omega*, which targets Southeast Asia and MENA markets and enables users to find new friends and build social communities. All of these overseas social networking products focus on social discovery, video chat and audio-based companionship and help users meet potential friends by pairing them with other users through video chat rooms and enabling like-minded users to discover and develop meaningful relationships. For example, at *HOLLA*, users may be randomly paired up with other users or hosts, for which users could pay for the option to set their pairing criteria but without an option to pair up with hosts at will. If a user would like to chat with designated hosts they have randomly paired up and chatted with before, we charge such user for chatting-time-based fees. For our overseas social networking products, we only engage hosts sourced from talent agencies. In general, such hosts are based overseas, different from the hosts of our live streaming products, most of whom are based in China.

We deploy local operation teams for HOLLA Group in countries with substantial operations of ours to learn the needs of the local market and users, and maintain our sensitivity to local market conditions. Our local operation teams work with local third-party agencies and service providers to expand our overseas business operations. While our research and development teams and administrative departments are primarily located in the PRC, our core management members visit countries with substantial operations of ours from time to time to strengthen their understanding about demands of users in these countries.

(1) Throughout this document, unless stated otherwise, we only include *6.cn*'s operating results in 2019 since the completion of the *Huajiao-6.cn* Merger (from May through December 2019).

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KEY OPERATING METRICS

The following table sets out our key operating metrics of our platform for the period and as of the date indicated.

	As of/for the year ended December 31,			As of/for the five months ended May 31,	
	2019*	2020	2021	2021	2022
Cumulative registered users (in thousands)					
<i>Huajiao</i> **	175,939	195,968	214,971	204,676	221,223
<i>6.cn</i>	68,587	73,468	78,858	75,941	80,897
<i>Overseas social networking products Group</i>	N/A	N/A	97,288	73,941	112,744
	244,526	269,436	391,117	354,558	414,864
Increase in users (in thousands)					
<i>Huajiao</i> **	19,945	20,029	19,004	8,708	6,252
<i>6.cn</i>	68,587	4,881	5,390	2,473	2,039
<i>Overseas social networking products Group</i>	N/A	N/A	97,288	73,941	15,455
	88,532	24,910	121,682	85,122	23,746
Average MAUs (in thousands)					
<i>Huajiao</i> **	23,604	27,379	29,878	29,247	30,626
<i>6.cn</i>	21,908	22,709	24,619	24,724	23,345
<i>Overseas social networking products Group</i>	N/A	N/A	4,936	5,034	4,601
	45,512	50,088	59,433	59,005	58,571
Average MPUs (in thousands)					
<i>Huajiao</i> **	802	742	935	911	1,018
<i>6.cn</i>	121	166	175	176	182
<i>Overseas social networking products Group</i>	N/A	N/A	290	186	354
	923	908	1,400	1,274	1,555
Monthly ARPPU (RMB)					
<i>Huajiao</i> **	273	350	310	298	293
<i>6.cn</i>	682	436	482	460	580
<i>Overseas social networking products Group</i>	N/A	N/A	36	39	38
Average daily viewing time per user (minutes)					
<i>Huajiao</i>	36	39	43	43	48
User acquisition cost (RMB)					
<i>Huajiao</i> **	14.0	17.1	19.9	18.0	22.6
<i>6.cn</i>	13.9	14.0	14.2	19.9	10.4
<i>Overseas social networking products Group</i>	N/A	N/A	0.4	0.9	1.5
	14.0	16.5	7.6	7.9	7.8
Number of paying users by the size of their total payments for the year/period indicated (in thousands)					
<i>Paying users with annual payments between RMB0.05 to RMB500</i>	2,607	2,471	8,793	4,816	3,326
<i>Paying users with annual payments between RMB500 and RMB5,000</i>	137	143	423	143	208
<i>Paying users with annual payments above RMB5,000</i>	55	58	127	33	67

* Throughout this document, unless stated otherwise, we only include *6.cn*'s operating results in 2019 since the completion of the *Huajiao-6.cn* Merger (from May through December 2019).

** Throughout this document, unless stated otherwise, *Huajiao*'s operating results included those of *Naitang*, a stand-alone audio-based product introduced in May 2019.

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The following table sets forth key operating metrics with respect to our hosts and talent agencies for the periods and as of the dates indicated.

	As off/for the year ended			As off/for the	
	December 31,			five months ended	
	2019*	2020	2021	May 31,	
	2021	2022			
Increase of total host number					
(in thousands)	905	560	444	227	164
Increase of talent agency number	3,088	2,000	2,364	1,322	970
Total number of hosts (in thousands)	9,859	10,419	10,863	10,646	11,027
Total number of talent agencies	6,225	8,225	10,589	9,547	11,559
Average monthly active hosts					
(in thousands)	378	312	235	249	215
Total number of talent agencies associated with active hosts	2,964	3,248	3,045	2,091	2,348
Average daily streaming time per host (minutes)					
<i>Huajiao**</i>	148	207	261	247	293
<i>6.cn</i>	234	244	256	253	254
Number of hosts associated with talent agencies (in thousands)	360	511	731	627	812
Revenue contribution by hosts associated with talent agencies (%)	80.0	91.3	95.7	93.7	96.2
Average monthly active host retention rate (%)					
<i>Huajiao**</i>	58.1	56.9	58.9	58.3	60.0
<i>6.cn</i>	65.8	65.3	64.7	64.8	66.3
<i>Overseas social networking products</i>	N/A	N/A	59.3	60.8	53.6
Number of hosts based on value of virtual items received (in thousands)					
<i>Value of virtual items received between RMB0.05 to RMB1,000</i>	490	398	465	241	236
<i>Value of virtual items received between RMB1,000 and RMB10,000</i>	24	29	30	16	16
<i>Value of virtual items received above RMB10,000</i>	15	18	19	10	10

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** Throughout this document, unless stated otherwise, *Huajiao*'s operating results included those of *Naitang*, a stand-alone audio-based product introduced in May 2019.

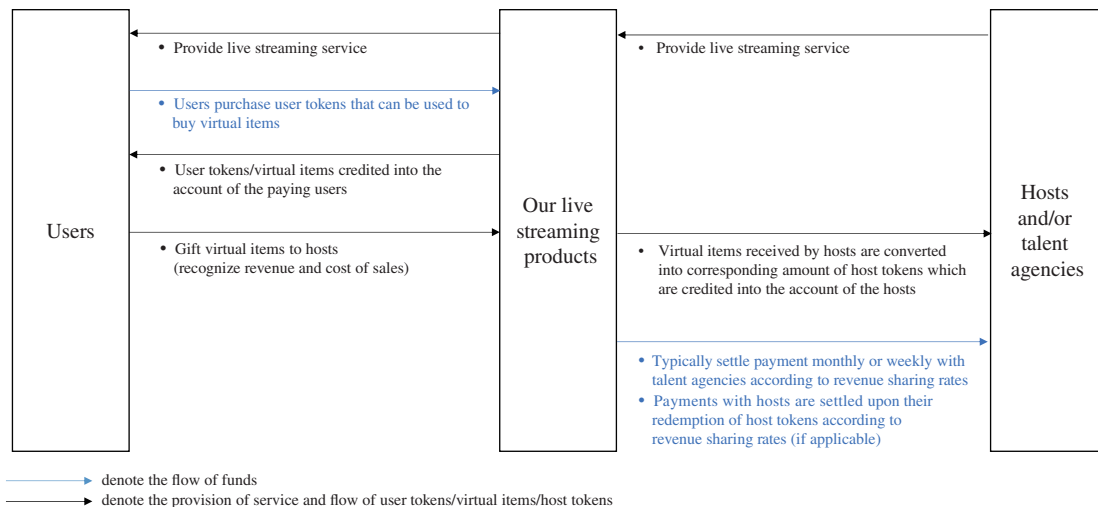
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MONETIZATION CHANNELS AND REVENUE GENERATION

During the Track Record Period, we generated substantially all of our revenue from the purchase and presentation of virtual items to hosts and other services on our video and audio live streaming products. We recognize revenue when the virtual items are gifted by users to hosts.

We share a portion of revenue generated from the virtual items received by hosts with such hosts and their associated talent agencies. Each virtual item is worth a certain amount of the host tokens, which can be exchanged into cash at a pre-determined ratio. When hosts receive virtual items, we will automatically convert the virtual items into the corresponding amount of host tokens, which will be credited into the accounts of the hosts and can be exchanged into Renminbi under the revenue sharing arrangements among us, hosts and their affiliated talent agencies, if any. Talent agencies can receive their portion of revenue-sharing payment based on the pre-determined ratio, which may be adjusted by the aggregate performance metrics of the hosts affiliated with them. We typically settle the aggregate payments with talent agencies on a monthly or weekly basis. Payments with hosts are settled when they redeem the host tokens. For each of our live streaming products, the conversion ratio of user token and host token is one to one.

The following diagram illustrates the general monetization mechanism for our live streaming products, including *Huajiao*, *Naitang* and *6.cn*, and revenue sharing among us, hosts and/or talent agencies.



We determine the revenue sharing ratio as a percentage of the gross billings from the sales of virtual items attributed to hosts based on our standard platform policies, which set out the applicable revenue sharing ratios based on the value of the virtual items received by the hosts, and the aggregate billings from the sales of virtual items attributed to the related talent agencies, among others. Talent agencies typically agree to adhere to our standard platform policies by signing up their hosts or streamer associations with our platform. Pursuant to our agreement with hosts and/or talent agencies, we share a portion of the gross billings from the sales of virtual items attributed to the hosts and/or their associated talent agencies based on a pre-determined ratio as stipulated in our platform-wide revenue-sharing policies effective at the time, which varied from 40% to 83% for *Huajiao*, from 40% to 70% for *6.cn*, and from 40% to 85% for *Naitang*, as of the Latest Practicable Date. We determine and make adjustment to such pre-determined ratio, as appropriate, after considering the prevailing industry practice. Our pre-determined revenue sharing ratio remained relatively stable during the Track Record Period. In addition, *6.cn* offers additional revenue-sharing if hosts satisfy performance requirement as part of our revenue-sharing policy, which we may adjust from time to time. For example, *6.cn* offers an additional 2.0% in revenue-sharing ratio if hosts streamed for more than 60 hours during each month in 2022. In 2019, 2020, 2021 and the five months ended May 31, 2022, the actual revenue-sharing ratio with hosts and talent agencies was (1) approximately 73.5%, 71.0%, 71.5% and 71.6%, respectively, on *Huajiao*; (2) approximately 50.0%, 52.0%, 58.1% and 66.1%, respectively, on *6.cn*; and (3) approximately nil, 82.5%, 83.2% and 82.7%,

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respectively, on *Naitang*. For a summary of our revenue-sharing policy with talent agencies for *Huajiao* and *6.cn* as of the date of this document, see “Business — Hosts and Talent Agencies — Cooperation Agreements with Hosts and Talent Agencies.” According to the iResearch Report, our standard and actual revenue-sharing ratios during the Track Record Period were in line with industry practice.

We do not rely on any single host or a few hosts among our top ten hosts in each period during the Track Record Period. Our revenue from any single host accounted for no more than 4.5% of our total revenue during the Track Record Period. In 2019, 2020, 2021 and the five months ended May 31, 2022, our revenue from the host with most significant revenue contribution amounted to RMB34.7 million, RMB61.8 million, RMB62.3 million and RMB87.5 million, accounting for 1.2%, 1.7%, 1.4% and 4.2% of our total revenue, respectively. In the same periods, our revenue from the top ten hosts in total amounted to RMB202.6 million, RMB337.0 million, RMB421.8 million and RMB363.4 million, accounting for 7.2%, 9.1%, 9.2% and 17.4% of our total revenue, respectively.

COMPETITIVE STRENGTHS

We believe the following strengths contribute to our success: (1) one of the leading online entertainment live streaming platforms in China; (2) expanding ecosystem of quality content; (3) community of engaged and loyal users with demand for quality content; (4) expanding global presence supported by rich overseas operational capability; (5) strong technological capability to ensure user experience; and (6) visionary and experienced management team.

GROWTH STRATEGIES

To achieve our mission and further strengthen our market leadership, we intend to pursue the following strategies: (1) further expand products and services to reach more users and optimize our ecosystem; (2) further improve our content ecosystem and strengthen our core competitiveness; (3) further improve user experience and loyalty and achieve more diversified monetization channels; (4) further enhance our technological capability; and (5) further expand our business through selective investment and acquisitions.

RISKS AND CHALLENGES

Our business and the [REDACTED] involve certain risks, which are set out in the section headed “Risk Factors” in this document. Live streaming platforms in China are subject to extensive regulations, which restrict our ability to maintain or increase our user base, or increase user traffic to our platform, which may materially and adversely affect our business and results of operations. If we fail to retain our existing users, keep them engaged or acquire new users in a cost-efficient manner, or if we fail to attract, groom and retain hosts or maintain our relationship with talent agencies, we may experience declines in the number of users accessing our platform and in user engagement, and our business, results of operations and financial condition may be materially and adversely affected. Our revenue growth is significantly dependent on paying users. If we fail to continue to grow or maintain our paying user base, our revenues may not grow as we anticipate. If we fail to maintain our unique community culture and our vibrant ecosystem, our user interactions, engagement and experience will be materially and adversely affected. As different investors may have different interpretations and criteria when determining the significance of a risk, you should carefully read the “Risk Factors” section in its entirety before you decide to invest in our Shares.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following is a summary of our historical financial information as of and for the years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2021 and 2022, extracted from the Accountant’s Report set out in Appendix I to this document. The summary below should be read in conjunction with the consolidated financial information in Appendix I, including the accompanying notes and the information set forth in the section headed “Financial Information” in this document. Our consolidated financial information was prepared in accordance with IFRSs.

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Selected Consolidated Statements of Results of Operations

The following table set forth our selected consolidated statements of results of operations for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Years ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Unaudited)									
	(RMB in thousands except for percentages)									
Revenue	2,830,872	100.0	3,683,475	100.0	4,599,690	100.0	1,801,646	100.0	2,087,441	100.0
Cost of sales	(2,125,207)	(75.1)	(2,672,103)	(72.5)	(3,377,109)	(73.4)	(1,301,973)	(72.3)	(1,545,712)	(74.0)
Gross profit	705,665	24.9	1,011,372	27.5	1,222,581	26.6	499,673	27.7	541,729	26.0
Profit/(loss) before taxation	203,140	7.2	(1,476,754)	(40.1)	392,249	8.5	161,482	9.0	212,249	10.2
Profit/(loss) for the year/period attributable to equity shareholders of the Company	191,298	6.8	(1,524,671)	(41.4)	325,023	7.1	136,184	7.6	177,891	8.5

Non-IFRS Measure

In order to supplement our financial information presented in accordance with the IFRSs, we use adjusted net profit/(loss) (non-IFRS measure) as an additional financial measure, which is not required by, or presented in accordance with IFRSs. Our adjusted net profit/(loss) (non-IFRS measure) represents our profit/(loss) for the year, adjusted to add back share-based compensation expenses and [REDACTED]. Share-based compensation expenses are expenses arising from granting restricted shares and options. [REDACTED] are expenses incurred in connection with this [REDACTED] recognized in consolidated income statements during the Track Record Period. We believe that adjusted net profit/(loss) (non-IFRS measure) provides investors with useful information to understand and evaluate our consolidated results of operation in the same manner as it helps our management. However, adjusted net profit/(loss) (non-IFRS measure) presented by us may not be comparable to the similar financial measure presented by other companies. There are limitations to the non-IFRS measure used as an analytical tool, and you should not consider it in isolation or regard it as a substitute for our results of operation or financial position analysis that is presented in accordance with IFRSs.

The table below sets forth the reconciliation of adjusted net profit/(loss) (non-IFRS measure) to the most directly comparable IFRS financial measure, for the periods indicated.

	Year ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	(Unaudited)				
	(RMB in thousands except for percentages)				
Profit/(loss) for the year/period	191,298	(1,524,671)	325,023	136,184	177,891
Add:					
Share-based compensation expenses ⁽¹⁾	19,307	18,796	83,993	20,035	13,857
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net profit/(loss) (non-IFRS measure)	210,605	(1,505,875)	430,617	156,219	194,037

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- (1) Share-based compensation expenses mainly represent share-based compensation expenses incurred in connection with the grant of restricted share unit under our [REDACTED] stock incentive plan. Share-based compensation expenses are not expected to result in future cash payments.

We experienced rapid growth during the Track Record Period, which was primarily driven by the growth of our live streaming business, and as a result of our acquisition of *6.cn* and HOLLA Group. In 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, we generated substantially all of our revenue from our video- and audio-based live streaming business, accounting for approximately 99.6%, 99.6%, 97.3%, 97.9% and 96.8% of the total revenue, respectively. Revenue generated from live streaming services increased from RMB2,819.4 million in 2019 to RMB3,669.6 million in 2020 and further to RMB4,477.1 million in 2021, and from RMB1,763.7 million in the five months ended May 31, 2021 to RMB2,020.9 million in the five months ended May 31, 2022, which was in line with our business growth after the Huajiao-6.cn Merger. In particular, revenue generated from audio-based live streaming products increased significantly from RMB193.0 million in 2019 to RMB523.1 million in 2020 and further to RMB1,106.4 million in 2021, and from RMB376.7 million in the five months ended May 31, 2021 to RMB565.6 million in the five months ended May 31, 2022. The significant growth in audio-based products related revenue was driven by our efforts in improving the product experience and the variety of audio contents on *Huajiao* and *Naitang*, and was in line with the growth momentum of the audio social entertainment live streaming market driven by the popularity of audio-based products among Generation Z users. In 2019, 2020, 2021 and the five months ended May 31, 2022, Generation Z users contributed to 46.6%, 46.4%, 43.7% and 48.0% of revenue generated from *Huajiao*'s audio contents, respectively. In 2020, 2021 and the five months ended May 31, 2022, 87.9%, 69.3% and 74.3% of revenue generated from *Naitang* was contributed by Generation Z users, respectively. After the financial results of HOLLA Group was consolidated into our historical financial statements since December 31, 2020, we began to generate revenue from social networking services. In 2021 and the five months ended May 31, 2021 and 2022, we generated revenue of RMB118.2 million, RMB35.6 million and RMB66.4 million from our social networking services, respectively, representing 2.6%, 2.0% and 3.2% of our total revenue, respectively. We had adjusted net loss (non-IFRS measure) of RMB1,505.9 million in 2020 and achieved adjusted net profit (non-IFRS measure) of RMB210.6 million, RMB430.6 million, RMB156.2 million and RMB194.0 million in 2019, 2021 and the five months ended May 31, 2021 and 2022, respectively.

After the Huajiao-6.cn Merger, we were able to improve our user engagement, increase user traffic, and promote host-centered online and offline events leveraging the combined brand effect and operational experience of *Huajiao* and *6.cn*, which helped us grow our business and improve our financial performance. Furthermore, the Huajiao-6.cn Merger accelerated *6.cn*'s expansion from PC clients to mobile apps to reach more users and achieve greater agility in meeting their demands. We believe these business initiatives have paved the way for the sustained business performance of Huafang Technology. Our adjusted net loss position (non-IFRS measure) in 2020 was primarily due to the impact of the recognition of an impairment loss of RMB1,777.7 million in 2020 for the goodwill arising from the Huajiao-6.cn Merger. For more details, see “Financial Information — Key Components of Our Results of Operations — Impairment Loss of Goodwill”. In 2021, we achieved net profit position as a result of our continuous business growth after the Huajiao-6.cn Merger.

Impairment Loss of Goodwill Relating to Huajiao-6.cn Merger

In June 2018, Beijing 6.cn Technology Co., Ltd. (currently known as Huafang Technology) agreed to issued 60% of its shares to the Mijing Hefeng's then shareholders in return for the entire equity interest of Mijing Hefeng. The valuation of equity interest of Huafang Technology (the entity operating *6.cn*) was determined based on, among others, a valuation report of Huafang Technology as of December 31, 2017 as appraised by an independent asset valuer (the “2017 Valuation Report”). After the completion of the Huajiao-6.cn Merger in April 2019, we have accounted for the Huajiao-6.cn Merger as a reverse acquisition in accordance with IFRS 3 “Business Combinations” and recognized goodwill of approximately RMB2,459.5 million calculated with reference to the fair value of the consideration transferred and the fair value of the *6.cn*'s net identifiable assets as of April 29, 2019, both of which were revalued by an independent asset valuer, excluding the valuation of Beijing Lingdong. See “Financial Information — Basis of Presentation.” The underlying

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forecast taken into account in arriving at the valuation of Huafang Technology set out in the 2017 Valuation Report was based on various assumptions and factors, primarily including the then projected growth rate of China’s live streaming market, as well as Huafang Technology’s historical growth rate. Taking into account, among others, historical performance of Huafang Technology and market projections of China’s live streaming market for 2018 to 2020 released during the material time, our management considered the expected growth rates adopted in 2017 Valuation Report and the goodwill recognized for the Huajiao-6.cn Merger reasonable.

After completion of the Huajiao-6.cn Merger, in light of the changes of the market environment of China’s live streaming industry, we implemented various measures, including but not limited to, mobilizing the user community, improving user engagement, increasing user traffic and acquisition and promoting host-centered online and offline events, with a view to enhancing the appeal of hosts and their performance and to enhance user acquisition, retention and engagement. As of December 31, 2019, based on the impairment test performed by our management which was supported by the valuation report issued by an independent third party, the recoverable amount of cash-generating unit (“CGU”) of *6.cn* calculated based on its value in use (“VIU”) exceeded carrying value and no impairment of goodwill was recognized.

In 2020, the market competition in the live streaming industry continued to intensify, as platforms competed more vigorously for user time and viable hosts, and new players, including major internet companies in China, continued to enter into the entertainment live streaming industry. For example, Douyin, a leading short-video platform, began to invest significantly in its live streaming business and implemented business initiatives to attract top-tier streamers and increase user traffic referrals in 2020. Similarly, other platforms also increased their efforts to attract quality hosts by enhancing host recruitment efforts and offering favorable incentive policies in the second half of 2020. The business initiatives undertaken by major internet companies in the live streaming industry created competitive pressure in terms of user and host retention, as well as gross billing generated from virtual gifting. In order to remain competitive, *6.cn* began to invest in user traffic referrals and host retention, which caused *6.cn* to incur higher operating costs and expenses.

In addition, the COVID-19 pandemic had disproportionately greater effect on PC-based live streaming due to the government-mandated mobility restrictions which could impede access to streaming studios, which typically offer live streaming equipment such as camera, lighting kits and stage setups, that could help to enhance the quality and effectiveness of streaming. In particular, due to our hosts’ inability to access streaming studios during relevant period, our hosts were unable to access equipments in streaming studios that are conducive to improving the live streaming quality and atmosphere. As more PC-based hosts were forced to stream at home during the initial stage of the COVID-19 pandemic, their streaming quality was less attractive to users, especially top users, and as a result, monthly ARPPU of *6.cn* decreased significantly by approximately 36% from RMB682 in 2019 to RMB436 in 2020, albeit the average MAUs increased mildly by approximately 4% from 21.9 million in 2019 to 22.7 million in 2020.

When performing the goodwill impairment assessment for 2020 in January 2021, the negative impact of the foregoing factors were considered to subsist and not be reversed in a short period of time, particularly the negative impact of intensified market competition that we could not foresee when entering into the acquisition agreement in 2018, therefore the forecast of *6.cn* for coming years were adjusted downward and its recoverable amount of CGU was reduced to RMB751.5 million as of December 31, 2020 based on the assessment, and an impairment loss of RMB1,777.7 million was recognized in 2020 for the goodwill arising from the Huajiao-6.cn Merger. For details, see “Financial Information — Key Components of Our Results of Operations — Impairment Loss of Goodwill.” Notwithstanding the one-off goodwill impairment arising from the Huajiao-6.cn Merger, leveraging our market position, quality content, loyal user base, and expanding overseas presence, we have been able to sustain secular growth, despite of the market competition pressure and the impact of impairment loss in 2020. We were able to achieve net profit position in 2021 and further increase our profitability, as evidenced by the growth in net profit margin from 7.6% in the five months ended May 31, 2021 to 8.5% in the five months ended May 31, 2022. For details of our competitive edges, see “Business — Competitive Strengths.”

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Selected Consolidated Balance Sheet

The following table sets forth our selected consolidated balance sheet as of the dates indicated.

	As of December 31,			As of
	2019	2020	2021	May 31, 2022
	<i>(RMB in thousands)</i>			
Total non-current assets	2,858,192	1,025,876	1,045,300	1,039,870
Total current assets	1,232,328	1,404,362	1,799,207	2,044,841
Total current liabilities	543,609	363,138	330,888	383,454
Net current assets	688,719	1,041,224	1,468,319	1,661,387
Total assets less current liabilities	<u>3,546,911</u>	<u>2,067,100</u>	<u>2,513,619</u>	<u>2,701,257</u>
Total non-current liabilities	34,227	29,537	65,564	61,160
Net assets	<u>3,512,684</u>	<u>2,037,563</u>	<u>2,448,055</u>	<u>2,640,097</u>

We had net current assets of RMB688.7 million, RMB1,041.2 million, RMB1,468.3 million and RMB1,661.4 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. The general increase in our net current assets during the Track Record Period was in line with our business growth. In particular, our net current assets experienced significant increase from 2019 to 2020, primarily due to the Huajiao-6.cn Merger in 2019. Our net current assets increased by RMB427.1 million in 2021, primarily due to the significant increase in cash at bank and on hand generated from our operating activities. Our net current assets increased by RMB193.1 million in the five months ended May 31, 2022, primarily due the significant increase in other financial assets, partly offset by the decrease in cash at bank and on hand.

We had net assets of RMB3,512.7 million, RMB2,037.6 million, RMB2,448.1 million and RMB2,640.1 million as of December 31, 2019, 2020, 2021 and May 31, 2022, respectively. Our net assets decreased from RMB3,512.7 million as of December 31, 2019 to RMB2,037.6 million as of December 31, 2020, primarily due to the impact of the recognition of an impairment loss of RMB1,777.7 million in 2020 for the goodwill arising from the Huajiao-6.cn Merger. The increase in our net assets in 2021 and the five months ended May 31, 2022 was in line with our business growth.

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Selected Consolidated Statements of Cash Flow

The following table sets forth our selected consolidated statements of cash flows for the periods indicated.

	Year ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	<i>(Unaudited)</i>				
	<i>(RMB in thousands)</i>				
Net cash generated from operating activities	446,976	186,184	348,544	112,869	302,323
Net cash generated from/(used in) investing activities	107,996	67,223	213,044	203,878	(541,077)
Net cash (used in)/generated from financing activities	(4,794)	25,064	(14,659)	(3,316)	(5,001)
Cash and cash equivalents at the end of the year/period	789,678	1,068,149	1,614,783	1,381,332	1,371,355

We had net cash generated from operating activities of RMB447.0 million, RMB186.2 million, RMB348.5 million, RMB112.9 million and RMB302.3 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively. For more details, see “Financial Information — Liquidity and Capital Resources — Net cash generated from operating activities.”

KEY FINANCIAL RATIOS

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

	As of/for the year ended December 31,			As of/for the five months ended May 31,	
	2019	2020	2021	2021	2022
	<i>(Unaudited)</i>				
Profitability ratios					
Gross profit margin	24.9	27.5	26.6	27.7	26.0
Net profit/(loss) margin	6.8	(41.4)	7.1	7.6	8.5
Adjusted net profit/(loss) margin					
(non-IFRS measure)	7.4	(40.9)	9.4	8.7	9.3
Liquidity ratios					
Current ratio	2.3	3.9	5.4	N/A	5.3

See “Financial Information — Key Financial Ratios” for details.

OUR MARKET OPPORTUNITIES

China’s online cultural entertainment market mainly includes short video, live streaming and online music (including karaoke), as well as online audio, online literature and online games. Internet users are no longer satisfied with graphics-based entertainment and social interaction, and are increasingly attached to real-time, video- and audio-based social entertainment content. Live streaming and short video are currently the most widely used form

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of video-based interaction to meet users’ daily social entertainment demand, while audio social entertainment enables users to interact or enjoy entertainment in application scenarios that are not covered by video social entertainment, such as smart wearable devices, smart home devices and in-vehicle devices. China’s online video and audio social entertainment market, in terms of revenues, grew from RMB61.8 billion in 2017 to RMB499.4 billion in 2021 at a CAGR of 68.6% and is expected to reach RMB1,326.5 billion in 2027 at a CAGR of 17.7% from 2021 to 2027.

Live streaming is an enduring form of online entertainment that features multiple-party real-time interactions with diversified content. Hosts and viewers may interact with each other on a real-time basis, by live chat and gifting. China’s video social entertainment live streaming market, in terms of revenues, is expected to reach RMB645.0 billion in 2027 at a CAGR of 17.4% from 2021 to 2027. Based on content offerings, China’s video social entertainment live streaming market can be further divided into entertainment, gaming and e-commerce. Entertainment live streaming is currently the largest market by revenue, which primarily includes music, dancing, beauty and talk shows. Total revenue of entertainment live streaming platforms in China accounted for approximately 7.0% of China’s online video and audio social entertainment market in terms of revenue in 2021. China’s entertainment live streaming, in terms of revenue, is expected to increase from RMB127.8 billion in 2021 to RMB259.8 billion in 2027 at a CAGR of 12.6%. The popularization of live streaming encourages talented hosts to produce quality content, which in turn attracts new users and increase user stickiness and user willingness to pay for quality content, which will drive the continuous growth of China’s entertainment live streaming market.

China’s online audio social entertainment market primarily consists of online music platforms, online audio platforms, online karaoke platforms, and other innovative platforms providing real-time audio interactive services. Driven by the pursuit of emotional companionships among the growing younger population in China and the sense of intrigue offered by anonymity in audio-based interactions, China’s online interactive audio market, in terms of revenues, grew from RMB2.6 billion in 2017 to RMB22.5 billion in 2021 at a CAGR of 70.8% and is expected to reach RMB80.1 billion in 2027 at a CAGR of 23.5% from 2021 to 2027. According to the same source, Generation Z users’ demand for self-expression, user anonymity, product diversification is expected to further drive the growth of China’s audio social entertainment market.

COMPETITIVE LANDSCAPE OF CHINA’S ENTERTAINMENT LIVE STREAMING MARKET

As an online entertainment live streaming platform that caters to a diverse range of users in both mobile apps and PC clients, we compete with other entertainment live streaming platforms offering similar products and services. In addition, we compete with other major companies in the internet industry that have also established their own live streaming businesses for user time. Our competitors primarily include, among others, *Kugou Live & Kuwo Live* under Tencent Music Entertainment Group, *YY Live* under Baidu, *Inke Live* under Inkeverse, *Now Zhibo* under Tencent, and *Yi Zhibo* under Weibo. China’s entertainment live streaming market contains many market players that have relatively unstable business and short product life cycle as a result of the intensive market competition. It is estimated that, in 2021, there were approximately 20 entertainment live streaming platforms with an average MAUs of above 0.5 million, which are considered as platforms with relatively stable business. According to the iResearch Report, we ranked third among entertainment live streaming platforms in China, in terms of revenue generated from apps and websites on mobile and PC, as well as WeChat mini programs in 2021, accounting for approximately 13.1% of total revenue of China’s entertainment live streaming platforms and approximately 0.9% of total revenue of China’s video and audio social entertainment market in 2021. We ranked among the top two entertainment live streaming platforms in China in terms of monthly active users and monthly paying users from apps and websites on mobile and PC, as well as WeChat mini programs, and monthly usage time of online entertainment live streaming on mobile apps and PC clients in 2021.

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While certain of our competitors are operated by sizable internet companies, we have been able to compete with these major players in China’s entertainment live streaming industry, as we have demonstrated our ability to sustain secular growth in such highly competitive entertainment live streaming industry. We believe that we can, and has managed to, outperform certain of these major players for valuable user time and viable hosts, as evidenced by, among others, the following:

- Our revenue-sharing ratio with hosts and talent agencies in 2021 and the five months ended May 31, 2022 was 67.1% and 68.6%, respectively, which was higher than the industry average and those of major short video and live streaming platforms, according to the iResearch Report. We believe that our competitive revenue-sharing ratio has enabled us to attract new hosts and talent agencies and increase the stickiness of existing hosts and talent agencies to our platform, which in turn help attract new users and retain existing ones.
- We have established *Huajiao Club* and *6.cn Club*, exclusive communities for users with high cumulative spending, to build a trust-based relationship with our users and enhance their stickiness to our platform, which help us maintain favorable monthly ARPPU for *Huajiao* and *6.cn*. In the five months ended May 31, 2022, the monthly ARPPU for *Huajiao* and *6.cn* was RMB293 and RMB580, respectively. At *Huajiao Club* and *6.cn Club*, our users can enjoy complementary personalized services, such as birthday gift, top-up assistant, dedicated account manager, among others. According to the iResearch Report, we ranked among the top two online entertainment live streaming platforms in terms of monthly active users and monthly paying users from apps and websites on mobile and PC, as well as WeChat mini programs in 2021. Additionally, according to the iResearch Survey, we ranked among the top two entertainment live streaming platforms in terms of viewing frequency.
- We offer video- and audio-based live entertainment and social networking services to users, and maintain a diverse product matrix with special features, including (1) H.265 technology, which has significantly improved *Huajiao*’s on-screen quality and reduced network transmission costs, (2) AI video special-effect technology, which has allowed us to improve user experience, (3) in-house developed virtual background features, special effect recognition features for screen gestures, expression transfer features, and “hand puppet” and “finger heart” features, which have enhanced the interactive and immersive experience of both users and hosts, and (4) customizable gifts supported by 3D engine technology, which has created more attractive visual effects to stimulate gift spendings.
- We have a visionary management and experienced operation team. In particular, our chairman, Mr. ZHOU Hongyi, a pioneer of China’s internet industry, is a well-known investor and a respected entrepreneur. He has rich experience in the industry of internet services, information security and related investment fields, which provides guidance on our operations.
- According to the iResearch Survey, we have established *Huajiao* as a well-known and popular product among entertainment live streaming platforms, with more than 67% respondents recognizing our brand first among other entertainment live streaming platforms.

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As we directly compete with other entertainment live streaming platforms that focus on entertainment content offerings, we consider such platforms as our direct competitors. Our direct competitors primarily include, among others, *Kugou Live & Kuwo Live* under Tencent Music Entertainment Group, *YY Live* under Baidu, *Inke Live* under Inkeverse, *Now Zhibo* under Tencent, and *Yi Zhibo* under Weibo. Nonetheless, we are inevitably exposed to varying degrees of competition from other players in China’s online video social entertainment industry that offer content options and services broader than ours, such as *Kuaishou* under Kuaishou Technology and *Douyin* under Douyin Group. In particular, we may indirectly compete with such players for (1) user time and (2) cooperation opportunities with well-established talent agencies and viable hosts. Our users may be attracted to gaming or e-commerce-related live streaming content offered by these players, therefore reducing user time spent on our platform. Meanwhile, we may also indirectly compete with these players for talent agencies and hosts, especially those who could become prominent hosts on our platform. Furthermore, the quality of live streaming content on our platform could also be adversely affected if we fail to attract and groom viable hosts. See also “Risk Factors — If we fail to attract, groom and retain hosts or maintain our relationship with talent agencies, hosts may cease to produce content, and we may experience declines in the number of users accessing our platform and in the user engagement.”

Due to such exposure to varying degrees of competition from other players in China’s online video social entertainment industry, we have been strategically focusing on the development of certain aspects of our business, including (1) continuously improving the quality of entertainment live streaming content on our platform, (2) strengthening our research and development and technology capability for user experience improvement, (3) further improving our service capability for users with high cumulative spending, and (4) providing favorable services and rewards to attract and retain viable hosts. Particulars of these development strategies are set forth below.

- *Quality improvement for our content offerings.* We believe that the quality of our entertainment live streaming content could be improved by our trainings complementary to our hosts, among others. In particular, we invest resources in training viable hosts, offering a series of online and offline training sessions on live streaming operations, content creation, and communication techniques and manners, delivered by both our in-house streamer associations or third-party streamer associations or MCNs. Our operational staff continuously impart their knowledge and experience accumulated during the course of their daily work to hosts through “on-the-job” training, and they may also pair more experienced hosts with novice hosts for one-on-one training sessions, so that these novice hosts can hone their live streaming skills. In addition, we contact promising hosts and provide them with customized trainings and encourage them to stimulate and involve their viewers to maximize user engagement and produce entertaining user-generated content. We also plan to improve the quality of content on our platform by establishing host training teams, leasing properties for offline live streaming bases, and setting up host training camps. See “Future Plans and [REDACTED].”
- *User experience improvement.* For improving user experience on our platform, we have developed a series of special features, including H.265 technology, AI video special-effect technology, virtual background features, special effect recognition features for screen gestures, expression transfer features, “hand puppet” and “finger heart” features, and customizable gifts supported by 3D engine technology. See “Business — Technology.” For further user experience improvement, we plan to (1) continue developing machine learning algorithms and multi-objective optimization technology for deeper insights into user preferences, (2) invest in our computer vision and graphics capabilities to further encourage interaction on our platform, and (3) upgrade live streaming technology for higher video quality, lower latency and transmission stability under various network conditions. See “Future Plans and [REDACTED].”

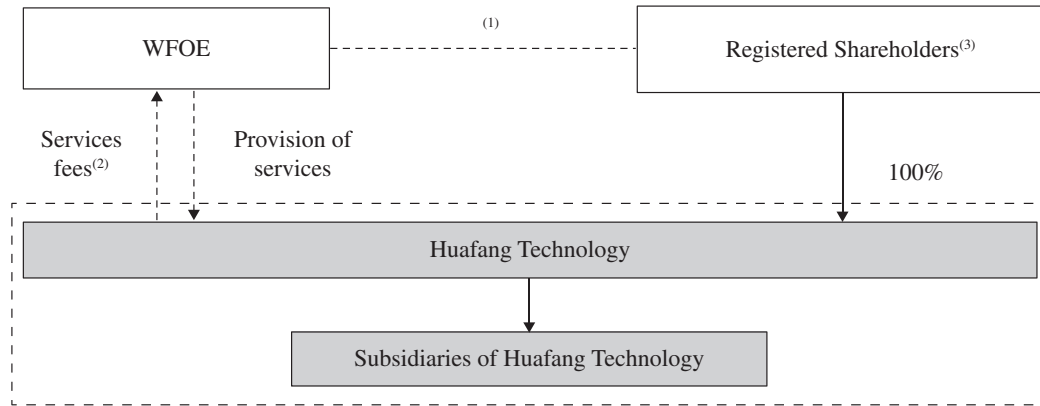
SUMMARY

- *Service capability improvement.* We have established *Huajiao Club* and *6.cn Club*, exclusive communities for users with high cumulative spending, to build a trust-based relationship with our users and enhance their stickiness to our platform, which help us maintain favorable monthly ARPPU for *Huajiao* and *6.cn*. In addition to birthday gift, top-up assistant and dedicated account manager, we plan to provide users with high cumulative spending with more complementary personalized services and benefits, such as designing promotional activities exclusive for such users and improving the interaction frequency between such users and our account manager to further understand their needs.
- *Favorable services and rewards to viable hosts.* In order to provide incentive for viable hosts to stay with us, we provide them with rewards, such as additional user traffic reference. Our professional operation team analyzes host performance, live streaming environment, real-time audience control capability, and interaction ability. We then allocate user traffic which matches to the live streaming styles of hosts based on our assessment of their talents, communication styles and streaming content. Hosts may also earn other rewards, such as content production assistance. In the future, we will continue to adjust our reward policies in accordance with the industrial practice in order to retain viable hosts.

CONTRACTUAL ARRANGEMENTS

We are an internet company in China, offering video- and audio-based live entertainment and social networking services to our users. Business in certain areas we currently operate or intend to operate are subject to restrictions and prohibitions under current PRC laws and regulations. After consultation with our PRC Legal Advisor, we determined that it was not viable for our Company to acquire and hold the equity interest in the Consolidated Affiliated Entities under the applicable PRC laws and regulations, which hold the requisite permit and approval required for our business, including but not limited to (1) Value-Added Telecommunications Business Operating License, also known as the “ICP License” (增值電信業務經營許可證(ICP許可證)), (2) Online Culture Operating License (網絡文化經營許可證) and/or (3) Information Network Dissemination of Audio-Visual Programs Permit (信息網絡傳播視聽節目許可證). Pursuant to applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in an entity engaging in the “internet cultural business (excluding music)” and transmission of audio-visual programs, and are restricted from holding more than 50% of the equity interests in an entity conducting value-added telecommunications service business with certain exceptions that are not applicable to us. Therefore, we do not own any equity interest in any of our Consolidated Affiliated Entities, and in order to maintain and exercise control over our Consolidated Affiliated Entities, we have adopted the Contractual Arrangements. For further details of the limitation on foreign ownership in PRC companies operating PC client and mobile-based live streaming platforms, and the licensing and approval requirement applicable to our business and operations under PRC laws and regulations, please refer to the section headed “Regulation”. Please also refer to the section headed “Contractual Arrangements” in this document for further details of the Contractual Arrangements and the terms of the underlying agreements and “Risk Factors — Risks Related to Our Corporate Structure” for the risks relating to the Contractual Arrangements. The following simplified diagram illustrates how the economic benefits flow from our Consolidated Affiliated Entities to our Group as stipulated under the Contractual Arrangements:

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— denotes direct legal and beneficial ownership in the equity

- - - - denotes contractual relationships under the Contractual Arrangements

⋯⋯⋯ denotes the equity interests controlled by the Group under the Contractual Arrangements

■ denotes our Consolidated Affiliated Entities

- (1) Control of WFOE over Huafang Technology through the following agreements with the Registered Shareholders: (i) Exclusive option to acquire any or all of the equity interests and/or assets in the Consolidated Affiliated Entities, please see the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Exclusive Option Agreement”; (ii) Equity pledge over the entire equity interests in the Consolidated Affiliated Entities, please see the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Equity Pledge Agreement”; and (iii) Shareholders’ rights proxy agreements for appointment of WFOE to exercise all shareholder’s rights in the Consolidated Affiliated Entities, please see the paragraph headed “Contractual Arrangements — Details of the Contractual Arrangements — Shareholders’ Rights Proxy Agreement”.

As advised by the PRC Legal Advisor, the operating subsidiaries of Huafang Technology have also been directly covered by the Contractual Arrangements in terms of exclusive option and proxy arrangements, as follows:

- (i) pursuant to the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement (as defined in the section headed “Contractual Arrangements”), to the extent allowed by applicable laws and regulations, WFOE has the right to require the Registered Shareholders to transfer any or all the equity interests and/or assets in Huafang Technology, and the right to require Huafang Technology to transfer any or all assets including the equity interests held by it in the operating subsidiaries of Huafang Technology, to WFOE and/or its nominee.
- (ii) pursuant to the Shareholders’ Rights Proxy Agreement and the Shareholders’ Rights Proxy Supplemental Agreement (as defined in the section headed “Contractual Arrangements”), Huafang Technology, as the direct and indirect controlling shareholder of all operating subsidiaries, irrevocably appoints WFOE and/or its nominee(s) to exercise the voting right and all other shareholder’s rights as specified by PRC laws and regulations and the articles of association in all operating subsidiaries of Huafang Technology.
- (2) Control of WFOE over the Consolidated Affiliated Entities through exclusive business co-operation agreements. Please see the paragraph headed “Details of the Contractual Arrangements — Exclusive Business Co-operation Agreement” in this document for details.
- (3) The Registered Shareholders refer to the registered shareholders of Huafang Technology. Huafang Technology was owned as to 26.67% by Qihoo 360 Software (Beijing) Co., Ltd. (奇虎三六零軟件(北京)有限公司), 7.69% by Tianjin Huajiao No. 1 Technology Limited Partnership (天津花椒壹號科技合夥企業(有限合夥)), 3.85% by Tianjin Huajiao No. 2 Technology Limited Partnership (天津花椒貳號科技合夥企業(有限合夥)), 37.06% by Songcheng Performance Development Co., Ltd. (宋城演藝發展股份有限公司), 1.75% by Jinhua Xuance Investment Management Co., Ltd. (金華萱策投資管理有限公司), 0.69% by Jinhua Duanxuan Investment Management General Partnership (G.P.) (金華端萱投資管理合夥企業(普通合夥)), 3.85% by Beijing Siming Juncheng Technology Co., Ltd (北京思明駿程科技有限公司), 1.54% by Mango Culture Creativity (Shanghai) Equity Investment Limited Partnership (L.P.) (芒果文創(上海)股權投資基金合夥企業(有限合夥)), 1.31% by Shenzhen Zhirun No. 1 Investment Limited Partnership (L.P.) (深圳致潤一號投資合夥企業(有限合夥)), 3.07% by Shenzhen Zhirun No. 2 Investment Limited Partnership (L.P.) (深圳致潤二號投資合夥企業(有限合夥)), 2.63% by Shanghai Zuosan Digital Technology Co., Ltd. (上海佐三數字科技有限公司), 0.18% by Ningbo Meishan Free Trade Port Area Huajiao Equity Investment Limited Partnership (L.P.) (寧波梅山保稅港區花椒股權投資中心(有限合夥)), 0.38% by Shanghai Huawei Equity Investment Limited Partnership (L.P.) (上海驊偉股權投資基金合夥企業(有限合夥)), 0.19% by Great Chiliocosm (Kunshan) Cultural Investment Partnership (L.P.) (三千世界(昆山)文化產業投資合夥企業(有限合夥)), 2.89% by Zhang Fa and 6.25% by Tianjin Huafang Feiteng Technology Center (L.P.) (天津花房飛騰科技中心(有限合夥)) as of the Latest Practicable Date. Mr. Zhou controlled 38.21% equity interest of Huafang Technology through Qihoo 360, Huajiao No. 1 and Huajiao No. 2.

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OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Mr. Zhou, through control of Pepper Blossom Limited by his majority-owned entities including Blossom Eternity Limited, Blossom Growth Limited, Blossom Glory Limited (together with Mr. Zhou, “Mr. Zhou Group”), and the voting proxy in respect of the voting rights in Pepper Blossom Limited granted by Blossom Deluxe Holdings Limited to Blossom Glory Limited, was entitled to exercise approximately 38.21% of voting rights at general meetings of our Company, and Songcheng Performance, through control of its wholly-owned subsidiary Global Bacchus Limited, was entitled to exercise approximately 37.06% of voting rights at general meetings of our Company.

Immediately after the completion of the [REDACTED] and the [REDACTED] (assuming no exercise of the [REDACTED] and without taking into account any option granted under the [REDACTED] Share Option Scheme), Mr. Zhou Group will be entitled to exercise approximately [REDACTED]% of voting rights at general meetings of our Company, and Songcheng Performance, through control of Global Bacchus Limited, will be entitled to exercise approximately [REDACTED]% of voting rights at general meetings of our Company.

Since Mr. Zhou Group and Songcheng Performance will be entitled to exercise more than 30% of voting rights at general meetings of our Company following the completion of the [REDACTED] and the [REDACTED], respectively, Mr. Zhou Group and Songcheng Performance will continue to be regarded as our controlling shareholders as defined under the Listing Rules upon the [REDACTED].

[REDACTED]

We have completed certain pre-[REDACTED] equity financings to fund business expansion. See “History, Reorganization and Corporate Structure — [REDACTED]” for details of the identity and background of our [REDACTED].

As of the Latest Practicable Date, each of JY Infinitas Limited, Mango Ningze Limited, Shanghai Huawei Equity Investment Limited Partnership (L.P.) (上海驊偉股權投資基金合夥企業(有限合夥)), AAPC NETWORK Ltd., Wingsound Technology Limited, Myanmar Commercial Asset Management Company Limited and Three Birds Holdings Limited has executed a lock-up undertaking, and undertaken that, they will not, at any time during the period commencing from the date of the lock-up undertaking and ending on the date falling 5 months after the [REDACTED], transfer any Shares or any interest in such Shares directly or indirectly held by such Shareholder in the Company without prior written consent of the [REDACTED] and the Joint Sponsors.

All the [REDACTED] from the [REDACTED] received by our Company were applied towards, among others, the business development and operation, including but not limited to research and development, new business development, administrative expenses and general working capital needs of our Group. As of the Latest Practicable Date, such [REDACTED] have been fully utilized by our Company. Our Company did not receive any of the [REDACTED] in connection with the Huajiao-6.cn Merger and the share transfers between the transferors and transferees in the [REDACTED].

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APPLICATION FOR [REDACTED] ON THE STOCK EXCHANGE

We have applied to the [REDACTED] of the Stock Exchange for the grant of the [REDACTED] of, and permission to [REDACTED], our Shares in issue and to be issued pursuant to the [REDACTED] and the [REDACTED] (including any Shares which may be issued pursuant to the exercise of the [REDACTED]) and any shares which may be issued upon the exercise of any option granted under the [REDACTED] Share Option Scheme, on the basis that, among other things, we satisfy the [REDACTED] with reference to (1) our revenue of RMB4,599.7 million in 2021, which is over HK\$500 million, (2) our expected market capitalization at the time of the [REDACTED], which, based on the low end of the indicative [REDACTED] range, which exceeds HK\$2.0 billion, and (3) aggregate net cash generated from operating activities of RMB981.7 million during the three years ended December 31, 2021, which exceeds HK\$100.0 million.

[REDACTED]

SUMMARY

FUTURE PLANS AND [REDACTED]

We estimate the [REDACTED] of the [REDACTED] which we will receive, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] range stated in this document), will be approximately HK\$[REDACTED], after deduction of [REDACTED] [REDACTED] and other estimated expenses in connection with the [REDACTED] assuming the [REDACTED] is not exercised. We intend to use the [REDACTED] of the [REDACTED] for the following purposes.

<u>Amount of estimated [REDACTED]</u>	<u>Intended use of [REDACTED]</u>
Approximately [REDACTED], or HK\$[REDACTED]	Further diversify and enrich our products, content and services
Approximately [REDACTED], or HK\$[REDACTED]	Implement our marketing initiatives to expand our user base and promote our brand
Approximately [REDACTED], or HK\$[REDACTED]	Selective acquisitions of or investment in products, services and businesses
Approximately [REDACTED], or HK\$[REDACTED]	Strengthen our research and development and technology capability
Approximately [REDACTED], or HK\$[REDACTED]	Working capital and general corporate purposes

Please see the section headed “Future Plans and [REDACTED]” in this document, for further information relating to our future plans and [REDACTED] from the [REDACTED], including the adjustment on the allocation of the [REDACTED] in the event that the [REDACTED] is fixed at a higher or lower level compared to the midpoint of the estimated [REDACTED] range.

DIVIDEND

According to our dividend policy adopted on November 21, 2022, the Articles of Association and applicable laws and regulations, the determination to pay dividends will be made at the discretion of our Directors, subject to the Listing Rules, and will depend upon, among others, the financial results, cashflow, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, any restrictions on payment of dividends, and other factors that our Directors may consider relevant. Our Company in general meeting may from time to time by ordinary resolution declare dividends in any currency to be paid to the Shareholders but no dividend shall be declared in excess of the amount recommended by the Board, provided always that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. We do not have a pre-determined dividend payout ratio. We will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic environment. During the Track Record Period and up to the Latest Practicable Date, we had not declared or paid any dividends.

As advised by our Cayman legal advisors, we are a holding company incorporated under the laws of the Cayman Islands, pursuant to which, the financial position of accumulated losses does not prohibit us from declaring and paying dividends to our Shareholders, as dividends may still be declared and paid out of our share premium account notwithstanding our profitability, provided that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business.

NON-COMPLIANCE INCIDENTS AND ALLEDGED VIOLATIONS OF TERMS OF SERVICES

We are subject to a wide range of PRC laws and regulations in the ordinary course of business. For details, see “Regulation.” During the Track Record Period and up to the Latest Practicable Date, we had a few incidents of non-compliance, none of which we believe could,

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individual or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. In particular, we were involved in the following non-compliance incidents during Track Record Period:

- We were requested to meet with the Beijing Internet Information Office in June 2020, as videos containing contents that were deemed to be vulgar by the Beijing Internet Information Office were uploaded to the community live feeds on *Huajiao* by certain users. Following such interview, new users were not able to register on *Huajiao* for two weeks. We have implemented remedial measures to strengthen internal control, and passed the review by the Beijing Internet Information Office. See “Business – Content Screening and Review – Regulatory Incidents Involving Contents and Host.”
- *Shiliu live streaming, 6.cn* and *Huajiao* were deemed to have collected and used user information in a non-compliant manner, such as imposing onerous requirements for account access or deactivation, providing users’ device-related information to third-party SDK without prior consent, and collecting user information unrelated to services offered. We have timely rectified our non-compliance practices as required by the relevant regulatory authorities within the designated period and passed the review process. See “Business – Data Security and Privacy.”

In addition, in connection with the distribution of our products on application stores, we are required to comply with the standard terms and condition of the various application stores, including Apple’s App Stores. Prior to being acquired by us in December 2020, *Monkey* and *HOLLA* were removed from Apple’s App Store in January 2020 for alleged violation of Apple’s terms of services relating to user-generated content, although Apple did not specify the users or content that allegedly violated its terms of services. Due to the removal of *Monkey* and *HOLLA* from Apple’s AppStore, from January 2020 to the Latest Practicable Date, *Monkey* and *HOLLA* apps could not be downloaded from Apple’s App Store, but the existing users were still able to access these apps if downloaded prior to the removal. The number of cumulative registered users of *Monkey* and *HOLLA* in aggregate increased from 16.1 million as of December 31, 2019 to 29.7 million as of December 31, 2020, representing a growth rate of approximately 85.0%, which was slower than the growth rate of over 800% in 2019, mainly due to the removal of *Monkey* and *HOLLA* from Apple’s App Store. After the acquisition of *HOLLA* Group in December 2020, we have adopted more stringent internal control policy over many aspects of the operations of our social networking products, including user reporting system and AI text classification and moderation, among others, to reduce user generated contents that could potentially violate distribution channels’ terms of services. Specifically, we expanded the categories for user reporting, allowing them to report on improper user behavior or information, such as bullying behavior. An AI-based text filter and classification system has also been implemented, which allows us to detect and remove harmful content before it reaches end-users. We have also launched Web client for *Monkey*, and increased our efforts in promoting Web clients of *Monkey* and *HOLLA*, primarily by leveraging influencer marketing and search engine advertising. As of the Latest Practicable Date, *HOLLA* was accessible from Google Play and the overseas app stores of Xiaomi, Samsung and Oppo, among others, and *Monkey* was downloadable from Google Play. After our acquisition, the number of cumulative registered users of *Monkey* and *HOLLA* in aggregate increased to 56.7 million as of December 31, 2021, representing annual growth rate of approximately 90.6%, and further increased to 64.5 million as of May 31, 2022. The average MPUs of *Monkey* and *HOLLA* in aggregate for the year ended December 31, 2021 and for five months ended May 31, 2022 was 42,596 and 53,863, respectively. Considering the increase in the cumulative registered users and average MPUs of *Monkey* and *HOLLA* after our acquisition, our Directors are of the view that our business was not materially affected because of such removal as we acquired *HOLLA* Group and the related overseas social networking products in December 2020, at which point and up to the Latest Practicable Date, *HOLLA* and *Monkey* could be accessed from other prominent online distribution channels.

SUMMARY

RECENT DEVELOPMENTS

Business Development

Our business model and operations remained generally stable after the Track Record Period and up to the date of this document. As of September 30, 2022, the number of our registered users increased by approximately 17.4%, as compared to that as of September 30, 2021. Our average MAU and average MPU also experienced steady growth in the nine months ended September 30, 2022. In particular, our average MAU and average MPU increased by approximately 1.8% and approximately 15.3%, respectively, in the nine months ended September 30, 2022, as compared to those in the nine months ended September 30, 2021. Such increases in operating metrics were primarily due to our continued efforts in optimizing our operations and our overseas expansion through HOLLA Group. As a result of foregoing, based on our management accounts for the respective periods, our revenue and gross profit increased by approximately 17.2% and approximately 4.1%, respectively, in the nine months ended September 30, 2022, as compared to those in the nine months ended September 30, 2021. Our financial results also increased by approximately 13.2% in the nine months ended September 30, 2022, as compare to the financial results in the nine months ended September 30, 2021.

After performing appropriate due diligence work, and after due and careful consideration, our Directors confirm that, as of the date of this document, there has been no material adverse change in our financial and trading positions or prospects since May 31, 2022, being the date on which our latest consolidated financial statements in this document were prepared, and there is no event since May 31, 2022, which would materially affect the information in the Accountant’s Report as set out in Appendix I to this document. In addition, after due and careful evaluation for our key operating metrics as of and up to the Latest Practicable Date, our Directors further confirm that, as of the date of this document, there has been no material adverse change in our operational activities after the Track Record Period.

Impact of COVID-19 on Our Business Operations

Since the beginning of 2020, normal economic life throughout China and around the world has been significantly curtailed due to the outbreak of COVID-19. As a result, governments around the world imposed quarantine measures and travel bans to various extents. Since January 2020, the PRC government has imposed quarantine measures across China, and local governments have also imposed temporary mobility restrictions or travel bans to control the spread of the COVID-19. There has been a significant decrease in the number of existing confirmed COVID-19 cases in China since the second quarter of 2020. The PRC government has gradually lifted domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal since the second half of 2020. However, there was a significant rise in COVID-19 cases, including the COVID-19 Delta and Omicron variant cases, in various cities in China in 2022. The local governments of the affected cities have reinstated certain COVID-related measures, including travel restrictions, quarantine policy and stay-at-home orders.

During the outbreak of COVID-19, as China adopted various social distancing initiatives in response to the pandemic, many people turned to online social entertainment activities in lieu of physical gatherings. Consequently, there was a surge in the demand for internet and mobile services, and compared with 2019, we experienced increases in user engagement and average MAUs in 2020, and higher user traffic on our platform. However, as compared to mobile-based live streaming, the COVID-19 pandemic has had a disproportionately greater effect on PC-based live streaming as a result of the government-mandated mobility restrictions or stay-at-home orders, which could impede certain PC-based hosts from accessing their streaming studios. PC-based hosts typically require more streaming equipment (such as external camera and lighting) to achieve higher streaming quality, so they traditionally conduct live streaming session in studios that can provide such streaming equipment and other services such as lighting arrangement, sound collection and enhancement, green screen, and virtual background. On the other hand, mobile phones have smaller screens and thus lower pixel requirement, so hosts using mobile phones to stream could do so at home with camera in their phones. In addition, due to the extended quarantine measures in certain overseas markets, we have invested in and expanded our overseas social networking business line to meet the increasing demand for online social discovery and friend-making services.

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Our Directors have carried out a holistic review of the impact of the COVID-19 on our operations and confirmed that as of the Latest Practicable Date, COVID-19 did not have any long-term material adverse impact on our operations. In particular, the rise in COVID-19 variant cases and reinstated COVID-related measures did not materially affect our business, as the number of monthly active hosts and the average daily streaming time per host on *6.cn*, our PC client flagship product, remained relatively stable during the first five months in 2022. Although *6.cn* experienced a decrease of approximately 2% to 3% in streaming time per active host from April 2022 to May 2022, the recent COVID-19 outbreak did not otherwise materially affect our operations. See “Risk Factors — Risks Related to Our Business — We face risks related to natural disasters, health epidemics and other outbreaks, such as the COVID-19 pandemic, which could significantly disrupt our operations,” and “Financial Information — Impact on COVID-19 on Our Operations and Financial Performance.”

Regulatory Development

Cybersecurity review and data security

On July 6, 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Combatting Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》) (the “July Opinion”), which called for the enhanced cross-border regulatory cooperation and administration and supervision of overseas-listed China-based companies. During the Track Record Period and up to the Latest Practicable Date, we had not received any inquiry, notice, warning, or sanctions from the CSRC or any other PRC government authorities with respect to the [REDACTED].

On November 14, 2021, the CAC publicly solicited opinions on the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (“Draft Data Security Regulations”). According to the Draft Data Security Regulations, data processors shall, in accordance with relevant state provisions, apply for cybersecurity review when carrying out certain offshore listing activities that may affect national securities. However, the Draft Data Security Regulations provides no further explanation or interpretation for what activities fall into the ambit of those that “affect or may affect national security.” As advised by our PRC Data Compliance Advisor, the PRC government authorities may have wide discretion in the interpretation of “affects or may affect national security.” We believe that we have not engaged in any data processing activity which affects or may affect national security, because during the Track Record Period and up to the Latest Practicable Date, among others, we had not been identified as a critical information infrastructure operators (the “CIIO”); our proposed [REDACTED] in Hong Kong is not considered as an [REDACTED] in a foreign country, based on the oral response to our telephonic inquiry on a named basis from the consultation conducted by our PRC Data Compliance Advisor on March 17, 2022 with the China Cybersecurity Review Technology and Certification Center (the “CCRC”); and we had not been notified by any regulatory authority or was subject to any investigation on any data processing activity that affects or may affect national security. For provisions regarding [REDACTED] in Hong Kong in the Draft Data Security Regulations, we are of the view that, assuming the Draft Data Security Regulations become effective in their current form in the future, subject to further implementation details, guidance or clarification of the Draft Data Security Regulations, it will not have a material adverse effect on us as of the date of this document.

On December 28, 2021, the Cyberspace Administration of China (the “CAC”) and other regulatory authorities jointly released the revised Cybersecurity Review Measures (《網絡安全審查辦法》) (the “Cybersecurity Review Measures”), which became effective on February 15, 2022. In accordance with the Cybersecurity Review Measures, internet platform operators holding personal information of more than one million users must apply to the Cybersecurity Review Office for cybersecurity review when they seek listing in a foreign country. As advised by our PRC Data Compliance Advisor, as the Cybersecurity Review Measures stipulates “seeking a listing in a foreign country,” we do not need to proactively file for the cybersecurity review because our proposed [REDACTED] is in Hong Kong. During the Track Record Period and up to the date of the document, we had not received any notification from the competent

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authority about being identified as critical information infrastructure operator. Therefore, the likelihood that we will be subject to the cybersecurity review for procurement of network products and services in the near future is relatively remote. As the Cybersecurity Review Measures have not defined the scope of “data processing activities that affect or may affect national security”, our PRC Data Compliance Advisor and our Directors are of the view that it remains uncertain as whether we would be subject to the cybersecurity review. During the Track Record Period and up to the date of this document, we had not received any written concern about our [REDACTED], nor had we been subject to any regulatory investigation or penalty in connection with protection of personal information. For a detailed analysis of the impact of recent regulatory development on this [REDACTED] and our operations, see “Business — Recent Regulatory Development — Cybersecurity review and data security.

Based on the foregoing, except for the noncompliance otherwise disclosed in the section headed “Business — Data Security and Privacy,” we were not subject to review, inquiry or investigation by any relevant authorities in relation to cybersecurity or data protection in the Track Record Period and up to the date of this document. In addition, with the support of our PRC Data Compliance Adviser’s opinion, we are of the view that the cybersecurity review stipulated in the Cybersecurity Review Measures and under the Draft Data Security Regulations, if all come into effect in the current version, will not have a material adverse effect on us.

Cross-border data transfer

All of our overseas social networking products are operated by our offshore subsidiaries, and data collected and generated by these products are stored in Tokyo, Japan and Oregon, the United States. None of our overseas social networking products provide services to users in the PRC, nor can they be downloaded in the PRC. All of our live streaming products are operated by our PRC subsidiaries and all the data collected and generated by such products are stored in mainland of the PRC. There is no data sharing between our offshore subsidiaries and PRC subsidiaries. According to Article 3 of Security Assessment Measures for Outbound Data Transfers (《數據出境安全評估辦法》) (“Measures for Outbound Data Transfers”), such measures apply to the cross-border transfer of critical data and personal information collected and generated by a data processor in its operations within the PRC. In particular, based on our Data Compliance Advisor’s consultation with the Beijing branch of the CAC on behalf of us, “the cross-border transfer” means a transfer from mainland of the PRC to offshore. Based on the foregoing, our PRC Data Compliance Advisor is of the view that the likelihood that these measures apply to our overseas social networking products and live streaming products is remote. Therefore, we believe that Measures for Outbound Data Transfers would not cause adverse impacts on our business operations.

Overseas listing

On July 6, 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the July Opinion, which called for the enhanced cross-border regulatory cooperation and administration and supervision of overseas-listed China-based companies. During the Track Record Period and up to the Latest Practicable Date, we had not received any inquiry, notice, warning, or sanctions from the CSRC or any other PRC government authorities with respect to the [REDACTED].

On December 24, 2021, the CSRC promulgated the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定》(草案徵求意見稿)) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (collectively the “New Consultation Drafts”) for public consultations until January 23, 2022. Pursuant to the New Consultation Drafts, domestic enterprises that directly or indirectly list overseas shall go through the filing procedures with the CSRC. Furthermore, if the issuer meets the following conditions, the offering and listing shall be determined as an indirect overseas offering and listing by a domestic company: (1) the total assets, net assets, revenues or profits of the domestic operating entity of the issuer in the most recent accounting

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year account for more than 50% of the corresponding figure in the issuer’s audited consolidated financial statements for the same period; and (2) the senior managers in charge of business operation and management of the issuer are mostly Chinese citizens or have domicile in China, and its main places of business are located in China or main business activities are conducted in China. Therefore, we understand that the [REDACTED] of our Group constitutes an indirect [REDACTED] under the New Consultation Drafts.

As advised by our PRC Legal Advisor, the New Consultation Drafts have not yet taken effect. According to the CSRC, for a new enterprise which intends to list securities in an overseas market, the filing procedures shall be performed as required; other existing enterprises will be arranged separately and a sufficient transition period will be given. However, the New Consultation Drafts and the CSRC do not further explain the criteria for dividing new enterprises and existing enterprises. Under the circumstance that the existing enterprises only include enterprises listed before the issuance of the New Consultation Drafts or before the New Consultation Drafts come into effect, once the New Consultation Drafts come into effect and the [REDACTED] is not completed, we will not fall within the scope of existing enterprise and we will need to complete the filing procedures of the CSRC.

Furthermore, according to the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), if an enterprise falls under any of the following circumstances, it will not be allowed to list overseas: (1) the PRC laws and regulations and relevant provisions expressly prohibit such listing; (2) the relevant competent authorities of the State Council determined that the overseas listing threaten or endanger national security; (3) material ownership disputes over equity, major assets or core technologies of the enterprise; (4) there are enterprises and controlling shareholders, actual controllers have committed crimes of corruption, bribery, embezzlement, misappropriation of property or disrupting the order of the socialist market economy in the past three years, or are being investigated by judicial authorities for suspected crimes or suspected major violations of laws and regulations; (5) directors, supervisors and senior managers of the enterprise have been subject to administrative penalties in the past three years and the circumstances are serious, or are being investigated by judicial authorities for suspected crimes or suspected major violations of laws and regulations; and (6) other circumstance as prescribed by the State Council. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any situations that falls into the above regulations.

According to the CSRC, under the PRC laws and regulations, VIE structure enterprises that meet the compliance requirements can be listed overseas. The New Consultation Drafts and the CSRC do not further clarify the compliance requirements for the listing of VIE structure enterprises. In respect of the compliance status of our Contractual Arrangements and VIE structure, our PRC Legal Advisor and the PRC Legal Advisor of the Joint Sponsors conducted the consultations with the MCT on June 24, 2021, the BMRTB on July 12, 2021 and the MIIT on July 13, 2021, and as confirmed by the relevant PRC regulatory authorities, our Contractual Arrangements and VIE structure would not require their approvals. Based on these consultations, our PRC Legal Advisor is of the view that the adoption of the Contractual Arrangements does not constitute a breach of the relevant PRC laws and regulations. However, as advised by our PRC Legal Advisor, there are substantial uncertainties regarding the interpretation and implementation of the New Consultation Drafts and future PRC laws and regulations over the validity of the Contractual Arrangements and VIE structure. For more details, see “Risk Factors — Risks Related to Doing Business in China — The approval of or filing procedure with the CSRC may be required in connection with the [REDACTED], and, if required, we cannot predict whether we will be able to obtain such approval.”

As the New Consultation Drafts were recently published and have not taken effect, the interpretation and implementation may be subject to further clarification, we are still in the process of evaluating the impact of the New Consultation Drafts on our business and our [REDACTED], and we will actively implement measures to comply with the requirements in the New Consultation Drafts as if they become effective in their current form in the future. During the Track Record Period and up to the Latest Practicable Date, we had not received any written notification from CSRC or other relevant authorities concerning our [REDACTED].

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Based on the above, our PRC Legal Advisor is of the view that (1) our VIE structure does not violate any existing PRC laws and regulations including relevant national security laws or otherwise constitute a legal obstacle to our proposed [REDACTED]; (2) there are no material impediments to comply with the New Consultation Drafts if they become effective in current form; and (3) the proposed [REDACTED] is not subject to filing or approval from CSRC as of the Latest Practicable Date.

Based on the PRC Legal Advisor’s opinion and the foregoing, our Directors believe the New Consultation Drafts will not impact our business operations, financial performance, the Contractual Arrangements or our proposed [REDACTED] in Hong Kong and do not foresee any impediment for us to comply with the New Consultation Drafts in any material respects, assuming the New Consultation Drafts will be implemented in its current form, except as disclosed in this document.

Foreign investment negative list

On December 27, 2021, the NDRC and the MOFCOM jointly promulgated the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the “2021 Negative List”). According to the 2021 Negative List, to list overseas, any domestic enterprise engaging in the fields prohibited by the 2021 Negative List shall obtain the consent of the relevant competent authorities of the State, and the overseas investors shall not participate in the operation and management of the enterprise, and overseas investors’ shareholding percentage shall be subject to the relevant provisions on administration of domestic securities investment by overseas investors.

The NDRC held a press conference on January 18, 2022, and further clarified that the requirement of obtaining the consent of the relevant competent authorities only applies to the domestic enterprises that directly list overseas. Based on that, our Directors and our PRC Legal Advisor is of the view that as our Group constitutes an indirect [REDACTED] under the New Consultation Drafts, the [REDACTED] will not require the consent from the authorities under the 2021 Negative List.

Based on the foregoing and having discussed with the management of the Company and its PRC Legal Advisor on the aforementioned changes in laws and recent regulatory developments, nothing has come to the attention of the Joint Sponsors what would cause them to cast doubt on reasonableness of the views and consultations of the Directors and its PRC Legal Advisor in “— Recent Developments — Regulatory Development — Overseas listing” and “— Foreign investment negative list” as aforementioned.

Live streaming business

On November 12, 2020, the NRTA promulgated the Circular on Strengthening the Administration of Online Show Live Streaming and E-commerce Live Streaming (《關於加強網絡秀場直播和電商直播管理的通知》) (“Notice 78”), which sets forth registration requirements for platforms providing online show live streaming or e-commerce live streaming as well as, among others, requirements for real-name registration, limits on user spending on virtual gifting, prohibitions of virtual gifting by minors, live streaming review personnel requirements, and content tagging requirements. According to Guiding Opinion on Strengthening the Management of Online Show Live Broadcasting (《關於加強網絡直播規範管理工作的指導意見》) (“Notice 3”) issued on February 9, 2021, live streaming platforms that provide network audio-visual program services must hold the Information Network Dissemination of Audio-Visual Programs Permit (《信息網絡傳播視聽節目許可證》) (“Audio-Visual Permit”) (or complete the registration in the National Network Audio-Visual Platform Information Registration Management System) and complete the ICP filing. As of the Latest Practicable Date, Huafang Technology held an Audio-Visual Permit, and Mijing Hefeng was in the process of renewing its filing with the National Network Audio-Visual Platform Information Registration Management System, and as confirmed by our PRC Legal Advisor, based on their consultation with BMRTB, there is no substantial obstacle to the renewal. We are still in the process of obtaining further guidance from regulatory authorities and evaluating the applicability and effect of the various requirements under Notice 78 on our business.

SUMMARY

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any review, inquiry or investigation by the relevant authorities for violation of Notice 78. See “Risk Factors — Risks Related to our Business — We face uncertainties with respect to the enactment, interpretation and implementation of Notice 78.”

On April 12, 2022, the NRTA issued the Notice on Strengthening the Management of Live Streaming of Games on the Online Audio-Visual Program Platform (《關於加強網絡視聽節目平台遊戲直播管理的通知》) (the “April 12 Notice”), which mainly regulates live streaming related to online games. For more information on April 12 Notice, see “Regulations — Regulations Relating to Online Live Streaming Services.” According to the April 12 Notice, live streaming platforms are strictly prohibited from disseminating or streaming online games that have not been approved by the competent authorities, and shall, among others, strengthen the management of gaming streamers. We had not organized or held gaming live streaming programs or competitions on our platform during the Track Record Period and up to the Latest Practicable Date.

On June 1, 2021, 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年修訂)》) took effect, which provides that, among others, live streaming service providers are not allowed to provide online live streaming publisher account registration service to minors under 16 of age with, and must obtain the consent from parents or guardians and verify the identity of the minors before allowing minors aged 16 or above to register online live streaming publisher accounts on live streaming platform. On May 7, 2022, the Office of Central Guidance Commission on Building Spiritual Civilization, the MCT, NRTA and the CAC promulgated the Opinions on Regulating Virtual Gifting to Strengthen the Protection of Minors (《關於規範網絡直播打賞加強未成年人保護的意見》) (the “May 7 Opinions”). According to the May 7 Opinions, live streaming platforms shall, among others, prohibit minors from virtual gifting, and implement the requirements on real-name registration; not provide online live streaming publisher account registration service to minors under age of 16 and obtain the consent from guardians before allowing minors between the ages of 16 and 18 to register online live streaming publisher accounts on their platforms. We have implemented a series of measures to ensure compliance with the May 7 Opinions and other minor protection related rules and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any penalties in connection with violating laws related to protection of minors. See “Business — Risk Management and Internal Control — Minor Protection and Virtual Gifting Management.”

On June 8, 2022, the NRTA and the MCT issued the Code of Conduct for Streamers (《網絡主播行為規範》) (the “Code of Conduct”) which stipulates, among others, that for live streaming content that requires a high level of professional skills (such as medical and health care, finance, law and education), streamers should obtain the corresponding practice qualifications and report the practice qualifications to the live streaming platforms, and the live streaming platforms should review and record the relevant qualifications; and live streaming platforms shall establish comprehensive internal policies to manage their streamers. We have implemented community guidelines and a green live streaming convention. See “Business — Risk Management and Internal Control — Content and Hosts on Our Platform.”

During the Track Record Period, we had certain non-compliance incidents with respect to administrative penalties relating to certain content on our platform. Our PRC Legal Advisor is of the view that, save as disclosed in the sections headed “Business — Content Screening and Review” and “Business — Risk Management and Internal Control,” we had not been in violation of any other applicable laws, which may have material adverse effect on us, during the Track Record Period and up to the Latest Practicable Date, including the recent regulations relating to live streaming business and protection of minors in China. Based on the foregoing, as advised by our PRC Legal Advisor, we are of the view that the above recent changes in PRC laws and regulations have not had and will not have any material effect on our compliance with laws and regulations in any material aspects during the Track Record Period and up to the date of this document.

For a detailed analysis of the impact of recent regulatory development relating to the live streaming industry and our operations, see “Business — Recent Regulatory Development — Live streaming business.”