You should read the following discussion in conjunction with the consolidated financial statements and the notes thereto included in the Accountants' Report set out in Appendix I to this document which have been prepared in accordance with IFRSs and the selected historical financial information and operating data included elsewhere in this document. Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in "Forward-looking Statements" and "Risk Factors." In evaluating our business, you should carefully consider the information provided in "Risk Factors" in this document.

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 generate revenue from providing live streaming services, social networking services and other services to users through operating a number of mobile- and PC-based live streaming and social networking products. During the Track Record Period, we generated revenue primarily from the purchase and presentation of virtual items to hosts and other services on our various live streaming and social networking products, and from the provision of certain technical services and advertising services.

We have grown rapidly during the Track Record Period. Our revenue increased from RMB2,830.9 million in 2019 to RMB3,683.5 million in 2020 and further to RMB4,599.7 million in 2021, and from RMB1,801.6 million in the five months ended May 31, 2021 to RMB2,087.4 million in the five months ended May 31, 2022. 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 "— 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.

BASIS OF PRESENTATION

Our historical financial information has been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The historical financial information has been prepared under the historical cost basis, except for certain financial assets and liabilities, which are measured at fair value.

The preparation of historical financial information in conformity with IFRSs requires the use of certain critical accounting estimates, as well as our management's judgment in applying our accounting policies. See Note 3 to the Accountants' Report in Appendix I to this document for the areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information.

Reverse Acquisition and Carve-out Basis

On April 29, 2019, the Huajiao-6.cn Merger was completed and upon the completion of the Huajiao-6.cn Merger, Mijing Hefeng became 100% owned by Huafang Technology and the original shareholders of Mijing Hefeng owned 60% of Huafang Technology.

The Huajiao-6.cn Merger has been accounted for as a reverse acquisition in accordance with IFRS 3 "Business Combinations" having taken into account the terms of the share purchase agreements, relative voting rights in the combined entity, composition of the governing body and senior management of the Group after the acquisition as well as the relative size of Huafang Technology and Mijing Hefeng. Accordingly, Mijing Hefeng together with its subsidiaries, being the legal acquiree, have been collectively identified as the accounting acquirer, and Huafang Technology, being the legal acquirer, has been identified as the accounting acquiree.

During the Track Record Period, the Group also engaged in mobile gaming development and operation after Huajiao-6.cn Merger, which was managed by Beijing Lingdong Shikong Technology Co., Ltd., a subsidiary of the Group (the "Other Business"). The Other Business is separately managed and operated, its assets, liabilities, revenues and expenditures are clearly identifiable. On the basis that the entire equity interest in the Other Business had been disposed by the Group in December 2019, and the Other Business are clearly delineated from the

Group's [**REDACTED**] Business, the historical financial information excludes the assets, liabilities and results of operations associated with the Other Business and, accordingly, the fair value of Other Business has been excluded from the deemed consideration transferred when accounting for the Huajiao-6.cn Merger (see APP-I note 27(a)). The impact of the acquisition and the disposal of the Other Business are reflected in the historical financial information as changes to the consolidated equity attributable to the equity shareholders of the Company.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition have been, and are expected to continue to be, affected by various general factors, including the following.

Market Development

People's growing demand for quality content and innovative social entertainment, backed by the increase in per capita disposable income, have contributed to the increase in the demand for online social entertainment content. We focus on offering video- and audio-based live streaming entertainment and social networking services to users in China and globally. 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. China's online video social entertainment live streaming market, in terms of revenues, is expected to grow from RMB246.2 billion in 2021 to RMB645.0 billion in 2027 at a CAGR of 17.4%, according to the same source. China's online audio social entertainment market, which primarily consists of online music platforms, online audio platforms, online karaoke platforms, and other innovative platforms providing real-time audio interactive services, had a market size of RMB72.5 billion in terms of revenues in 2021. Driven by the pursuit of emotional companionships among the growing younger population in China, the market size in terms of revenues of the emerging services in audio-based social discovery and gaming championship increased 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.

Laws and regulations enacted by China's government authorities, as well as favorable industry policies including preferential tax treatments and other governmental support, also have a significant impact on the prospects of China's online video and audio social entertainment market. Other factors, such as technological development in the industry, could also have a significant impact on the demand for online social entertainment content. See "Industry Overview" for details relating to key market drivers. Changes in market drivers that impact the growth rate of China's online video and audio entertainment market would have significant impact on the demand for our products and services, user traffic and host retention on our platform, and in turn, our business and prospects. Our ability to anticipate and respond to potential changes in industry trends will have a significant impact on our future performance.

Market Competition

Competition in the online video and audio social entertainment live streaming market in China and global social networking industry has significantly affected, and will continue to affect, our results of operations. We compete with other social entertainment platforms and major internet companies for market shares, mindshare and user time. Our ability to compete successfully depends on our ability to differentiate our platform from competitors based on content quality, virtual item price, customer service and other factors. Improvement of our brand recognition and influence, expansion of our market shares and enhancement of our technologies are important for effective competition in the online video and audio social entertainment market in China. As competition intensifies, we may face compressed profit margins and lower revenues, and our ability to manage these competitive pressures will significantly affect our results of operations and financial condition.

Regulatory Environment in China

We are subject to extensive regulations in China. Government policies and regulations and their implementation and enforcement have significant impact on the operation and compliance cost of live streaming platforms and online social entertainment companies in China. For example, in order to maintain a sufficient internal control system and content review system, we may need to recruit additional content reviewers and train them to identify content violations timely and accurately. We have also invested, and will continue to invest, in AI-backed content review system to optimize our operations and remain compliant with applicable regulations. In addition, we are required to obtain certain approvals, licenses and permits required to conduct our business operations from the relevant PRC government authorities, including the Online Culture Operating License (網絡文化經營許可證) and the ICP License (增值電信業務經營許可證). The regulatory requirements in connection with obtaining and maintaining such approvals, licenses and permits or otherwise remaining compliant with relevant regulations may change, which could significantly increase the resources and time required to conduct our business or launch new products or services.

Seasonality

We have experienced, and expect to continue to experience, seasonality in our business. For example, we generally experience an increase in revenue from live streaming services in the fourth quarter of each year for the China market, as live streaming platforms generally organize marketing campaigns, host contests and other activities, which tend to attract more users and stimulate content production and user engagement on our platform towards the end of each year. We also experience fluctuations in revenue in connection with our overseas operations. Revenue generated from our overseas social networking products generally increases during summer and winter vacation periods, as the local younger users tend to spend more time on our apps to socialize with others. Revenue generated from our overseas social networking products tends to decrease during major local festivals when local users tend to decrease their online time or suspend virtual social events temporarily for offline activities. We expect our revenue to continue to fluctuate based on seasonal factors that affect the online video and audio entertainment market in China and globally.

SPECIFIC FACTORS AFFECTING OUR RESULTS OF OPERATIONS

In addition to general regulatory and industry conditions, we believe the following company-specific factors have had, and will continue to have, a significant impact on our results of operations.

Our Ability to Grow User and Host Base and Improve Quality Content

We generate revenue primarily from live streaming services. Our sustainable revenue growth depends on our ability to retain and grow our user base, which primarily includes Generation Z users who have keen desires for self-expression and companionship, and their demands for quality content. Our ability to sustain revenue growth also depends on our host base, which is the primary source of quality content. In order to encourage our hosts to continuously create quality content, we work closely with major talent agencies and aid beginner hosts in their professional development. Our ability to attract and retain talented hosts also depends on, among others, brand recognition of and user engagement on our platform and our revenue-sharing policy with hosts and their associated talent agencies. Our ability to continue to improve and diversify the features of our platform, maintain and improve our diverse and inclusive community culture, and enhance our brand recognition among users, hosts and talent agencies is critical to our ability to retain our existing users and hosts and attract prospective ones, which is the major driver of the sustainable growth in our revenue and results of operations.

Our Ability to Enhance Brand Recognition

Brand recognition is crucial for our success and a key factor to attract users and hosts. We believe that we have established a respectable brand image and reputation among users and successfully attracted users to our platform to participate in live streaming sessions, which in turn help attract hosts to our platform. In addition, leveraging our brand, we have aggregated a multitude of viable hosts and become a powerhouse of eminent hosts to continuously produce the content.

In an effort to promote our brand recognition, we have launched various online and offline marketing campaigns and collaborated with online user traffic referral channels to promote our brand. Our ability to effectively enhance our brand image, efficiently conduct our marketing campaigns, and differentiate ourselves from our competitors is critical to our business growth.

Our Ability to Control Costs and Expenses

Our results of operations have been, and will continue to be, affected by our ability to control our cost of sales and operating expenses. Our cost of sales primarily consists of host costs, employee expenses, bandwidth expenses and server custody costs, and payment processing costs. Our cost of sales was RMB2,125.2 million, RMB2,672.1 million, RMB3,377.1 million, RMB1,302.0 million and RMB1,545.7 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively, representing 75.1%, 72.5%, 73.4%, 72.3% and 74.0% of our total revenue for the same periods, respectively.

A substantial portion of our cost of sales represents revenue that we share with hosts or talent agencies from virtual gifting in connection with our live streaming services. The terms of agreements we enter into with hosts or talent agencies, particularly, the revenue sharing arrangements, have a direct impact on our cost structure. In 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, host costs were RMB1,919.5 million, RMB2,446.2 million, RMB3,085.0 million, RMB1,182.9 million and RMB1,431.7 million, respectively, representing 67.8%, 66.4%, 67.1%, 65.7% and 68.6% of our total revenue for the same periods, respectively. We seek to optimize our revenue-sharing arrangements with hosts or talent agencies by leveraging our scale and market position. We also seek to attract more beginner hosts to our platform, who typically share lower percentage of income from sales of virtual gifts and services as compared to more established hosts and are vital to our active online community and user engagement.

Our selling and marketing expenses also account for a major portion of our total revenue. Our selling and marketing expenses were RMB362.0 million, RMB451.4 million, RMB544.8 million, RMB227.3 million and RMB218.1 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively, representing 12.8%, 12.3%, 11.8%, 12.6% and 10.4% of our total revenue in the same periods, respectively. We expect to incur more selling and marketing expenses as we continue to compete for user traffic and user time and expand our user outreach in China and globally. We strive to manage these expenses by, among other things, establishing and adhering to an annual budget for our marketing expenses.

Our Research and Development Efforts and Technological Capability

China's online video and audio social entertainment market is characterized by continuous technological advancements and changing industrial and market trends. As a result, our results of operations and secular growth prospects will depend on our ability to continue to improve and innovate our platform through our research and development efforts and technological capability and infrastructure. Our technology infrastructure that supports the operations of our various products is also critical to the their stability and proper functions. We will continue to serve our users and support our business growth. We seek to continually invest in our research and development effort by maintaining a dedicated technology team with requisite credentials and expertise and innovating our platform to keep pace with the technological advancements and industrial trends, which could increase our research and development expenses and may impact our results of operations and financial condition.

Strategic Investments and Acquisitions

We have made, and intend to continue to make, strategic acquisitions of content production companies, host talent agencies, social networking products and other complementary businesses in China and overseas to grow our business. We will continue to carefully evaluate and execute investment and acquisition opportunities that complement our existing product portfolio, optimize our profitability, or demonstrate synergies with our existing business. For example, we may invest in or acquire other social networking apps or platforms in the overseas markets that we intend to enter, as well as smaller platforms with a distinctive presence in popular or emerging live streaming genres. Investments and acquisitions, however, may result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, substantial depreciation and significant amortization expenses related to intangible assets, impairment losses, deferred compensation charges, adverse tax consequences, significant diversion of management attention, incurrence of debt on unfavorable terms and exposure to potential unknown liabilities of the acquired business. As a result, our ability to effectively manage our strategic investment and acquisitions could materially affect our business growth.

IMPACT OF COVID-19 ON OUR OPERATIONS AND FINANCIAL PERFORMANCE

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. 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, based on the following grounds.

Impact on Our Business and Financial Condition. 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. As such, *6.cn*, which was deeply rooted in PC-client based live streaming since its inception, began to experience a decline in business performance in 2020. In order to maintain its competitive edge, *6.cn* strategically focuses on attracting hosts and users and continued to introduce new products to keep abreast of the evolving industry trends. For example, *6.cn* provided more favorable revenue-sharing policy to retain viable hosts in 2020, and continued to promote its mobile-based applications and enhanced marketing efforts for mobile-based apps in user traffic referrals, and incurred significant marketing expense in 2020. As a result of the foregoing, we recognized an impairment loss of RMB1,777.7 million in 2020 for the goodwill arising from the Huajiao-6.cn Merger. See "— Key Components of Our Results of Operation — Impairment Loss of Goodwill—Huajiao-6.cn Merger." 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.

The recent 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 outbreak of COVID-19 did not otherwise materially affect our operations.

Impact on Our Operations. Due to government measures to contain the spread of the pandemic, such as restrictions on mobility and cancelation of public activities, our operations have, to certain extent, been impacted by delays in business activities and commercial transactions as well as general uncertainties surrounding the duration of the government-imposed extended business and travel restrictions. In particular, the travel restrictions resulted in the reduction in size or even cancelation of our offline events, which temporarily affected some of our marketing activities. Moreover, we took various measures in response to the outbreak to protect our employees in compliance with government measures, including, among others, temporary closure of our offices, remote working arrangements, and travel restrictions or suspension. These measures temporarily reduced the capacity and efficiency of our operations. In response to government-imposed quarantine, we had temporarily shut down our offices and content monitoring centers. All of our offices and monitoring centers have resumed operation since March 2020 in accordance with the local government policies. As of the Latest Practicable Date, we had not experienced any significant adverse changes in maintaining our operations.

Impact on Our Employees. In response to COVID-19, we have implemented various measures pursuant to government policies, including setting up strict entrance registration and temperature screening procedures for our employees, and reducing the density of personnel in our offices and content monitoring centers. We have been granted deduction in the contribution of social insurance premiums for our employees from February 2020 to December 2020, according to relevant government relief policies during the COVID-19 outbreak. As of the Latest Practicable Date, we had not experienced any material employee attrition due to the COVID-19 outbreak.

Although many of the quarantine measures within China have since been relaxed, relaxation of restrictions over economic and social activities may also lead to new cases, which may lead to reinstituted restrictions. As a result, the extent of disruption to our business and the related impact on our financial results and outlook for 2022 cannot be reasonably estimated at this time. Our results of operations and financial condition for 2022 will depend on the future development of the outbreak, including its local and global severity and actions taken to contain it, which are highly uncertain and unpredictable. For more details, 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."

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that we believe are most significant to the preparation of our consolidated financial statements. Our significant accounting policies and estimates, which are important for understanding our results of operations and financial condition, are set forth in Notes 2 and 3 to the Accountant's Report in Appendix I to this document, respectively. Some of the accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (1) our selection of critical accounting policies, (2) the judgment and other uncertainties affecting the application of such policies, and (3) the sensitivity of reported results to changes in conditions and assumptions.

Revenue

We principally derive our revenue from live streaming, social networking and other services. Revenue is recognized when control of a service is transferred to the customer, at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax and other sales taxes, and is after deduction of any trade discounts.

Live streaming service

We operate a mobile and personal computer live streaming platform, consisting of IT infrastructure, mobile applications and proprietary algorithm, to offer live and interactive streaming services to individual users as customers. We create and sell to individual users virtual items, so they can simultaneously present to hosts during their live streaming sessions to show their support. We consider the sale of virtual items in connection with live streaming services as a single performance obligation, and the associated revenue is recognized on a gross basis, as we have sole discretion in designing, pricing and monetizing the virtual items before they are transferred to individual users. Revenue is recognized at a point-in-time when the virtual items are consumed as they are presented to live streaming hosts, at an amount which becomes known at the time the items are consumed.

Individual users purchase virtual items using our user tokens which is in turn acquired through third-party payment companies. User tokens are non-refundable and are often used to acquire virtual items and consumed soon after it is purchased. As such, we do not expect any significant breakage. User tokens and virtual items sold but not yet consumed by users are recorded as contract liabilities. Virtual items not yet consumed are counted as user tokens with reference to the original price of the virtual items and are recorded as contract liability together with user tokens that are not yet consumed. The weighted average unit price of user token is calculated on a monthly basis as the contract liabilities at the beginning of the month plus proceeds received during the month divided by the corresponding quantity of user tokens.

Social networking service

We also operate our social networking platform, which helps users meet potential friends from all over the world. We create and sell to individual users virtual items. Revenue from such sale is recognized at a point-in-time when the virtual items are consumed, as the consideration for matching the potential friends or chatting with hosts. This includes value-added services for social networking services, which include purchase of membership. Such membership contains certain number of viewing and watching options. Revenue is recognized when the options are consumed. Revenue is recognized on a gross basis as we are the principal with respect to the fulfillment of the associated promises.

Other services

We provide other services, such as advertisement and technical services. Revenues are recognized upon fulfillment of services obligation.

Share-based payments

For equity settled share-based payment transactions, the fair value of awarded shares granted to employees is recognized as an employee cost with a corresponding increase in other reserve within equity. The fair value is measured at grant date using the discounted cash flow model, taking into account the terms and conditions upon which the shares were granted.

At each reporting date, the number of equity instruments that are expected to be vested are estimated. The impact on the revision of original estimates is recognized in profit or loss and as a corresponding adjustment to equity over the remaining vesting period, unless the revision to original estimates is due to market conditions. Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognized in relation to such shares are reversed effective at the date of the forfeiture.

Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to business combinations, items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, we control the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if we have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  o the same taxable entity; or

  o different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

Goodwill

Goodwill represents the excess of (1) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of our previously held equity interest in the acquiree; over (2) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date. When (2) is greater than (1), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase. Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment.

The recoverable amount of the CGU is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset.

An impairment loss is recognized in profit or loss if the carrying amount of the CGU to which the goodwill belongs, exceeds its recoverable amount. Impairment losses recognized in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units) and then, to reduce the carrying amounts of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable). An impairment loss in respect of goodwill is not reversed.

On disposal of a CGU during the periods, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Investments other than equity investments

We recognize and derecognize investments in debt and equity securities on the date we commit to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognized directly in profit or loss. These investments are subsequently accounted for as follows, depending on their classification.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

- fair value through other comprehensive income ("FVOCI")-recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

- FVPL, if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

CONSOLIDATED STATEMENTS OF RESULTS OF OPERATIONS

The following table set forth a summary of our consolidated statements of results of operations for the periods indicated.

	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*
Other income, net	34,129	*1.2*	61,709	*1.7*	68,852	*1.5*	22,166	*1.2*	27,636	*1.3*
Selling and marketing expenses	(361,991)	*(12.8)*	(451,406)	*(12.3)*	(544,839)	*(11.8)*	(227,308)	*(12.6)*	(218,077)	*(10.4)*
General and administrative expenses	(41,987)	*(1.5)*	(68,867)	*(1.9)*	(146,011)	*(3.2)*	(44,898)	*(2.5)*	(44,361)	*(2.1)*
Research and development expenses	(132,052)	*(4.7)*	(156,243)	*(4.2)*	(207,850)	*(4.5)*	(87,928)	*(4.9)*	(93,577)	*(4.5)*
Impairment loss on goodwill and intangible assets	–	–	(1,872,543)	*(50.8)*	–	–	–	–	–	–
Profit/(loss) from operations	203,764	*7.2*	(1,475,978)	*(40.1)*	392,733	*8.5*	161,705	*9.0*	213,350	*10.2*
Finance costs	(624)	*(0.0)*	(776)	*(0.0)*	(484)	*(0.0)*	(223)	*(0.0)*	(1,101)	*(0.1)*
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*
Income tax	(11,842)	*(0.4)*	(47,917)	*(1.3)*	(67,226)	*(1.5)*	(25,298)	*(1.4)*	(34,358)	*(1.6)*
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/period, 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 and other persons 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.

	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]
Adjusted net profit/(loss) (non-IFRS measure)	210,605	(1,505,875)	430,617	156,219	194,037

(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 had adjusted net loss (non-IFRS measure) of RMB1,505.9 million in 2020 and 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.

KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

We generate revenue primarily from (1) our video- and audio-based live streaming services, (2) social networking services operated under HOLLA Group and (3) other services. During the Track Record Period, we generated substantially all of revenue from operations in China. The following table sets forth a breakdown of our revenue by business line, both in absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year 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)									
Live streaming										
Huajiao[(1)]	2,165,742	*76.5*	2,825,843	*76.7*	3,469,218	*75.4*	1,360,484	*75.5*	1,493,171	*71.5*
6.cn	653,614	*23.1*	843,723	*22.9*	1,007,875	*21.9*	403,206	*22.4*	527,760	*25.3*
Subtotal	2,819,356	*99.6*	3,669,566	*99.6*	4,477,093	*97.3*	1,763,690	*97.9*	2,020,931	*96.8*
Social networking	–	–	–	–	118,243	*2.6*	35,613	*2.0*	66,387	*3.2*
Others	11,516	*0.4*	13,909	*0.4*	4,354	*0.1*	2,343	*0.1*	123	*0.0*
Total	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*

(1) *Huajiao*'s revenue included that 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.

In 2019 and 2020, all of our revenue was generated in the PRC. In 2021, 97.4% of our revenue was generated in the PRC, while 2.6% of our revenue was generated by HOLLA Group in overseas markets, of which, approximately 46.5%, 32.8% and 20.7% of our revenue was generated in North America, Europe, and other overseas regions, respectively. In the five months ended May 31, 2022, 96.8% of our revenue was generated in the PRC, while 3.2% of our revenue was generated by HOLLA Group in overseas markets, of which, approximately 55.9%, 19.0% and 25.1% of our revenue was generated in North America, Europe, and other overseas regions, respectively.

Live streaming revenue

During the Track Record Period, we generated substantially all of our revenue from our video- and audio-based live streaming business, which derives revenue from sales of user tokens to users who use user tokens to purchase virtual items and present them as gifts to hosts to show their support and appreciation. We recognize revenue when the virtual items are gifted by users to hosts as we have no further obligations related to virtual items once they are gifted. We generated revenue of RMB2,819.4 million, RMB3,669.6 million, RMB4,477.1 million, RMB1,763.7 million and RMB2,020.9 million from our live streaming services in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively, representing 99.6%, 99.6%, 97.3%, 97.9% and 96.8% of our total revenue in the same periods, respectively.

We also began to introduce audio-based live streaming services on *Huajiao* since 2018, and *Naitang*, an audio-based product, was launched in May 2019. In 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, we generated revenue of RMB193.0 million, RMB523.1 million, RMB1,106.4 million, RMB376.7 million and RMB565.6 million from our audio-based live streaming products, respectively, representing 6.8%, 14.3%, 24.7%, 21.4% and 28.0% of our revenue generated from live streaming services in the same periods, respectively. Revenue generated from audio contents on *Huajiao* increased from RMB193.0 million in 2019 to RMB506.7 million in 2020 and further to RMB889.1 million in 2021, and from RMB328.9 million in the five months ended May 31, 2021 to RMB451.7 million in the five months ended May 31, 2022, and after its initial product adjustment period during the second half of 2019, revenue generated from *Naitang* increased significantly, from RMB16.4 million in 2020 to RMB217.3 million in 2021 and from RMB47.8 million in the five months ended May 31, 2021 to RMB113.9 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, according to the iResearch Report.

The following table sets forth a breakdown of our revenue by type of live streaming, both in absolute amount and as a percentage of our revenue generated from live streaming business line, for the periods indicated.

	Year 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)									
Video-based live streaming										
Huajiao (video)	1,972,791	*70.0*	2,302,787	*62.8*	2,362,812	*52.8*	983,763	*55.8*	927,544	*45.9*
6.cn	653,614	*23.2*	843,723	*23.0*	1,007,875	*22.5*	403,206	*22.9*	527,760	*26.1*
Subtotal	2,626,405	*93.2*	3,146,510	*85.7*	3,370,687	*75.3*	1,386,969	*78.7*	1,455,304	*72.0*
Audio-based live streaming										
Huajiao (audio)	192,951	*6.8*	506,671	*13.8*	889,129	*19.9*	328,887	*18.6*	451,737	*22.4*
Naitang	–	–	16,385	*0.4*	217,277	*4.9*	47,834	*2.7*	113,890	*5.6*
Subtotal	192,951	*6.8*	523,056	*14.3*	1,106,406	*24.7*	376,721	*21.3*	565,627	*28.0*
Total	2,819,356	*100.0*	3,669,566	*100.0*	4,477,093	*100.0*	1,763,690	*100.0*	2,020,931	*100.0*

Social networking

After the financial results of HOLLA Group have been consolidated into our historical financial statement since December 31, 2020, we began to generate revenue from social networking services offered by HOLLA Group. 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.

Others

During the Track Record Period, we generated revenue from other services, consisting of (1) advertisement services, which was offered to enterprise customers during live streaming sessions, and (2) website technical services offered to enterprise customers. We recognize revenue when we have satisfied the performance of our obligations under the service contracts. We generated other revenue in the amount of RMB11.5 million, RMB13.9 million, RMB4.4

million, RMB2.3 million and RMB0.1 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively, representing 0.4%, 0.4%, 0.1%, 0.1% and 0.0% of our total revenue in the same periods, respectively.

Cost of sales

Our cost of sales primarily consisted of (1) host costs, which are revenue shared with hosts or talent agencies, (2) employee expenses in connection with our live streaming and other services, (3) bandwidth expenses and server custody costs, (4) payment processing costs, (5) share-based compensation expenses, (6) depreciation and amortization cost, (7) service fees, and (8) other cost of sales, including advertising costs, operation and production costs and other costs of revenues.

Cost of sales by nature

The following table sets forth a breakdown of our cost of sales by nature, both in absolute amount and as a percentage of total cost of sales, for the periods indicated.

	Year 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)									
Host costs	1,919,503	*90.3*	2,446,221	*91.5*	3,084,993	*91.4*	1,182,938	*90.9*	1,431,732	*92.6*
Employee expenses	49,795	*2.3*	46,695	*1.7*	65,571	*1.9*	28,410	*2.2*	29,081	*1.9*
Bandwidth expenses and server custody costs	50,703	*2.4*	53,264	*2.0*	51,868	*1.5*	17,601	*1.3*	16,763	*1.1*
Payment processing costs	41,508	*2.0*	43,823	*1.6*	73,909	*2.2*	28,604	*2.2*	34,171	*2.2*
Share-based compensation expenses	10,110	*0.5*	9,242	*0.3*	32,188	*1.0*	7,412	*0.6*	5,391	*0.3*
Depreciation and amortization	18,022	*0.8*	30,568	*1.1*	28,591	*0.8*	11,378	*0.9*	12,540	*0.8*
Service fees	22,402	*1.1*	15,599	*0.6*	15,791	*0.5*	12,457	*0.9*	8,739	*0.6*
Others[(1)]	13,164	*0.6*	26,691	*1.0*	24,198	*0.7*	13,173	*1.0*	7,295	*0.5*
Total	2,125,207	*100.0*	2,672,103	*100.0*	3,377,109	*100.0*	1,301,973	*100.0*	1,545,712	*100.0*

(1) Primarily consisted of advertising costs, operation and production costs, and other costs of revenues.

Host costs

Host costs represented revenue shared with hosts and talent agencies, including (1) the portion of revenue generated from virtual gifting that we shared with hosts based on pre-agreed arrangements and (2) the commission paid to talent agencies and the associated tax.

Employee expenses

Employee expenses represented employee salaries, bonuses, social insurance premiums incurred in connection with the employee providing of live streaming, social networking and other value-added services.

Bandwidth expenses and server custody cost

Bandwidth expenses and server custody costs represented fees paid to telecommunications and other services providers for their bandwidth and custody services for our servers at our data centers. Leases of internet data centers with a term of one year or less were recorded as server custody costs.

Payment processing costs

Payment processing costs represented payments to third-party payment channels such as Alipay, WeChat Pay and Apple Pay. Our third-party payment channels typically charged processing fees for their services calculated as certain percentage of payments made through their channels.

Share-based compensation expenses

Share-based compensation expenses represented expenses incurred in connection with the grant of restricted shares under an equity-settled stock incentive plan approved by the shareholder of Mijing Hefeng in January 2017 (the "2017 Plan") and a more comprehensive equity-settled stock incentive plan resolved by the board of directors of the Huafang Technology in October 2020 (the "2020 Plan").

Depreciation and amortization cost

Depreciation and amortization cost represented the depreciation of our computers, servers and other IT equipment. Amortization of intangible assets represented amortization of our licenses, copyrights and software.

Service fee

Service fee represented outsourcing labor cost for certain content review services.

Cost of sales by business line

The following table sets forth a breakdown of our cost of sales by business lines, both in absolute amount and as a percentage of total cost of sales, for the periods indicated.

	Year 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)									
Live streaming										
Huajiao[1]	1,742,577	82.0	2,143,324	80.2	2,645,561	78.3	1,017,249	78.1	1,130,182	73.1
6.cn	381,036	17.9	523,127	19.6	664,761	19.7	260,063	20.0	380,290	24.6
Subtotal	2,123,613	99.9	2,666,451	99.8	3,310,322	98.0	1,277,312	98.1	1,510,472	97.7
Social networking	–	–	–	–	62,851	1.9	22,833	1.8	35,145	2.3
Others	1,594	0.1	5,652	0.2	3,936	0.1	1,828	0.1	95	0.0
Total	2,125,207	100.0	2,672,103	100.0	3,377,109	100.0	1,301,973	100.0	1,545,712	100.0

(1) *Huajiao*'s cost of sales included that of *Naitang*, a stand-alone audio-based product introduced in May 2019.

Gross Profit and Gross Profit Margin

The following table sets forth a breakdown of our gross profit and gross profit margin by business line for the periods indicated.

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	Gross profit	Gross Profit Margin (%)	Gross profit	Gross Profit Margin (%)	Gross profit	Gross Profit Margin (%)	Gross profit	Gross Profit Margin (%)	Gross profit	Gross Profit Margin (%)
							(Unaudited)			
	(RMB in thousands except for percentages)									
Live streaming										
Huajiao[1]	423,165	*19.5*	682,519	*24.2*	823,657	*23.7*	343,235	*25.2*	362,989	*24.3*
6.cn	272,578	*41.7*	320,596	*38.0*	343,114	*34.0*	143,143	*35.5*	147,470	*27.9*
Subtotal	695,743	*24.7*	1,003,115	*27.3*	1,166,771	*26.1*	486,378	*27.6*	510,459	*25.3*
Social networking	–	–	–	–	55,392	*46.8*	12,780	*35.9*	31,242	*47.1*
Others	9,922	*86.2*	8,257	*59.4*	418	*9.6*	515	*22.0*	28	*22.8*
Total	705,665	*24.9*	1,011,372	*27.5*	1,222,581	*26.6*	499,673	*27.7*	541,729	*26.0*

(1) *Huajiao*'s gross profit and gross profit margin included that of *Naitang*, a stand-alone audio-based product introduced in May 2019.

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% for the same periods, respectively.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consisted of promotion and advertising expenses, operating expenses, employee expenses in connection with our selling and marketing activities, share-based compensation, depreciation and amortization cost, agency services fees and others. The following table sets forth a breakdown of our selling and marketing expenses, both in absolute amount and as a percentage of total selling and marketing expenses, for the periods indicated.

	Year 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)									
Promotion and advertising	314,857	*87.0*	410,140	*90.9*	495,642	*91.0*	209,500	*92.2*	196,113	*89.9*
Operating expenses	10,401	*2.9*	1,853	*0.4*	3,236	*0.6*	353	*0.2*	673	*0.3*
Employee expenses	23,558	*6.5*	24,109	*5.3*	26,478	*4.9*	9,852	*4.3*	15,211	*7.0*
Share-based compensation expenses	2,185	*0.6*	1,316	*0.3*	2,908	*0.5*	639	*0.3*	633	*0.3*
Depreciation and amortization	465	*0.1*	738	*0.2*	471	*0.1*	211	*0.1*	697	*0.3*
Agency service fees	8,024	*2.2*	10,645	*2.4*	11,506	*2.1*	5,246	*2.3*	3,902	*1.8*
Others[1]	2,501	*0.7*	2,605	*0.5*	4,598	*0.8*	1,507	*0.6*	848	*0.4*
Total	361,991	*100.0*	451,406	*100.0*	544,839	*100.0*	227,308	*100.0*	218,077	*100.0*

(1) Primarily consisted of travel expenses and office leasing expenses.

Promotion and advertising expenses represented fees and expenses incurred in relation to referral of online user traffic, offline marketing activities, and costs related to production of professionally generated content. Operating expenses represented expenses of production and offline activities in connection with promoting our platform and brand. Employee expenses primarily represented wages and salaries and other bonus benefits for our sales and marketing personnel. Agency services fees represented fees paid to third-party agents, who were hosts, talent agencies, and other individuals or companies that referred users to our platform, in connection with their referral of users for top-up of our user tokens in our platform.

General and Administrative Expenses

Our general and administrative expenses primarily consisted of employee expenses, professional service fees, share-based compensation, depreciation and amortization expenses, travel expenses and entertainment expenses, office leasing expense and others. The following table sets forth a breakdown of our general and administrative expenses, both in absolute amount and as a percentage of total general and administrative expenses, for the periods indicated.

	Year 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)									
Employee expenses	20,434	*48.7*	37,003	*53.7*	56,691	*38.8*	22,690	*50.5*	25,382	*57.2*
Professional service fees	5,485	*13.1*	7,362	*10.7*	6,361	*4.4*	2,377	*5.3*	1,914	*4.3*
[REDACTED]	–	–	–	–	[REDACTED]	[REDACTED]	–	–	[REDACTED]	[REDACTED]
Share-based compensation expenses	1,172	*2.8*	4,081	*5.9*	34,368	*23.5*	8,226	*18.3*	5,312	*12.0*
Depreciation and amortization	2,543	*6.1*	3,649	*5.3*	1,992	*1.4*	691	*1.6*	1,551	*3.5*
Travel expenses and entertainment expenses	3,479	*8.3*	2,452	*3.6*	3,946	*2.7*	1,614	*3.6*	930	*2.1*
Taxes and surcharges	3,908	*9.3*	8,572	*12.4*	10,162	*7.0*	4,061	*9.0*	2,600	*5.9*
Office leasing expenses	1,977	*4.7*	2,658	*3.9*	4,428	*3.0*	2,767	*6.2*	1,967	*4.4*
Others[(1)]	2,989	*7.0*	3,090	*4.5*	6,462	*4.4*	2,472	*5.5*	2,416	*5.4*
Total	41,987	*100.0*	68,867	*100.0*	146,011	*100.0*	44,898	*100.0*	44,361	*100.0*

(1) Primarily consisted of technical service fees and management fees.

Employee expenses represented wages and salaries and other welfare benefits for our administrative personnel and management personnel. Professional service fees represented audit fees, consulting fees and legal fees. Share-based compensation expenses represented expenses incurred in connection with the grant of restricted share units to general and administrative staff under our 2017 Plan and 2020 Plan. Travel expenses and entertainment expenses represented traveling and other expenses incurred by our management administrative personnel.

Research and Development Expenses

Our research and development expenses primarily consisted of employee expenses, technical service fees, share-based compensation, depreciation and amortization expenses and office leasing expenses, travel expenses and others.

The following table sets forth a breakdown of our research and development expenses, both in absolute amount and as a percentage of total research and development expenses, for the periods indicated.

	Year 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)									
Employee expenses	108,607	*82.2*	128,323	*82.1*	157,498	*75.8*	65,934	*75.0*	74,128	*79.2*
Technical service fees	7,865	*6.0*	13,155	*8.4*	23,323	*11.2*	10,654	*12.1*	9,695	*10.4*
Share-based compensation expenses	5,840	*4.4*	4,157	*2.7*	14,529	*7.0*	3,758	*4.3*	2,521	*2.7*
Depreciation and amortization	2,171	*1.6*	2,888	*1.8*	4,374	*2.1*	2,175	*2.5*	4,003	*4.3*
Office leasing	6,021	*4.6*	5,340	*3.4*	5,800	*2.8*	4,313	*4.9*	2,270	*2.4*
Travel expenses	539	*0.4*	326	*0.2*	389	*0.2*	176	*0.2*	187	*0.2*
Others[1]	1,009	*0.8*	2,054	*1.4*	1,937	*0.9*	918	*1.0*	773	*0.8*
Total	132,052	*100.0*	156,243	*100.0*	207,850	*100.0*	87,928	*100.0*	93,577	*100.0*

(1) Primarily consisted of consultation fees and office expenses.

Employee expenses represented wages and salaries and other welfare benefits for our research and development staff. Technical service fees represented expenses in connection with the purchases of cloud services and software.

Impairment Loss of Goodwill

Impairment loss of goodwill represented impairment on goodwill incurred in connection with business combination, which is tested each year by our management by comparing the recoverable amount to the carrying amount. The recoverable amount was determined based on value-in-use ("VIU") calculation. The recoverable amount of the Huafang Technology and Holla Technology's CGU is determined based on VIU calculations. These calculations use cash flow projections based on financial budgets approved by our management covering an at least five-year period.

Key assumptions used for VIU calculations are set forth below.

	As of December 31,		
	2019	**2020**	**2021**
6.cn			
Annual revenue (decline)/growth rates for next five years *	(1.18)% – 10.00%	(4.98)% – 0.00%	(0.82)% – 0.00%
Terminal growth rate **	0.00%	0.00%	0.00%
Discount rate ***	14.59%	15.72%	15.30%

	As of December 31,	
	2020	**2021**
HOLLA Group		
Annual revenue growth rates for next five years *	0.00% – 21.80%	0.00% – 20.99%
Terminal growth rate **	0.00%	0.00%
Discount rate ***	13.98%	14.92%

	As of December 31,	
	2020	**2021**
Maijike		
Annual revenue growth rates for next five years *	0.00% – 10.00%	0.00% – 20.32%
Terminal growth rate **	0.00%	0.00%
Discount rate ***	16.40%	17.27%

* The annual revenue growth rates adopted are based on 6.cn, HOLLA Group and Maijike's CGU's historical experience and the Group's expectations of future changes in the live streaming industry and adjusted for other factors that are specific to the CGU of 6.cn, HOLLA Group and Maijike.

** Cash flows beyond the five-year period are extrapolated using a terminal growth rate that is based on the relevant industry growth forecasts and does not exceed the average terminal growth rate of the relevant industry.

*** The discount rates used are pre-tax and reflect specific risks relating to the CGU of 6.cn, HOLLA Group and Maijike.

We have performed sensitivity analysis in relation to the assessment of impairment loss. As of December 31, 2019, based on the impairment test performed, the recoverable amount of CGU of *6.cn* calculated based on VIU exceeded carrying value by RMB179,176,000 ("headroom") and no impairment of goodwill was recognized. As of December 31, 2020, based on the impairment test performed, the recoverable amount of CGU of HOLLA Group and Maijike calculated based on VIU exceeded carrying value by RMB13,002,000 and RMB8,528,000, respectively, and no impairment of goodwill was recognized. As of December 31, 2021, based on the impairment test performed, the recoverable amount of CGU of *6.cn*, HOLLA Group and Maijike calculated based on VIU exceeded carrying value by RMB165,315,000, RMB26,854,000 and RMB1,033,000, respectively, and no impairment of goodwill was recognized. The following table indicates how the amount of headroom would have changed if certain key assumption during the forecast period had changed, assuming all other assumptions remained constant.

	As of December 31,	
	2019	**2021**
	Headroom decreases by (RMB in thousands)	
6.cn		
If annual revenue growth rates decrease by 50 basis point	64,552	37,733
If terminal growth rate decreases by 50 basis point	72,888	21,831
If discount rate increases by 50 basis point	94,161	25,138

Our Directors were of the view that any reasonably possible change in key assumptions used in the value in use calculation of *6.cn* would not cause the carrying amount to exceed the recoverable amount.

	As of December 31,	
	2020	**2021**
	Headroom decreases by (RMB in thousands)	
HOLLA Group		
If annual revenue growth rates decrease by 50 basis point	3,962	13,111
If terminal growth rates decrease by 50 basis point	979	4,388
If discount rates increase by 50 basis point	2,086	4,022

	As of December 31,	
	2020	**2021**
	Headroom decreases by (RMB in thousands)	
Maijike		
If annual revenue growth rates decrease by 50 basis point	176	45
If terminal growth rates decrease by 50 basis point	26	44
If discount rates increase by 50 basis point	312	46

Our Directors were of the view that any reasonably possible change in key assumptions used in the value in use calculation of HOLLA Group and Maijike would not cause the carrying amount to exceed the recoverable amount.

For a more detailed discussion of the impairment testing on goodwill, see Note 13 to our consolidated financial statements included in the Accountants' Report set forth in Appendix I to this document.

Huajiao-6.cn Merger

In June 2018, Beijing 6.cn Technology Co., Ltd. (currently known as Huafang Technology) agreed to issue 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 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 strategically focus on attracting hosts and users to its mobile-based live streaming products and continued to introduce new products to keep abreast of the evolving industry trends. For example, *6.cn* provided more favorable revenue-sharing policy to retain and attract more viable hosts and talent agencies, evidenced by the increase in actual revenue-sharing ratios from approximately 50.0% in 2019 to 52.0% in 2020, resulting in a decrease in gross profit margin of *6.cn* from 41.7% in 2019 to 38.0% in 2020. In addition, *6.cn* continued to promote its mobile-based applications and enhanced marketing efforts for mobile-based apps in user traffic referrals, and incurred significant marketing expense in 2020.

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 could not utilize high-definition cameras that are more expensive than cameras for daily use, and could not receive professional adjustment assistance for lights, microphones and live streaming background settings, all of which 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. 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."

Acquisition of Holla Technology

In April 2020, we acquired Holla Technology, formerly known as Mizhi Technology, which had engaged in the development of virtual celebrities and virtual live streaming business and owned copyright of And2girls Virtual Group and core technologies of 3D modeling and motion capture, in order to support and complement our entertainment live streaming business. In 2020, our management determined that the monetization potential for virtual celebrities and virtual live streaming businesses was not fully realized due to slower-than-expected development of virtual celebrity market. After the adjustment of our strategic focus to entertainment live streaming and social networking services, the business of Holla Technology was suspended. We recognized impairment loss of RMB65.5 million due to such business suspension in 2020.

The following table sets forth a breakdown of our impairment loss on goodwill and intangible assets in 2020.

	Year ended December 31, 2020
Impairment loss of goodwill of 6.cn	1,777,709
Impairment loss of goodwill of Mizhi Technology	65,510
Impairment loss of intangible assets of Mizhi Technology	29,324
Total	1,872,543

Finance Costs

Finance costs primarily consisted of interest on lease liabilities.

Other Income

Other income consist of (1) investment income from financial products issued by banks, (2) additional deduction of input VAT, (3) interest income from bank savings, (4) government grants, and (5) others. The following table sets forth a breakdown of our other income, both in absolute amount and as a percentage of total other income for the periods indicated.

	Year 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)									
Income from financial products issued by banks	18,221	*53.4*	19,412	*31.5*	7,593	*11.0*	3,394	*15.3*	4,316	*15.6*
Changes in fair value of financial products issued by banks	(734)	*(2.2)*	626	*1.0*	(999)	*(1.5)*	(1,005)	*(4.5)*	66	*0.3*
Interest income	3,698	*10.8*	9,553	*15.5*	20,375	*29.6*	7,817	*35.3*	10,261	*37.1*
Government grants	1,361	*4.0*	8,600	*13.9*	9,862	*14.3*	140	*0.6*	575	*2.1*
Gain/(loss) on disposal of long-term assets	118	*0.3*	(9)	*0.0*	866	*1.3*	(264)	*(1.2)*	(274)	*(1.0)*
Additional deduction of input VAT	11,774	*34.5*	19,127	*31.0*	26,809	*38.9*	10,622	*47.9*	11,469	*41.5*
Others	(309)	*(0.8)*	4,400	*7.1*	4,346	*6.4*	1,462	*6.6*	1,223	*4.4*
Total	34,129	*100.0*	61,709	*100.0*	68,852	*100.0*	22,166	*100.0*	27,636	*100.0*

During the Track Record Period, we invested in financial products issued by banks, such as short-term wealth management products with low risks, high liquidity and reasonable returns and structured deposits issued by reputable commercial banks, including China Merchants Bank, Industrial and Commercial Bank of China Limited, China CITIC Bank, among others. The majority of which have an expected annual investment return rate ranging from 1.3% to 3.4%. A vast majority of such products had a maturity period of less than three months.

For a discussion of our investment policies and internal control over financial investment, see "— Discussion of Major Balance Sheet Items — Other Financial Assets — Investment Policies and Internal Control over Financial Investment."

Other Net Gains/(Losses)

Other net gains/(losses) primarily consisted of net foreign exchange losses or gains.

Taxation

We are subject to various rates of income tax under different jurisdictions. The following summarizes the major factors affecting our applicable tax in the Cayman Islands, Hong Kong and China.

Cayman Islands

We are incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Act. The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution, brought within the jurisdiction of the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

Hong Kong

Our subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the assessable profits arising in Hong Kong during the Track Record Period.

United States

Our subsidiaries incorporated in Delaware, United States, are subject to tax rate of 8.7%.

China

We incurred income tax expense of RMB11.8 million, RMB47.9 million, RMB67.2 million, RMB25.3 million and RMB34.4 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively, representing an effective tax rate of 5.8%, (3.2)%, 17.1%, 15.7% and 16.2%, respectively. Our effective tax rates during certain period of the Track Record Period were below the 25% statutory rate, primarily due to (1) preferential income tax rates applicable to us and certain of our PRC subsidiaries, and (2) tax deduction based on 75% of research and development expenditure during the Track Record Period.

Pursuant to the EIT Law and related regulations, enterprises which operate in China are generally subject to enterprise income tax at a rate of 25% on the taxable profit. Enterprises recognized as a "high and new technology enterprise" ("HNTE") are entitled to a preferential tax rate of 15% for three years as long as the HNTE status is valid, and qualified entities may re-apply for an additional three years if their business operations continue to qualify for the HNTE status. Huafang Technology and Mijing Hefeng were qualified as an HNTE and entitled to the preferential tax rate of 15% for 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022. Subject to certain limitations, the Huocheng branch office of Huafang Technology was entitled to full tax exemption for five years starting from 2016, its first profit-making year.

The following table sets forth taxation for our Group for the periods indicated.

	Years ended December 31,			**Five months ended May 31,**	
	2019	**2020**	**2021**	**2021**	**2022**
				(Unaudited)	
			(RMB in thousands)		
Current taxation					
Provision for the year/period	16,607	28,179	25,961	11,049	12,807
Deferred taxation					
Origination and reversal of temporary differences	(4,765)	19,738	41,265	14,249	21,551
	11,842	47,917	67,226	25,298	34,358

The following table sets forth the reconciliation between tax expenses and accounting profits at applicable tax rates for the periods indicated.

	Years ended December 31,			Five months ended May 31,	
	2019	**2020**	**2021**	**2021**	**2022**
				(Unaudited)	
	(RMB in thousands)				
Profit/(loss) before taxation	203,140	(1,476,754)	392,249	161,482	212,249
Notional tax on profit/(loss) before taxation, calculated at the applicable rates in the jurisdictions concerned	50,785	(369,189)	98,062	40,371	53,062
Effect of preferential tax rates applicable to certain subsidiaries of Group	(31,948)	143,568	(42,795)	(17,232)	(22,592)
Tax effect of additional tax deduction on research and development expenses	(11,098)	(10,555)	(12,146)	(4,625)	(4,878)
Tax effect of non-deductible expenses	1,496	2,771	16,597	3,592	3,014
Tax effect of unused tax losses and temporary differences not recognized	2,607	281,322	7,508	3,192	5,752
Actual tax expenses	11,842	47,917	67,226	25,298	34,358

During the Track Record Period and up to the Latest Practicable Date, we had paid all relevant taxes when due and there are no matters in dispute or unresolved with the relevant tax authorities.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Five Months Ended May 31, 2022 Compared to Five Months Ended May 31, 2021

Revenue

Our revenue increased by 15.9% from RMB1,801.6 million in the five months ended May 31, 2021 to RMB2,087.4 million in the five months ended May 31, 2022 for the following reasons.

- *Live streaming*. Our revenue generated from live streaming services increased by 14.6% 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, primarily due to the following reasons:

  - *Huajiao*. Revenue attributable to *Huajiao* increased by 9.8% from RMB1,360.5 million in the five months ended May 31, 2021 to RMB1,493.2 million in the five months ended May 31, 2022, primarily due to (1) the business growth of audio contents on *Huajiao*, the revenue generated from which increased significantly from RMB328.9 million in the five months ended May 31, 2021 to RMB451.7 million in the five months ended May 31, 2022, (2) our continuous efforts in exploring cooperation opportunities with different talent agencies, which we believe increased the overall performance of hosts at *Huajiao*, and (3) more diversified promotional events that led to improved user stickiness, which in turn increased the average MPUs of *Huajiao*. Revenue attributable to video contents on *Huajiao* decreased from RMB983.8 million in the five months ended May 31, 2021 to RMB927.5 million in the five months ended May 31, 2022, primarily because we focused more on the business operations of audio contents on *Huajiao*, as evidenced by the significant business growth of audio contents on *Huajiao* in the five months ended May 31, 2022.

  - *6.cn*. Revenue attributable to *6.cn* increased by 30.9% from RMB403.2 million in the five months ended May 31, 2021 to RMB527.8 million in the five months ended May 31, 2022, as we continued to improve the user experience on *6.cn* and enhanced our operations, both of which led to increases in the number of paying users and monthly ARPPU for *6.cn* in the five months ended May 31, 2022.

- *Social networking*. We began to generate revenue from social networking products and services from overseas social networking products operated under HOLLA Group after the consolidation of HOLLA Group's financial results on December 31, 2020. Revenue generated from our overseas social networking products increased by 86.4% from RMB35.6 million in the five months ended May 31, 2021 to RMB66.4

million in the five months ended May 31, 2022, primarily due to our efforts on expanding our overseas presence and increasing our overseas influence, both of which led to significant increases in average MPUs for overseas social networking products.

- *Others*. Our revenue generated from other services decreased by 94.8% from RMB2.3 million in the five months ended May 31, 2021 to approximately RMB123,000 in the five months ended May 31, 2022, primarily due to our strategic focus on live streaming and social networking business.

Cost of sales

Our cost of sales increased by 18.7% from RMB1,302.0 million in the five months ended May 31, 2021 to RMB1,545.7 million in the five months ended May 31, 2022, primarily due to increased host costs for the provision of streaming services and products. As a percentage of revenue, our cost of sales remained relatively stable at 72.3% and 74.0% in the five months ended May 31, 2021 and 2022, respectively.

Our host costs increased by 21.0% from RMB1,182.9 million in the five months ended May 31, 2021 to RMB1,431.7 million in the five months ended May 31, 2022. The growth of our host costs outpaced the growth of our revenue, primarily due to the significant increase in host costs for *6.cn*. Our employee expenses increased from RMB28.4 million in the five months ended May 31, 2021 to RMB29.1 million in the five months ended May 31, 2022, primarily due to an increase in our employee headcount to support our business growth, in particular with respect to our overseas expansion through HOLLA Group.

Our cost of sales for *Huajiao* increased by 11.1% from RMB1,017.2 million in the five months ended May 31, 2021 to RMB1,130.2 million in the five months ended May 31, 2022, which was generally in line with its revenue growth. Our cost of sales for *6.cn* increased by 46.2% from RMB260.1 million in the five months ended May 31, 2021 to RMB380.3 million in the five months ended May 31, 2022, primarily because more hosts associated with talent agencies performed on our platform in the five months ended May 31, 2022, who generally enjoy higher revenue-sharing ratio, which led to an increase in host costs.

Our cost of sales for the social networking services increased from RMB22.8 million in the five months ended May 31, 2021 to RMB35.1 million in the five months ended May 31, 2022, primarily due to our continuous overseas expansion, which led an increase in hosts cost for our overseas social networking products. Our cost of sales for other services decreased from RMB1.8 million in the five months ended May 31, 2021 to RMB95,000 in the five months ended May 31, 2022, which was consistent with the decrease in other services offered.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 8.4% from RMB499.7 million in the five months ended May 31, 2021 to RMB541.7 million in the five months ended May 31, 2022. Our gross profit margin was 27.7% and 26.0% in the five months ended May 31, 2021 and 2022, respectively.

- *Live streaming*. Our gross profit margin for live streaming remained relatively stable at 27.6% and 25.3% in the five months ended May 31, 2021 and 2022, respectively.

  - *Huajiao*. The gross profit margin for *Huajiao* remained relatively stable at 25.2% and 24.3% in the five months ended May 31, 2021 and 2022, respectively, which was primarily due to the stable revenue-sharing ratio of *Huajiao* in the five months ended May 31, 2021 and 2022, respectively.

  - *6.cn*. The gross profit margin for *6.cn* decreased from 35.5% in the five months ended May 31, 2021 to 27.9% in the five months ended May 31, 2022, primarily because *6.cn* focused on promoting hosts associated with talent agencies, who generally enjoy a relatively higher revenue-sharing ratio than individual hosts, as evidenced by the increase in the revenue generated from hosts associated with talent agencies as a percentage of our total revenue from 93.7% in the five months ended May 31, 2021 to 96.2% in the five months ended May 31, 2022.

- *Social networking*. The gross profit margin for social networking services increased from 35.9% in the five months ended May 31, 2021 to 47.1% in the five months ended May 31, 2022, primarily because we had preliminarily established our overseas operation teams with local experience and international perspective to provide local operation supports and customer service, which reduced our costs for engaging relevant third-party service providers. The relatively high gross profit margin of social networking products was mainly due to the relatively low host costs for social networking products, as a portion of its revenue was generated from purchases of services.

- *Others*. The gross profit margin for others remained relatively stable at 22.0% and 22.8% in the five months ended May 31, 2021 and 2022, respectively.

Selling and marketing expenses

Our selling and marketing expenses decreased by 4.1% from RMB227.3 million in the five months ended May 31, 2021 to RMB218.1 million in the five months ended May 31, 2022, primarily due to the decrease in our promotion and advertising expenses as a result of our more stringent price-for-value selection criteria for relevant service providers. Our selling and marketing expenses as a percentage of our total revenue remained relatively stable at 12.6% and 10.4% in the five months ended May 31, 2021 and 2022, respectively.

General and administrative expenses

Our general and administrative expenses decreased by 1.2% from RMB44.9 million in the five months ended May 31, 2021 to RMB44.4 million in the five months ended May 31, 2022. Our general and administrative expenses as a percentage of our total revenue remained relatively stable at 2.5% and 2.1% in the five months ended May 31, 2021 and 2022, respectively.

Research and development expenses

Our research and development expenses increased by 6.4% from RMB87.9 million in the five months ended May 31, 2021 to RMB93.6 million in the five months ended May 31, 2022, which was in line with our general business expansion and growth. Our research and development expenses as a percentage of our total revenue remained relatively stable at 4.9% and 4.5% in the five months ended May 31, 2021 and 2022, respectively.

Other income

Our other income increased by 24.7% from RMB22.2 million in the five months ended May 31, 2021 to RMB27.6 million in the five months ended May 31, 2022, primarily due to (1) an increase of RMB2.4 million in the interest income as a result of our increased bank deposits and (2) an increase of RMB0.9 million in income from financial products issued by banks due to the increase in principal we invested in such products.

Finance costs

Our finance costs increased significantly from RMB0.2 million in the five months ended May 31, 2021 to RMB1.1 million in the five months ended May 31, 2022, primarily because our business expansion and growth demand for larger office space, which led to an increase in lease liabilities.

Income tax expense

Our income tax expense increased by 35.8% from RMB25.3 million in the five months ended May 31, 2021 to RMB34.4 million in the five months ended May 31, 2022, which was consistent with the growth in our taxable income in the five months ended May 31, 2022. Our effective tax rate was 15.7% and 16.2% in the five months ended May 31, 2021 and 2022, respectively.

Profit for the period

As a result of the foregoing, our profit for the period increased by 30.6% from RMB136.2 million in the five months ended May 31, 2021 to a profit of RMB177.9 million in the five months ended May 31, 2022.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

Our revenue increased by 24.9% from RMB3,683.5 million in 2020 to RMB4,599.7 million in 2021 for the following reasons.

- *Live streaming*. Our revenue generated from live streaming services increased by 22.0% from RMB3,669.6 million in 2020 to RMB4,477.1 million in 2021, primarily due to the following reasons:

  - *Huajiao*. Revenue attributable to *Huajiao* increased by 22.8% from RMB2,825.8 million in 2020 to RMB3,469.2 million in 2021, primarily due to the business growth of audio contents on *Huajiao*. In particular, revenue generated from audio contents on *Huajiao* increased significantly from RMB506.7 million in 2020 to RMB889.1 million in 2021. In addition, revenue from *Naitang* increased from RMB16.4 million in 2020 to RMB217.3 million in 2021. We believe the growth of audio-based products was due to (1) our targeted strategy to optimize the operations of audio-based products and increase user stickiness, and (2) the popularity of audio-based products among Generation Z users. In 2019, 2020 and 2021, Generation Z users contributed to 46.6%, 46.4% and 43.7% of revenue generated from *Huajiao*'s audio contents, respectively. In 2020 and 2021, 87.9% and 69.3% of revenue generated from *Naitang* was contributed by Generation Z users, respectively.

  - *6.cn*. Revenue attributable to *6.cn* increased by 19.5% from RMB843.7 million in 2020 to RMB1,007.9 million in 2021, as we continued to improve the content offered on *6.cn*, and enhance our operations, which led to increases in the number of paying users and monthly ARPPU for *6.cn* in 2021.

- *Social networking*. We began to generate revenue from social networking products and services from overseas social networking products operated under HOLLA Group after the consolidation of HOLLA Group's financial results on December 31, 2020. In 2021, our social networking products generated revenue of RMB118.2 million.

- *Others*. Our revenue generated from other services decreased by 68.3% from RMB13.9 million in 2020 to RMB4.4 million in 2021, primarily due to our strategic focus on live streaming and social networking business.

Cost of sales

Our cost of sales increased by 26.4% from RMB2,672.1 million in 2020 to RMB3,377.1 million in 2021, primarily due to increased host costs for the provision of streaming services and products, such as our audio-based streaming products. As a percentage of revenue, our cost of sales remained relatively stable at 72.5% and 73.4% in 2020 and 2021, respectively.

Our host costs increased by 26.1% from RMB2,446.2 million in 2020 to RMB3,085.0 million in 2021, which was consistent with the growth in our revenue from a larger amount of content offered on our platform. Our employee expenses increased from RMB46.7 million in 2020 to RMB65.6 million in 2021, primarily due to (1) an increase in our employee headcount to support our business growth, in particular with respect to our overseas expansion through HOLLA Group, (2) government's temporary relief policy on social insurance contribution in 2020 due to the COVID-19 pandemic. Our share-based compensation expenses also increased from RMB9.2 million in 2020 to RMB32.2 million in 2021, as we granted share-based awards to more operating staff.

Our cost of sales for *Huajiao* increased by 23.4% from RMB2,143.3 million in 2020 to RMB2,645.6 million in 2021, which was consistent with its growth in revenue. Our cost of sales for *6.cn* increased by 27.1% from RMB523.1 million in 2020 to RMB664.8 million in 2021, primarily due to (1) the fact that more hosts associated with talent agencies performed on our platform in 2021, who tend to enjoy higher revenue-sharing ratio, which led to increased host costs, and (2) increased staff cost in 2021, as the government's temporary relief policy on social insurance contribution expired after 2020. Our cost of sales for the social networking services was RMB62.9 million in 2021, as compared to nil in 2020, as HOLLA Group's financial results were consolidated into our financial statements on December 31, 2020. Our cost of sales for other services decreased from RMB5.7 million in 2020 to RMB3.9 million in 2021 which was consistent with the decrease in other services offered.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 20.9% from RMB1,011.4 million in 2020 to RMB1,222.6 million in 2021. Our gross profit margin was 27.5% and 26.6% in 2020 and 2021, respectively.

- *Live streaming*. Our gross profit margin for live streaming remained relatively stable at 27.3% and 26.1% in 2020 and 2021, respectively.
    - *Huajiao*. The gross profit margin for *Huajiao* remained relatively stable at 24.2% and 23.7% in 2020 and 2021, respectively, which was primarily due to the stable revenue-sharing ratio of *Huajiao* in 2020 and 2021, respectively.

    - *6.cn*. The gross profit margin for *6.cn* decreased from 38.0% in 2020 to 34.0% in 2021, primarily because *6.cn* focused on promoting hosts associated with talent agencies, who tended to enjoy a relatively higher revenue-sharing ratio than individual hosts. From 2020 to 2021, the number of hosts associated with talent agencies increased by 35.2%.

- *Social networking*. The gross profit margin for social networking services was 46.8% in 2021. The relatively high gross profit margin of social networking products was mainly due to the relatively low host costs for social networking products, as a portion of its revenue was generated from purchases of services.

- *Others.* The gross profit margin for others decreased from 59.4% in 2020 to 9.6% in 2021, due to a strategic shift away from technical services, which tended to have a higher profit margin.

Selling and marketing expenses

Our selling and marketing expenses increased by 20.7% from RMB451.4 million in 2020 to RMB544.8 million in 2021, primarily due to an increase of RMB85.5 million in promotion and advertising expenses as a result of our online marketing efforts to attract user traffic.

General and administrative expenses

Our general and administrative expenses increased significantly from RMB68.9 million in 2020 to RMB146.0 million in 2021, primarily due to (1) an increase of RMB20.6 million in professional service fees, primarily due to fees and expenses incurred in connection with the [**REDACTED**], (2) an increase of RMB19.7 million in employee expenses as a result of the increased employee headcount after the acquisition of HOLLA Group on December 31, 2020, and (3) an increase of RMB30.3 million in share-based compensation expenses relating to share-based awards granted to management team and administrative staff. As a result, our general and administrative expenses as a percentage of our total revenue increased from 1.9% in 2020 to 3.2% in 2021.

Research and development expenses

Our research and development expenses increased by 33.1% from RMB156.2 million in 2020 to RMB207.9 million in 2021, primarily due to (1) an increase of RMB29.2 million in employee expenses due to the expansion of our R&D team, (2) an increase of RMB10.2 million in technical service fees due to the purchases of cloud services and software to accommodate our expanding operations, and (3) an increase of RMB10.4 million in 2021 in share-based compensation relating to share-based awards granted to our R&D staff. Our research and development expenses as a percentage of our total revenue remained relatively stable at 4.2% and 4.5% in 2020 and 2021, respectively.

Impairment loss of goodwill and intangible assets

Our impairment loss of goodwill and intangible assets was RMB1,872.5 million in 2020 and nil in 2021, primarily due to the impairment of goodwill in connection with the Huajiao-6.cn Merger as a result of *6.cn*'s business adjustments to expand into mobile-based live streaming services and the resultant decline in performance in 2020. We did not record any impairment loss in 2021.

Other income

Our other income increased from RMB61.7 million in 2020 to RMB68.9 million in 2021, primarily due to an increase of RMB10.8 million in the interest income and an increase of RMB7.7 million in additional deduction of input VAT; partially offset by a decrease of RMB11.8 million in income from financial products issued by banks due to our investment decision to change from investing in financial products issued by banks to short-term bank deposits.

Finance costs

Our finance costs decreased by 37.6% from RMB776,000 in 2020 to RMB484,000 in 2021, primarily due to a decrease in lease liabilities during the relevant periods.

Income tax expense

Our income tax expense increased by 40.3% from RMB47.9 million in 2020 to RMB67.2 million in 2021, which was consistent with the growth in our taxable income in 2021. Our effective tax rate was (3.2)% and 17.1% in 2020 and 2021, respectively.

Profit for the year

As a result of the foregoing, our profit/(loss) for the year increased significantly from a loss of RMB1,524.7 million in 2020 to a profit of RMB325.0 million in 2021.

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

Revenue

Our revenue increased by 30.1% from RMB2,830.9 million in 2019 to RMB3,683.5 million in 2020 for the following reasons.

- *Live streaming.* Our revenue generated from live streaming services increased by 30.2% from RMB2,819.4 million in 2019 to RMB3,669.6 million in 2020, due to the following reasons:

  - *Huajiao*. Revenue attributable to *Huajiao* increased by 30.5% from RMB2,165.7 million in 2019 to RMB2,825.8 million in 2020, primarily due to (1) increased revenue generated from video- and audio-based live streaming services, as we continue to attract and retain top-tier talent agencies for viable hosts, who in turn served to drive user engagement, and (2) a significant increase in revenue contribution from audio-based live streaming services, which increased from RMB193.0 million in 2019 to RMB506.7 million in 2020. In addition, revenue from *Naitang* was RMB16.4 million in 2020.

  - *6.cn*. Revenue attributable to *6.cn* increased by 29.1% from RMB653.6 million in 2019 to RMB843.7 million in 2020, primarily due to the consolidation of *6.cn*'s full year's financial statement in 2020 following the Huajiao-6.cn Merger in April 2019.

- *Others*. Our revenue generated from other services increased by 20.8% from RMB11.5 million in 2019 to RMB13.9 million in 2020, primarily due to increased revenue generated from technical services.

Cost of sales

Our cost of sales increased by 25.7% from RMB2,125.2 million in 2019 to RMB2,672.1 million in 2020, which was generally in line with the increase in our revenue. As a percentage of revenue, our cost of sales decreased from 75.1% in 2019 to 72.5% in 2020.

Our host costs increased by 27.4% from RMB1,919.5 million in 2019 to RMB2,446.2 million in 2020. Our hosts costs increased at a slower rate than that of our revenue as we leveraged our brand recognition to negotiate favorable revenue-sharing terms with hosts and talent agencies. Our employee expenses decreased by 6.2% from RMB49.8 million in 2019 to RMB46.7 million in 2020, primarily due to a decrease in social insurance provision from the temporary government relief policy during the COVID-19 pandemic.

Our cost of sales for *Huajiao* increased by 23.0% from RMB1,742.6 million in 2019 to RMB2,143.3 million in 2020, which was consistent with revenue growth from *Huajiao*. Our cost of sales for *6.cn* increased from RMB381.0 million in 2019 to RMB523.1 million in 2020, primarily due to the consolidation of *6.cn*'s full year's financial statement in 2020 following the Huajiao-6.cn Merger in April 2019. Our cost of sales for other services increased significantly from RMB1.6 million in 2019 to RMB5.7 million in 2020, primarily due to the higher cost of sales in connection with the advertisement services.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 43.3% from RMB705.7 million in 2019 to RMB1,011.4 million in 2020, and our gross profit margin increased from 24.9% in 2019 to 27.5% in 2020.

- *Live streaming*. Our gross profit margin for our live streaming services increased from 24.7% in 2019 to 27.3% 2020, primarily due to an increase in the profit margin of *Huajiao* from 19.5% in 2019 to 24.2% in 2020, as a result of our improved brand recognition, which enabled us to attract viable hosts while lowering revenue-sharing ratio. The increase in gross profit margin of our live streaming business was partially offset by a decrease in *6.cn*'s gross profit margin from 41.7% in 2019 to 38.0% in 2020, as we focused on strengthening cooperation with talent agencies that could bring more viable hosts to our platform, who generally enjoy higher revenue-sharing ratio than individual hosts.

- *Others*. Our gross profit margin for other services decreased from 86.2% in 2019 to 59.4% in 2020 primarily due to relatively higher cost of sales in connection with the advertisement services.

Selling and marketing expenses

Our selling and marketing expenses increased by 24.7% from RMB362.0 million in 2019 to RMB451.4 million in 2020, primarily due to (1) significant investment in marketing efforts and online user traffic referral channels to promote our market position and drive user traffic, which was primarily reflected by an increase in our promotion and advertising expenses, and (2) the consolidation of *6.cn*'s full year's selling and marketing expenses in 2020. Our selling and marketing expenses as a percentage of our total revenue remained relatively stable at 12.8% and 12.3% in 2019 and 2020, respectively.

General and administrative expenses

Our general and administrative expenses increased by 64.0% from RMB42.0 million in 2019 to RMB68.9 million in 2020, primarily due to an increase in employee expenses, as the employee expenses of *6.cn* for the full year were consolidated in 2020 following the Huajiao-6.cn Merger in April 2019. Our general and administrative expenses as a percentage of our total revenue remained relatively stable at 1.5% and 1.9% in 2019 and 2020, respectively.

Research and development expenses

Our research and development expenses increased by 18.3% from RMB132.1 million in 2019 to RMB156.2 million in 2020, due to (1) an increase in employee expenses for our research and development staff due to the consolidation of full year's research and development expenses from *6.cn*; and (2) an increase in technical service fees to enhance our technical capability. Our research and development expenses as a percentage of our total revenue remained relatively stable at 4.7% and 4.2% in 2019 and 2020, respectively.

Impairment loss of goodwill and intangible assets

Our impairment loss of goodwill and intangible assets was nil in 2019 and RMB1,872.5 million in 2020, primarily due to the impairment of goodwill in connection with the Huajiao-6.cn Merger as a result of *6.cn*'s business adjustments to expand into mobile-based live streaming services and the resultant decline in performance in 2020.

Other income

Our other income increased by 80.8% from RMB34.1 million in 2019 to RMB61.7 million in 2020, primarily due to (1) an increase of RMB7.4 million in additional deduction of input VAT due to a significant increase in revenue after the Huajiao-6.cn Merger, and (2) an increase of RMB5.9 million in interest income.

Finance costs

Our finance costs increased by 24.4% from RMB624,000 in 2019 to RMB776,000 in 2020, primarily due to increased lease liabilities incurred after the Huajiao-6.cn Merger.

Income tax expense

Our income tax expense increased significantly from RMB11.8 million in 2019 to RMB47.9 million in 2020, primarily due to (1) an increase in revenue from live streaming services, and (2) the effect of preferential tax rates applicable to certain of our PRC subsidiaries in 2019.

Profit/(loss) for the year

As a result of the foregoing, in particular with respect to an impairment loss on goodwill and intangible assets of RMB1,872.5 million in 2020, which was non-operating in nature, our profit/(loss) for the year decreased significantly from a profit of RMB191.3 million in 2019 to a loss of RMB1,524.7 million in 2020.

DISCUSSION OF MAJOR BALANCE SHEET ITEMS

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

	As of December 31,			As of May 31,
	2019	2020	2021	2022
	(RMB in thousands)			
Non-current assets				
Property and equipment	34,901	25,204	83,073	82,391
Intangible assets	157,699	153,310	132,641	124,097
Goodwill	2,459,472	699,778	699,778	699,778
Other financial assets	67,075	39,400	65,960	92,541
Deferred tax assets	139,045	108,184	63,848	41,063
Total non-current assets	2,858,192	1,025,876	1,045,300	1,039,870
Current assets				
Trade receivables	2,864	2,870	621	524
Prepayments, deposits and other receivables	55,467	75,198	138,457	139,170
Other financial assets	384,319	258,145	45,346	533,792
Cash at bank and on hand	789,678	1,068,149	1,614,783	1,371,355
Total current assets	1,232,328	1,404,362	1,799,207	2,044,841
Current liabilities				
Trade payables	217,159	206,456	143,150	226,815
Contract liabilities	66,355	79,546	85,781	83,907
Accrued expenses and other payables	247,576	67,345	80,840	52,721
Lease liabilities	7,168	5,763	12,246	12,596
Current taxation	5,351	4,028	8,871	7,415
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	3,546,911	2,067,100	2,513,619	2,701,257

	As of December 31,			As of May 31,
	2019	2020	2021	2022
	(RMB in thousands)			
Non-current liabilities				
Deferred tax liabilities	22,158	22,572	19,501	18,267
Lease liabilities	12,069	6,965	46,063	42,893
Total non-current liabilities	34,227	29,537	65,564	61,160
Net assets	3,512,684	2,037,563	2,448,055	2,640,097
Capital and reserves				
Share capital	–	–	33	33
Reserves	3,512,684	2,037,563	2,448,022	2,640,064
Total equity attributable to equity shareholders of the Company	3,512,684	2,037,563	2,448,055	2,640,097

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, 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, partially offset by the decrease in cash at bank and on hand.

Property and Equipment

Our property and equipment were primarily leasehold properties and improvement, office supplies and electronic equipment. The following table sets forth the components of our property and equipment as of the dates indicated.

	As of December 31,			As of May 31,
	2019	2020	2021	2022
	(RMB in thousands)			
Leasehold properties	18,932	12,248	60,766	55,665
Electronic equipment	13,360	10,595	12,979	12,691
Office equipment and furniture	950	1,112	1,385	3,330
Vehicles	1,541	1,166	35	–
Leasehold improvement	118	83	7,908	10,705
Total	34,901	25,204	83,073	82,391

We had property and equipment of RMB34.9 million, RMB25.2 million, RMB83.1 million and RMB82.4 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. The decrease in our property and equipment in 2020 was primarily due to accumulated depreciation of electronic equipment and leasehold properties in 2020. The significant increase of our property and equipment in 2021 was primarily due to an increase of RMB48.5 million in leasehold properties and an increase of RMB7.8 million leasehold improvement, as we leased new offices in December 2021.

Intangible Assets

Our intangible assets consisted of copyrights, trademark and technology, as well as software. Our copyrights, trademark and technology mainly relate to live streaming and social networking copyrights and technologies developed by our Group, and software are mainly acquired from third parties. The useful lives of copyrights, trademark and technology and software were estimated by our management based on the respective periods over which such assets can bring economic benefits to our Group. The estimation of the useful lives has taken into account the patent protection period, the historical life and characteristics of similar assets, the iteration cycle of live streaming and social networking technologies, update frequency and market competition, and the useful lives adopted by comparable companies in the market. Our management reviewed the useful lives of the copyrights, trademark and technology and software annually and concluded that it is still appropriate to adopt useful lives of 5 to 10 years and 3 to 10 years for copyrights, trademark and technology and software, respectively. The following table sets forth the components of our intangible assets as of the dates indicated.

	As of December 31,			As of May 31,
	2019	2020	2021	2022
	(RMB in thousands)			
Copyrights, trademark and technology	157,456	150,273	129,762	120,961
Software	243	3,037	2,879	3,136
Total	157,699	153,310	132,641	124,097

We had intangible assets of RMB157.7 million, RMB153.3 million, RMB132.6 million and RMB124.1 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. The decrease in intangible assets in 2021 was mainly due to the decrease in net book value of copyrights, trademark and technology of RMB20.5 million due to amortization.

Goodwill

Our goodwill was RMB2,459.5 million, RMB699.8 million, RMB699.8 million and RMB699.8 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. Our goodwill decreased from RMB2,459.5 million as of December 31, 2019 to RMB699.8 million as of December 31, 2020 primarily due to goodwill impairment loss of RMB1,843.2 million from *6.cn*'s strategic business adjustments which resulted in a decline in its business performance.

Trade Receivables

Our trade receivables primarily consisted of trade receivables incurred in connection with our advertisement and technical services. The following table sets forth the details of our trade receivables as of the dates indicated.

	As of December 31,			As of May 31,
	2019	2020	2021	2022
	(RMB in thousands)			
Trade receivables	2,879	2,885	640	543
Less: loss allowance	(15)	(15)	(19)	(19)
Total	2,864	2,870	621	524

Our trade receivables were RMB2.9 million, RMB2.9 million, RMB0.6 million and RMB0.5 million as of December 31, 2019, 2020, 2021 and May 31, 2022. Our trade receivables decreased from RMB2.9 million as of December 31, 2020 to RMB0.6 million as of December 31, 2021, primarily due to a decrease in revenue from our advertising services.

Trade receivables mainly arise from advertisement and technical services provided to certain corporate clients, who tend to have shorter credit term. The following table sets forth an aging analysis of our trade receivables as of the dates indicated presented based on invoice date.

	As of December 31,			As of May 31,
	2019	**2020**	**2021**	**2022**
	(RMB in thousands)			
Within three months	2,863	2,595	624	130
Three to six months	–	271	–	397
Six to 12 months	16	3	–	–
Over one year	–	16	16	16
Less: loss allowance	(15)	(15)	(19)	(19)
Total	2,864	2,870	621	524

As of October 31, 2022, approximately RMB342,000, or 65.3%, of our trade receivables as of May 31, 2022 had been subsequently settled.

Prepayments, Deposits and Other Receivables

During the Track Record Period, our prepayments for purchase of services primarily consisted of (1) prepayment made by us for purchase of streaming services, (2) prepayment to promotion, information technology and legal and other professional services for the [**REDACTED**], and (3) prepayment to other professional services. The deposits represented deposits for office leases. Receivables from third-party payment platforms represented payments from users using third-party payment platforms which held these payments due to temporary difference as of the date indicated. The following table sets forth the details of our prepayments, deposits and other receivables as of the dates indicated.

	As of December 31,			As of May 31,
	2019	**2020**	**2021**	**2022**
	(RMB in thousands)			
Prepayments for purchase of services	23,358	15,914	43,036	41,044
Deposits	4,519	5,642	8,961	7,429
Loans to third parties	–	–	–	20,942
Receivables from third party payment platforms	24,518	43,428	73,993	60,695
Deductible input VAT	2,026	3,641	5,184	3,673
Government grant receivables	–	6,593	7,072	5,419
Others	1,202	454	572	188
Less: loss allowance	(156)	(474)	(361)	(220)
Total	55,467	75,198	138,457	139,170

Our prepayments, deposits and other receivables were RMB55.5 million, RMB75.2 million, RMB138.5 million and RMB139.2 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. The prepayment, deposits and other receivables increased from RMB55.5 million as of December 31, 2019 to RMB75.2 million as of December 31, 2020, primarily due to an increase of RMB18.9 million in receivables from third-party payment platforms, which was consistent with growth in revenue from our live streaming business, and government grant receivables of RMB6.6 million in connection with tax refund from a subsidiary in Hainan province, partially offset by a decrease of RMB7.4 million in prepayment of purchase of services in 2020. The prepayment, deposits and other receivables increased from RMB75.2 million as of December 31, 2020 to RMB138.5 million as of December 31, 2021, primarily due to an increase of RMB27.1 million in prepayments from purchases of services in 2021, and an increase of RMB30.6 million in third-party payment platforms, which were consistent with revenue growth in our live streaming business. As of September 30, 2022, RMB57.6 million, or 94.9%, of our receivables from third-party payment platforms as of May 31, 2022 had been subsequently settled.

Prepayments for purchase of services

The following table sets forth the breakdown of our prepayments for purchase of services as of the date indicated.

	As of December 31,			As of May 31,
	2019	**2020**	**2021**	**2022**
	(RMB in thousands)			
Purchases of streaming services	16,631	6,864	25,850	21,546
Promotion expenses	501	1,329	7,761	9,450
Service expenses	1,356	2,429	6,872	7,318
Others	4,870	5,292	2,553	2,730
Total	23,358	15,914	43,036	41,044

During the Track Record Period, we engaged Cloud Account (Tianjin) Sharing Economy Information Consulting Co., Ltd. (雲賬戶(天津)共享經濟信息諮詢有限公司) ("Cloud Account"), an independent third party that provides SaaS services and centralized management of payments to certain hosts on our platform. Cloud Account is a reputable company headquartered in Tianjin. With such a large group of hosts, we need to spend a considerable amount of effort on administering the record of gross billing and payment according to hosts' respective performance and redemption preference. Cloud Account can alleviate our administrative burden in handling the payments with hosts. Through Cloud Account, which maintains the payment accounts with each of the hosts using its services, we can centralize the payment process, and Cloud Account helps us manage and arrange for the payments to each of the relevant hosts according to their respective redemption preference. To accommodate Cloud Account's request to maintain its liquidity to cope with the withdrawals by hosts, we typically make prepayments to Cloud Account on a regular basis and the amounts are estimated based on the historical weekly withdrawal amounts by hosts. Through the SaaS interfaces provided by Cloud Account, we closely monitor the status of payments to each of the hosts from time to time. In 2019, 2020, 2021 and the five months ended May 31, 2022, with approximately 26,000 to 47,000 hosts using the services of Cloud Account, the amount of prepayment made to Cloud Account was RMB762.2 million, RMB267.2 million, RMB200.0 million and RMB231.0 million, respectively. The payment to Cloud Account decreased significantly from 2019 to 2020, as we improved our internal management of settlement capability in 2020 to internally process more settlement tasks. Nonetheless, in light of our business growth and continued increase in the number of hosts, we have switched back to use more services of Cloud Account since January 2022 so that we can allocate more resources to our operations. During the Track Record Period, the maximum prepayment balance to Cloud Account was less than RMB40 million. As of September 30, 2022, all of our prepayment made to Cloud Account as of May 31, 2022 had been used. According to the iResearch Report, our cooperation with

Cloud Account is consistent with settlement practice adopted by our industry peers. Other than the services provided by the Cloud Account, there is no past or present relationship, including but not limited to family, business, employment, financing, trust and shareholding relationships, between Cloud Account and the Company, its subsidiaries, their shareholders, directors or senior management, or any of their respective associates.

Our prepayments for purchase of services decreased by RMB7.4 million in 2020, primarily due to the decrease in the balance of prepayments for streaming services, the fluctuation of which is mainly affected by the frequency and timing of the withdrawals made by hosts. The prepayments for purchase of services increased by RMB27.1 million in 2021, primarily due to (1) the fluctuation in the balance of prepayments for streaming services, and (2) the increased promotion and IT service expenses incurred in 2021 for user traffic referrals and bandwidth expenses. As of September 30, 2022, RMB36.3 million, or 88.3%, of our prepayments for purchase of services as of May 31, 2022 had been subsequently settled.

Loan to third parties

As of May 31, 2022, the amount of our loans to third parties was RMB20.9 million. In particular, we had provided interest-free loans to Battuta Technology Pte. Ltd., in which we held approximately 25% interests, and its PRC subsidiary in an aggregate amount of approximately RMB15.9 million with maturity terms of six months and 12 months as of May 31, 2022. Headquartered in Singapore, Battuta Technology Pte. Ltd. operates an overseas social networking product along with its PRC subsidiary, which is primarily responsible for the research and development of such product. As a shareholder, we provided interest-free loans to support their business operations and development, primarily allowing them to shorten the cycle for the establishment of their research and development team in China and achieve higher work efficiency in launching new products. In addition, as of the same date and for the same purpose, we had also provided an interest-free loan to Beijing Qianyihudong Technology Co., Ltd., a PRC subsidiary of BILLIONAIRE PTE. LTD., in which we have held 28% interests as one of its founding shareholders since June 2022, in an amount of RMB5.0 million with a maturity term of six months. Headquartered in Singapore, BILLIONAIRE PTE. LTD. operates an overseas social networking product, and Beijing Qianyihudong Technology Co., Ltd. is responsible for the research and development of such product. All directors, authorized representatives and ultimate beneficial owners of Battuta Technology Pte. Ltd. and BILLIONAIRE PTE. LTD. are their respective founders, who are seasoned industry veterans and independent third parties. Subsequent to the Track Record Period and up to the date of this document, we have held 28% interests in BILLIONAIRE PTE. LTD., which are accounted as financial assets measured at FVOCI in other financial assets.

Other Financial Assets

Other financial assets primarily consisted of financial products issued by banks and financial assets measured at FVOCI, including our equity investment in certain technology companies during the Track Record Period. We have implemented a policy concerning purchases and management of financial assets, which sets out, among others, approval procedures, approval authority matrices, and accounting treatments for financial assets. The following table sets forth the breakdown of our financial assets by nature as of the date indicated.

	As of December 31,			As of May 31,
	2019	**2020**	**2021**	**2022**
	(RMB in thousands)			
Current				
Financial products issued by banks	384,319	258,145	45,346	533,792
Short-term wealth management products	*224,018*	*57,150*	*45,346*	*33,792*
Structured deposit	*160,301*	*200,995*	*–*	*500,000*
Non-current				
Unlisted equity investment	18,745	39,400	65,960	92,541
Loan to a technology company	48,330	–	–	–
Subtotal	67,075	39,400	65,960	92,541
Total	451,394	297,545	111,306	626,333

The decrease of RMB153.8 million in 2020 was primarily due to a decrease of RMB126.2 million in financial products issued by banks as a result of a change in our investment decision from financial products issued by banks to bank deposits. The decrease in other financial assets in 2021 was primarily due to a decrease of RMB212.8 million in investment in financial products issued by banks. The increase in other financial assets in the five months ended May 31, 2022 was primarily due to a significant increase of RMB488.4 million in investment in financial products issued by banks as we utilized more cash and cash equivalents by investing in financial products issued by banks primarily consisting of structured deposit with reputable banks in China in the five months ended May 31, 2022. In the five months ended May 31, 2022, we purchased financial products issued by banks as a supplemental measure to improve the utilization of our cash on hand including working capital for daily operations on a short-term basis after due consideration and assessment of the amount of available cash on hand and the financial products issued by banks in the market. As of May 31, 2022, a substantial majority of our financial products issued by banks were principal-guaranteed structured deposits, while the rest, the value of which was approximately RMB33.8 million or 6.3% of the total value of our financial products issued by banks as of the same date, were short-term and redeemable-on-demand investment products with low-to-medium risks. We typically invest in the financial products issued by banks with reputable banks in China, such as China Guangfa Bank and China CITIC Bank, among others. We have implemented effective investment policies and internal control measures over financial investment to minimize relevant investment risks. See "— Investment Policies and Internal Control over Financial Investment" for our internal control policy for financial products issued by banks.

During the Track Record Period, we made several investments in short-term financial products issued by banks with low risks, high liquidity and reasonable returns, including structured deposits with reputable commercial banks such as China Merchants Bank, Industrial and Commercial Bank of China Limited, China CITIC Bank, among others. The expected annual return rates of financial products issued by banks purchased by us ranged from 1.3% to 3.4%, and typically had a maturity period of less than three months during the Track Record Period. We have adopted financial products issued by banks and treasure policies to closely monitor our investment in financial products issued by banks and their expected returns.

In 2018, we offered two interest-free loans to Holla Technology, formerly known as Mizhi Technology, in an aggregate principal amount of RMB18.0 million. In 2019, we offered five interest-free loans to Holla Technology in an aggregate amount of RMB30.3 million. The purposes for providing loans to Holla Technology were to support its business operations and research and development initiatives. In 2018 and 2019, we held 18.0% of equity interest in Holla Technology, while Ningbo Songcheng, Liu Yan, Liu Yong and Gao Yuqing held 42.19%, 10.58%, 26.58% and 2.65% of equity interest in Holla Technology, respectively.

Investment Policies and Internal Control over Financial Investment

We believe making appropriate investments in short-term investment products will optimize our cash position and potential return, which generate income without interfering with our business operation or capital expenditures. We manage and evaluate the performance of investments on a fair value basis in accordance with our risk management and investment strategy. Our investment strategy related to financial products issued by banks seeks to minimize financial risks by reasonably matching the maturities of the portfolio to anticipated operating cash needs, and to generate investment returns for the benefits of our Shareholders. We have established a set of internal control measures which allow us to achieve reasonable returns on our investment while mitigating our exposure to high investment risks. For example, our purchase of financial products issued by banks must be pre-authorized by the finance director, the chief executive officer and/or the Board, depending on the level investment risks. The balance of our investments in financial products issued by any single commercial bank, and the aggregate balance of our total investments in financial products issued by banks, should not exceed a pre-determined limit. Our Board generally reviews such limit by taking into account our operating goals, cash flow projections and risk factors. Our finance team closely monitors the risks of our financial products issued by banks by following the economic trends, interest rate changes, the status of the issuing banks and other factors that may have an impact on their pricing and credit profile.

Our investment decisions with respect to financial products are made on a case-by-case basis and after due and careful consideration of a number of factors, including, but not limited to, the market conditions, the anticipated investment conditions, the investment cost, the duration of the investment and the expected benefit and potential loss of the investment. Our Board is mainly responsible for supervising our investment decisions and authorizing our equity investment. We have implemented the following investment policies:

Investment policies on financial products issued by banks:

- our operation committee, consisting of all of our senior management, is responsible for the overall planning in respect of our investment in financial products issued by banks, and the finance directors of respective subsidiaries of ours, our chief executive officer and/or our Board are responsible for the approval for such investment;

- our finance department are responsible for the analysis and research of investment in financial products issued by banks, as well as the long-term routine management of such investment;

- any dealing in financial products issued by banks must be operated by at least two employees;

- investments in financial products issued by banks could be made when we have surplus cash that is not required for our short-term working capital purposes and in no event beyond the amount authorized by our Board;

- we mainly make investments in short-term financial products issued by banks with low risk, high liquidity and reasonable returns, which primarily consist of principal-guaranteed products issued by reputable commercial banks;

- specific approvals from our Board are required for financial products issued by banks with medium or higher risk ratings; and

- we assess the risk associated with the underlying financial instruments based on the risk classification provided by the issuing licensed commercial bank.

Equity investment policies:

- all of our strategic equity investments are overseen by a strategic investment team, whose members have relevant expertises and experience in the industry of the proposed investment target and will research and assess its business, operation results and financial condition;

- the strategic investment team will report their due diligence and analysis results to our investment committee, who will evaluate the merits of the investment and report their decision to our Board for approval, as applicable; and

- our investment committee will regularly review the performance of the investment targets and adjust our investment strategies accordingly.

Members of our operation committee who implement our investment policies on financial products issued by banks, together with the finance directors of respective subsidiaries of ours, our chief executive officer and our Board, bring a wealth of management expertise and skills from their previous working experience in the financial services sector. Members of our investment committee include our chief executive officer, chief innovation officer and one of our vice presidents, all of whom have investment experience and relevant knowledge that have empowered our past investment activities. Our Board of Directors is responsible for, and has the general power to supervise, the operations of our business, including our investment decision. For the professional qualifications and experiences of the members of our Board of Directors, see "Directors and Senior Management." We believe that our internal policies regarding financial products and the related risk management mechanism are adequate. We may continue to purchase financial products that meet the above criteria and make equity investment where we believe it is prudent to do so after the [**REDACTED**], subject to the compliance requirement under Chapter 14 of the Listing Rules. We expect to comply with such applicable requirements, including the relevant size test requirements.

Fair value valuation

The fair values of financial products issued by banks and unlisted equity investments measured at FVOCI have been estimated by reference to their recent transaction prices or using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires our Directors to make estimates about the expected future cash flows including expected future return. Our Directors believe that the estimated fair values resulting from the valuation technique are reasonable, and that they were the most appropriate values at the end of reporting periods.

During the Track Record Period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. Our policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur. The following table illustrates the fair value measurement hierarchy of our financial instruments.

Recurring fair value measurements	Fair value as of December 31, 2019	Fair value measurement as of December 31, 2019 categorized into		
		Level 1	Level 2	Level 3
		(RMB in thousands)		
Financial assets:				
Financial products issued by banks	384,319	–	–	384,319
Unlisted equity investments	18,745	–	–	18,745
	403,064	–	–	403,064

Recurring fair value measurements	Fair value as of December 31, 2020	Fair value measurement as of December 31, 2020 categorized into		
		Level 1	Level 2	Level 3
		(RMB in thousands)		
Financial assets:				
Financial products issued by banks	258,145	–	–	258,145
Unlisted equity investments	39,400	–	–	39,400
	297,545	–	–	297,545

Recurring fair value measurements	Fair value as of December 31, 2021	Fair value measurement as of December 31, 2021 categorized into		
		Level 1	Level 2	Level 3
		(RMB in thousands)		
Financial assets:				
Financial products issued by banks	45,346	–	–	45,346
Unlisted equity investments	65,960	–	–	65,960
	111,306	–	–	111,306

Recurring fair value measurements	Fair value as of May 31, 2022	Fair value measurement as of May 31, 2022 categorized into		
		Level 1	Level 2	Level 3
		(RMB in thousands)		
Financial assets:				
Financial products issued by banks	533,792	–	–	533,792
Unlisted equity investments	92,541	–	–	92,541
	626,333	–	–	626,333

In relation to the valuation of financial products issued by banks classified as level 3 financial assets measured at fair value through profit or loss, our Directors have considered, among others, the following factors: (1) the terms of the subscription agreements of the financial products issued by banks, (2) the available market information of similar financial products issued by banks, and (3) the risk-adjusted discount rates of the financial products issued by banks. Based on the procedures set forth above, our Directors are of the view that the valuation of such financial products issued by banks in this document is fair and reasonable and the financial statements of our Group are properly prepared.

In relation to the valuation of the unlisted equity investments measured at level 3 fair value hierarchy, which were recorded using the valuation technique of most recent transaction price method with reference to the most recent transaction or using a discounted cashflow valuation model based on assumptions that are not supported by observable market prices or rates at the end of the relevant year/period. Our Directors adopted the following procedures: (1) reviewed the terms of equity investment agreements; (2) obtained the necessary financial and non-financial information from investees and assessed its reasonableness; and (3) considered the merits and synergies from the proposed investments in connection with our business and industry. Based on the procedures set forth above, our Directors are of the view that the valuation of such equity investments in this document is fair and reasonable and the financial statements of our Group are properly prepared.

Details of the fair value measurement of financial products issued by banks and unlisted equity investments measured at FVOCI, particularly the fair value hierarchy and the valuation techniques are disclosed in Note 25 to the historical financial information of the Group for the Track Record Period as set out in the Accountants' Report issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants in Appendix I. The Reporting Accountants' opinion on the historical financial information of the Group for the Track Record Period as a whole is set out on pages I-1 to I-3 of the Accountants' Report.

In relation to the valuation of financial assets at fair value through profit or loss requiring level 3 measurements under the fair value classification, the Joint Sponsors have conducted relevant due diligence work, including (1) discussing with our Company the nature and details of such financial assets, and methodology, assumptions and key parameters adopted in the relevant valuation; (2) reviewing the underlying agreements or documents of the financial assets; (3) reviewing the valuation working schedule prepared by our management; (4) reviewing the relevant notes in the Accountants' Report as set out in Appendix I to this document; and (5) discussing with the Reporting Accountants in respect of the audit work they have conducted in this regard. Having considered the work done by and the views of our Directors and the Reporting Accountants as stated above and in this document, and the due diligence work performed as stated above, nothing material has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the valuation analysis performed by our Company and reviewed by the Reporting Accountants.

Contract Liabilities

Our contract liabilities primarily consisted of prepayment of top-ups on our platform in connection with our live streaming services, and prepayment made by customers for our advertising services. Contract liabilities would be recognized as revenue upon the rendering of services. Almost all of the contract liabilities balance as of December 31, 2019, 2020 and 2021 and May 31, 2022 was recognized as revenue within one year. The following table sets forth the breakdown of contract liability as of the date indicated.

	As of December 31,			As of May 31,
	2019	**2020**	**2021**	**2022**
	(RMB in thousands)			
Live streaming	66,355	78,419	85,781	83,907
Advertising	–	1,127	–	–
	66,355	79,546	85,781	83,907

Our contract liabilities were RMB66.4 million, RMB79.5 million, RMB85.8 million and RMB83.9 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. The contract liabilities in connection with our live streaming services increased from RMB66.4 million as of December 31, 2019 to RMB78.4 million as of December 31, 2020, and further increased to RMB85.8 million as of December 31, 2021, which was due to the growth of our live streaming business during the Track Record Period, as evidenced by a general increase of average MPUs of our platform from approximately 923,000 to 1.4 million in 2021, and further to 1.6 million in the five months ended May 31, 2022, which ultimately contributed to the continuous increase in prepayment of top-up on our platform. The contract liabilities in connection with our advertising services decreased from RMB1.1 million as of December 31, 2020 to nil as of December 31, 2021, as we strategically focused on live streaming and social networking business, which led to a decrease in prepayment for advertising services. As of September 30, 2022, RMB75.0 million, or 89.4%, of our contract liabilities as of May 31, 2022 had been subsequently recognized as revenue.

Accrued Expenses and Other Payables

Our accrued expenses and other payables primarily consisted of (1) individual income tax payables on behalf of others, (2) payables of staff costs, and (3) payables of other taxes. The following table sets forth the breakdown of our accrued expenses and other payables as of the date indicated.

	As of December 31,			As of May 31,
	2019	2020	2021	2022
	(RMB in thousands)			
Accrued expense	131	2,902	1,110	1,609
Deposits	2,150	1,870	2,165	2,165
Individual income tax payables on behalf of others	196,513	–	–	–
Amount due to related parties	2,589	2,589	2,868	396
Payables for staff related cost	29,140	40,660	39,856	27,726
Payables for other taxes	16,004	13,749	15,739	11,822
Payables for equity investment	–	–	14,652	–
Others	1,049	5,575	4,450	9,003
	247,576	67,345	80,840	52,721

Our accrued expenses and other payables decreased significantly from RMB247.6 million as of December 31, 2019 to RMB67.3 million as of December 31, 2020 primarily due to the receipt of an one-off payment relating to tax payable to previous shareholders in connection with the Huajiao-6.cn Merger on behalf of a previous shareholder in 2019. The increase in accrued expenses and other payables of RMB13.5 million from 2020 to 2021 was mainly due to an increase of RMB14.7 million in payables for equity investment in connection with the acquisition of Chengdu Xundui Culture Communication Co., Ltd. and Battuta Technology Pte. Ltd.

All of the accrued expenses and other payables are expected to be settled within one year or are repayable on demand.

Cash and Cash Equivalents

Our cash and cash equivalents primarily consisted of cash on hand and deposits held with financial institutions. We had cash and cash equivalents of RMB789.7 million, RMB1,068.1 million, RMB1,614.8 million and RMB1,371.4 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. The increase in 2020 and 2021 was primarily due to increases in cashflow generated from operating and investing activities. Our cash and cash equivalents decreased from RMB1,614.8 million as of December 31, 2021 to RMB1,371.4 million as of May 31, 2022, primarily because we utilized more cash and cash equivalents by investing in financial products issued by banks in the five months ended May 31, 2022.

Trade Payables

Our trade payables primarily represented the amount due to hosts, talent agencies, or service providers for our branding and marketing services. We had trade payables of RMB217.2 million, RMB206.5 million, RMB143.2 million and RMB226.8 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. The decrease of RMB63.3 million in our trade payables in 2021 was primarily due to shortened credit period offered by our services providers in 2021. The increase of RMB83.6 million in our trade payables in the five months ended May 31, 2022 was primarily due to the delay caused by COVID-19 on settlement process with certain talent agencies.

Our suppliers typically granted us a credit period of up to 30 days during the Track Record Period. The following table sets forth an aging analysis of our payables as of the dates indicated based on the invoice date.

	As of December 31,			As of May 31,
	2019	**2020**	**2021**	**2022**
	(RMB in thousands)			
One to three months	206,188	198,228	141,644	216,266
Three to six months	2,919	5,648	650	6,711
Six to 12 months	6,796	1,385	249	3,224
Over one year	1,256	1,195	607	614
Total	217,159	206,456	143,150	226,815

Our trade payables turnover days decreased from 29 days in 2020 to 19 days in 2021, primarily due to our adjustment of withdrawal policy that allowed talent agencies to withdrawal cash at a shorter interval to improve their liquidity. The following table sets forth the number of our payables turnover days for the periods indicated.

	Year ended December 31,			Five months ended May 31,
	2019	**2020**	**2021**	**2022**
Payables turnover days(1)	30	29	19	18

(1) Payables turnover days was calculated based on the average of opening and closing balance of trade payables for the relevant period, divided by the cost of sales for the same period, and multiplied by the number of days in that period.

As of September 30, 2022, RMB218.7 million, or 96.4%, of our trade payables as of May 31, 2022 had been subsequently settled.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Working Capital

Our primary use of cash is to fund our working capital requirements and other recurring expenses. During the Track Record Period, we financed our capital expenditures and working capital requirements primarily through cash generated from our operating activities and investment activities. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, [**REDACTED**] from the [**REDACTED**], and other funds raised from the capital markets from time to time. Any significant decreases in our user base or demand of our services, or adverse changes in our revenue-sharing arrangement with hosts and talent agencies, or a significant decrease in the availability of bank loan facilities or other financing methods may adversely impact our liquidity. As of December 31, 2019, 2020 and 2021 and May 31, 2022, we had cash and cash equivalents of RMB789.7 million, RMB1,068.1 million, RMB1,614.8 million and RMB1,371.4 million, respectively.

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
				(Unaudited)	
	(RMB in thousands)				
Operating cash flows before movements in working capital[(1)]	226,367	423,934	484,211	185,951	231,487
Add:					
Changes in working capital[(2)]	231,865	(208,248)	(114,549)	(59,783)	85,099
Income tax paid	(11,256)	(29,502)	(21,118)	(13,299)	(14,263)
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)
Net increase/(decrease) in cash and cash equivalents	550,178	278,471	546,929	313,431	(243,755)
Cash and cash equivalents at beginning of the year/period	239,500	789,678	1,068,149	1,068,149	1,614,783
Effect of exchange rate changes on the balance of cash held in foreign currencies	–	–	(295)	(248)	327
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

(1) Our operating cash flows before movements in working capital are the total sum of our Group's profit before taxation, with adjustments made, including finance costs, income from financial products issued by banks, interest income, depreciation, amortisation of intangible assets, share-based payment expenses, changes in fair value of financial products issued by banks, (gain)/loss on disposal of property and equipment, allowance for doubtful debts and impairment loss on goodwill and intangible assets.

(2) Our changes in working capital are the total sum of our Group's (increase)/decrease in trade receivables, decrease/(increase) in prepayments, deposits and other receivables, increase in deferred income, increase/(decrease) in contract liabilities, (decrease)/increase in trade payables, and (decrease)/increase in accrued expenses and other payables.

Net cash generated from operating activities

Net cash generated from operating activities was RMB302.3 million in the five months ended May 31, 2022, primarily due to our profit before tax of RMB212.2 million, minus income tax paid of RMB14.3 million, as adjusted by (1) certain non-cash and non-operating items, primarily including interest income of RMB10.3 million and share-based payment of RMB13.9 million, and (2) changes in working capital that negatively affected the cash flow from operating activities, primarily including a decrease in accrued expenses and other payables of RMB17.6 million.

Net cash generated from operating activities was RMB348.5 million in 2021, primarily due to our profit before tax of RMB392.2 million, minus income tax paid of RMB21.1 million, as adjusted by (1) certain non-cash and non-operating items, primarily including interest income of RMB20.4 million, amortization of intangible assets of RMB21.8 million and share-based payment of RMB84.0 million, and (2) changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase in prepayments, deposits and other receivables of RMB62.7 million and a decrease in trade payables of RMB59.0 million.

Net cash generated from operating activities was RMB186.2 million in 2020, primarily due to our loss before tax of RMB1,476.8 million, minus income tax paid of RMB29.5 million, as adjusted by (1) certain non-cash and non-operating items, primarily including impairment loss on goodwill and intangible assets of RMB1,872.5 million, income from financial products issued by banks of RMB19.4 million, amortization of intangible assets of RMB24.2 million, depreciation of property and equipment of RMB13.6 million and share-based payment of RMB18.8 million, and (2) changes in working capital that positively affect the cash generated from operating activities, primarily including an increase in contract liabilities of RMB13.2 million, (3) partially offset by changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase in prepayment, deposits and other receivables of RMB18.1 million, a decrease in trade payables of RMB15.4 million and a decrease in accrued expenses and other payables of RMB191.9 million (including RMB196.5 million in tax we paid on behalf of former shareholders).

Net cash generated from operating activities was RMB447.0 million in 2019, primarily due to our profit before tax of RMB203.1 million, minus income tax paid of RMB11.3 million, as adjusted by (1) certain non-cash and non-operating items, primarily including income from financial products issued by banks of RMB18.2 million, amortization of intangible assets of RMB13.9 million, depreciation of property and equipment of RMB9.3 million and share-based payment of RMB19.3 million, and (2) changes in working capital that positively affect the cash generated from operating activities, primarily including an increase in trade payables of RMB10.3 million and an increase in accrued expenses of RMB219.5 million (including RMB196.5 million in payables to former shareholders), a decrease in trade receivable of RMB11.0 million, (3) partially offset by changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase in prepayments, deposits and other receivables of RMB10.1 million.

Net cash generated from investing activities

Net cash used in investing activities was RMB541.1 million in the five months ended May 31, 2022, which was primarily due to purchase of financial products issued by banks of RMB2,429.7 million, partially offset by proceeds from disposal of financial products issued by banks of RMB1,941.3 million.

Net cash generated from investing activities was RMB213.0 million in 2021, which was primarily due to purchase of financial products issued by banks of RMB2,161.6 million, partially offset by proceed from disposal of financial products issued by banks of RMB2,373.4 million.

Net cash generated from investing activities was RMB67.2 million in 2020, primarily due to income from financial products issued by banks of RMB19.4 million, partially offset by, (1) acquisition of interests in subsidiaries of RMB34.4 million and (2) purchase of other financial assets of RMB34.0 million.

Net cash generated from investing activities was RMB108.0 million in 2019, primarily due to (1) proceed from disposal of financial products issued by banks of RMB3,015.4 million, (2) income from financial products issued by banks of RMB18.2 million, and (3) partially offset by purchase of financial products issued by banks of RMB2,924.5 million.

Net cash generated from/(used in) financing activities

Net cash used in financing activities was RMB5.0 million in the five months ended May 31, 2022, primarily due to capital element of lease rentals in the amount of RMB3.5 million and interest element of lease rentals in the amount of RMB1.1 million.

Net cash used in financing activities was RMB14.7 million in 2021, primarily due to capital element of lease rentals in the amount of RMB9.9 million and [**REDACTED**] paid in the amount of RMB[**REDACTED**].

Net cash generated from financing activities was RMB25.1 million in 2020, primarily due to (1) proceed from the excluded other business of RMB30.0 million, partially offset by (2) capital element of lease rentals of RMB7.5 million.

Net cash used in financing activities was RMB4.8 million in 2019, primarily due to capital element of lease rentals in the amount of RMB4.2 million.

Current Assets and Current Liabilities

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

	As of December 31,			As of May 31,	As of September 30,
	2019	2020	2021	2022	2022
	(RMB in thousands)				
CURRENT ASSETS					
Trade receivables	2,864	2,870	621	524	899
Prepayments, deposits and other receivables	55,467	75,198	138,457	139,170	217,494
Other financial assets	384,319	258,145	45,346	533,792	328,785
Cash at bank and on hand	789,678	1,068,149	1,614,783	1,371,355	1,596,959
Total current assets	1,232,328	1,404,362	1,799,207	2,044,841	2,144,137
CURRENT LIABILITIES					
Trade payables	217,159	206,456	143,150	226,815	170,281
Contract liabilities	66,355	79,546	85,781	83,907	92,400
Accrued expenses and other payables	247,576	67,345	80,840	52,721	67,393
Lease liabilities	7,168	5,763	12,246	12,596	12,293
Current taxation	5,351	4,028	8,871	7,415	8,997
Total current liabilities	543,609	363,138	330,888	383,454	351,364
NET CURRENT ASSETS	688,719	1,041,224	1,468,319	1,661,387	1,792,773

We had net current assets of RMB688.7 million, RMB1,041.2 million, RMB1,468.3 million, RMB1,661.4 million and RMB1,792.8 million as of December 31, 2019, 2020 and 2021, May 31, 2022, and September 30, 2022, respectively. The general increase in our net current assets during the Track Record Period was in line with our business growth.

Taking into consideration of financial resources presently available to us, our Directors are of the view that our available cash and cash equivalents, anticipated cash flow from operations and [**REDACTED**] from the [**REDACTED**] will be sufficient to meet our present and anticipated cash requirements for the next 12 months from the date of this document.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

Our capital expenditures during the Track Record Period, which consisted primarily of purchases of property and equipment and intangible assets, were RMB3.5 million, RMB2.5 million, RMB17.5 million and RMB6.0 million in 2019, 2020, 2021 and the five months ended May 31, 2022, respectively. We funded our capital expenditure requirements during the Track Record Period mainly from cash generated from our operating activities.

We plan to fund our planned capital expenditure by using the cash flow generated from our operations, the [**REDACTED**] received from the [**REDACTED**]. See "Future Plans and [**REDACTED**]" for the portion of capital expenditures to be funded by the [**REDACTED**] from the [**REDACTED**].

INDEBTEDNESS

Our indebtedness during the Track Record Period consisted primarily of lease liabilities. Our lease liabilities as of December 31, 2019, 2020 and 2021, May 31, 2022, and September 30, 2022, being the latest practicable date for the purpose of indebtedness statement, were as follows.

	As of December 31,			As of May 31,	As of September 30,
	2019	2020	2021	2022	2022
	(RMB in thousands)				
Lease liabilities, current	7,168	5,763	12,246	12,596	12,293
Lease liabilities, non-current	12,069	6,965	46,063	42,893	37,463
Total	19,237	12,728	58,309	55,489	49,756

As of September 30, 2022, the latest practicable date of this indebtedness statement, we had lease liability of RMB49.8 million, and we did not have any unutilized banking facilities. Save as disclosed above, we had no bank loans or other borrowings, or any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases, guarantees or other material contingent liabilities. Our Directors confirm that there has not been any material change in our indebtedness since September 30, 2022.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group.

[**REDACTED**]

KEY FINANCIAL RATIOS

	As of/for the year ended December 31,			As of/for the five months ended May 31,	
	2019	2020	2021	2021	2022
				(Unaudited)	
Profitability ratios					
Gross profit margin[1]	24.9	27.5	26.6	27.7	26.0
Net profit/(loss) margin[2]	6.8	(41.4)	7.1	7.6	8.5
Adjusted net profit/(loss) margin (non-IFRS measure)[3]	7.4	(40.9)	9.4	8.7	9.3
Liquidity ratios					
Current ratio[4]	2.3	3.9	5.4	N/A	5.3

(1) The calculation of gross profit margin is based on gross profit for the period divided by revenue for the respective period and multiplied by 100.0%.

(2) The calculation of net profit/(loss) margin is based on profit or loss for the period divided by revenue for the respective period and multiplied by 100.0%.

(3) The calculation of adjusted net profit/(loss) margin (non-IFRS measure) is based on adjusted profit or loss for the period divided by revenue for the respective period and multiplied by 100.0%.

(4) The calculation of current ratio is based on current assets divided by current liabilities as of period end.

Analysis of Key Financial Ratios

Gross profit margin and net profit/(loss) margin

See "— Period to Period Comparison of Results of Operations" for a discussion of the factors affecting our gross profit margin and net profit/(loss) margin during the Track Record Period.

Adjusted net profit/(loss) margin (non-IFRS measure)

Our adjusted net profit/(loss) margin (non-IFRS measure) was 7.4%, (40.9)%, 9.4%, 8.7% and 9.3% in 2019, 2020, 2021 and five months ended May 31, 2021 and 2022, respectively. Our adjusted net profit/(loss) margin (non-IFRS measure) decreased from 7.4% in 2019 to (40.9)% in 2020, primarily due to the impact of impairment loss of goodwill in connection with the Huajiao-6.cn Merger. Our adjusted net profit/(loss) margin (non-IFRS measure) increased from (40.9)% in 2020 to 9.4% in 2021, and decreased slightly to 9.3% in the five months ended May 31, 2022, primarily because (1) we did not incur impairment loss in 2021; and (2) we continued to leverage our brand recognition and market position to improve profitability by retaining viable hosts on our platform to produce quality content, and at the same time, to optimize our operations to control costs and expenses.

Current ratio

Our current ratio was 2.3, 3.9, 5.4 and 5.3 as of December 31, 2019, 2020, 2021 and May 31, 2022. In general, our current ratio continued to increase primarily due to increases in cash and cash at bank and on hand and financial products issued by banks, and decreases in current liabilities during the relevant period.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. During the Track Record Period, we entered into various related party transactions, primarily including transactions with companies controlled by our shareholders or Directors. As of May 31, 2022, all outstanding amounts for the related party transactions were trade in nature. For details of our related party transactions, see Note 26 to the Accountants' Report in Appendix I to this document.

Our Directors believe that each of the related party transactions was conducted in the ordinary course of business on an arm's length basis. Our Directors are of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to a variety of financial risks, including market risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management.

Credit Risk

We are primarily exposed to credit risk in relation to our trade and other receivables. However, our Directors expect that the occurrence of losses from non-performance by the counterparties of trade and other receivables was remote, and loss allowance provision for trade and other receivables was immaterial. Our exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with a minimum credit rating assigned by our management. For more details, see Note 25(a) to the Accountants' Report in Appendix I to this document. We do not provide any guarantees that would expose us to credit risk.

Liquidity Risk

We monitor risks of funding shortage by monitoring our current ratio, which is calculated by comparing the current assets with the current liabilities. Further, our management monitors rolling forecasts of our liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. We expect to fund the future cash flow needs through internally generated cash flows from operations.

The table below analyses our financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position dates to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	As of December 31, 2019 Contractual undiscounted cash outflow					
	Within one year or on demand	**More than one year but less than two years**	**More than two years but less than five years**	**More than five years**	**Total**	**Carrying amount**
	(RMB in thousands)					
Trade payables	217,159	–	–	–	217,159	217,159
Accrued expenses and other payables	247,576	–	–	–	247,576	247,576
Lease liabilities	7,909	5,851	6,825	–	20,585	19,237
	472,644	5,851	6,825	–	485,320	483,972

	As of December 31, 2020 Contractual undiscounted cash outflow					
	Within one year or on demand	**More than one year but less than two years**	**More than two years but less than five years**	**More than five years**	**Total**	**Carrying amount**
	(RMB in thousands)					
Trade payables	206,456	–	–	–	206,456	206,456
Accrued expenses and other payables	67,345	–	–	–	67,345	67,345
Lease liabilities	6,211	5,777	1,378	–	13,366	12,728
	280,012	5,777	1,378	–	287,167	286,529

	As of December 31, 2021 Contractual undiscounted cash outflow					
	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	More than five years	Total	Carrying amount
	(RMB in thousands)					
Trade payables	143,150	–	–	–	143,150	143,150
Accrued expenses and other payables	80,840	–	–	–	80,840	80,840
Lease liabilities	14,732	13,564	36,762	–	65,058	58,309
	238,722	13,564	36,762	–	289,048	282,299

	As of May 31, 2022 Contractual undiscounted cash outflow					
	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	More than five years	Total	Carrying amount
	(RMB in thousands)					
Trade payables	226,815	–	–	–	226,815	226,815
Accrued expenses and other payables	52,721	–	–	–	52,721	52,721
Lease liabilities	14,862	13,002	33,290	–	61,154	55,489
	294,398	13,002	33,290	–	340,690	335,025

DIVIDEND POLICY

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 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.

DISTRIBUTABLE RESERVES

As of May 31, 2022, our Company had no distributable reserves.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate 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 audited consolidated financial statements were prepared, and there is no event since May 31, 2022 which would materially affect the information in the Accountants' Report set out in Appendix I to this document.

UNAUDITED [REDACTED] ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited [**REDACTED**] statement of adjusted consolidated net tangible assets of the Group is prepared in accordance with paragraph 4.29 of the Listing Rules and is set out below to illustrate the effect of the [**REDACTED**] on the consolidated net tangible assets of the Group attributable to equity shareholders of the Company as if it had taken place on May 31, 2022.

Our unaudited [**REDACTED**] statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the [**REDACTED**] been completed as of May 31, 2022 or any future date.

	Consolidated net tangible assets attributable to equity shareholders of the Company as of 31 May 2022(1)	Estimated [REDACTED] from the [REDACTED](2)	Unaudited [REDACTED] adjusted net tangible assets attributable to equity shareholders of the Company	Unaudited [REDACTED] adjusted net tangible assets attributable to equity shareholders of the Company per Share(3)	
		(RMB in thousands)		*(RMB)*	*(HK$)(4)*
Based on an [REDACTED] of HK$[REDACTED] per Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK$[REDACTED] per Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

(1) The consolidated net tangible assets attributable to equity shareholders of the Company as of May 31, 2022 is arrived after deducting intangible assets of RMB124,097,000 and goodwill of RMB699,778,000 from the consolidated total equity attributable to equity shareholders of the Company as of May 31, 2022 of RMB2,640,097,000, which is extracted from the Accountants' Report set out in Appendix I to this document.

(2) The estimated [**REDACTED**] from the [**REDACTED**] are based on the estimated [**REDACTED**] of HK$[**REDACTED**] per share and HK$[**REDACTED**] per share, being the lower end price and higher end price of the indicative [**REDACTED**] range respectively, after deduction of the estimated [**REDACTED**] fees and other related expenses related to [**REDACTED**] (excluding approximately RMB[**REDACTED**] [**REDACTED**] which has been charged to the consolidated statements of profit or loss up to May 31, 2022), and does not take into account of any shares that may be issued upon exercise of the [**REDACTED**]. The estimated [**REDACTED**] from the [**REDACTED**] is converted into RMB at an exchange rate of HK$1.00: RMB0.9044.

No representation is made that Hong Kong dollar amounts have been, could have been or may be converted into RMB, or vice versa, at that rate.

(3) The unaudited [**REDACTED**] adjusted consolidated net tangible assets attributable to equity shareholders of the Company per Share is arrived at after the adjustment referred to in the preceding paragraph and on the basis that [**REDACTED**] Shares were in issue, being the number of shares expected to be in issue following the completion of the [**REDACTED**] and the [**REDACTED**], and does not take into account any shares which may be issued upon the exercise of the [**REDACTED**] and the options granted under the Share Option Scheme.

(4) The unaudited [**REDACTED**] adjusted consolidated net tangible assets attributable to equity shareholders of the Company per Share is converted into Hong Kong dollars with the exchange rate of HK$1 to RMB0.9044. No representation is made that Renminbi amounts have been, could have been or could be converted into Hong Kong dollars, or vice versa, at that rate or at any other rates.

(5) No adjustment has been made to the unaudited [**REDACTED**] adjusted consolidated net tangible assets attributable to equity shareholders of the Company to reflect any trading result or other transactions of the Group subsequent to May 31, 2022.