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### OVERVIEW

We provide AR/VR content and services in China, and in particular, the provision of AR/VR marketing services to advertising customers was our largest revenue contributor during the Track Record Period. According to iResearch, we ranked the first in terms of revenue in the AR/VR content and services market in China, amounting to 2.6% of the market share in 2021. We also ranked the first in terms of revenue in the AR/VR services market in China, reaching 13.5% of the market share in 2021. According to iResearch, the AR/VR content and services market size in terms of revenue in China was RMB21.7 billion in 2021 and is expected to increase from RMB35.7 billion in 2022 to RMB130.2 billion in 2026 at a CAGR of 38.2%.

Through accumulation of experiences and know-hows, we have created a business providing a variety of services in connection with AR/VR, mainly including (i) AR/VR marketing services, (ii) AR/VR content, (iii) AR/VR SaaS and (iv) IP business:

- (i) **AR/VR marketing services.** AR/VR marketing services business is currently our primary source of revenue. The business model of our AR/VR marketing services business is “*we develop and we help you use*”. We provide AR/VR content modules and development tools and help our customers place their advertisements. We charge our customers based on the performance outcome and operational effect of the services. Working with media platforms and their agents, we primarily provided AR/VR marketing services to our advertising customers during the Track Record Period. Leveraging our advantages in technology and media resources, we provide customers with comprehensive AR/VR marketing services, including formulating AR/VR marketing services plans, designing AR/VR marketing content, distributing AR/VR marketing content, and collecting, monitoring and optimizing data and feedback, in order to realize our customers’ business goals such as enhancing brand exposure and improving brand awareness. We help advertising customers to create cross-platform and AR/VR marketing materials, and furnish end users with an immersive experience. During the Track Record Period, we provided AR/VR marketing services to a total of over 50 advertising customers and promoted over 250 advertising products, the majority of which were apps and websites.
- (ii) **AR/VR content.** Utilizing our self-developed AR/VR development engines, our AR/VR content business offers customized content according to the needs of our customers. We provide AR/VR content to customers from various industries, including entertainment, gaming, education, culture and tourism, technology, healthcare and automobiles, and bring end users a diversified and immersive experience in a virtual world. The business model of our AR/VR content business is “*we develop and you use*”. We develop AR/VR content according to the requirements of our customers, which are then utilized by the

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customers in their businesses and provided to the end users. We generally charge a one-off fee when we provide the content products to our customers. We also utilize technology and experience accumulated in our AR/VR content business to support our AR/VR marketing services and AR/VR SaaS businesses. During the Track Record Period, we provided AR/VR content to over 60 customers, and gained experience from more than 150 AR/VR content projects. For example, in 2021, we developed a VR courseware customized for a middle-school geography course for an education business subsidiary under an Internet technology group operating one of the largest search engines in China in terms of the average daily active users in 2020. By simply wearing a VR device, students can learn the structure of the earth, the formation of the air pressure zones and other lessons in a visual and interactive way, thereby appealing to the interest of students and enhancing their level of involvement, which ultimately makes it easier for students to absorb the knowledge in the geography course.

- (iii) **AR/VR SaaS.** Leveraging the experiences we accumulated in the AR/VR content and services businesses, we provide standardized solutions on our AR/VR SaaS platform. The business model of our AR/VR SaaS business is “*you develop and you use*”. Our AR/VR SaaS platform enables our customers to generate, publish and utilize AR/VR content. We charge our customers for subscribing to our SaaS products or for developing customized SaaS solutions. Our AR/VR SaaS platform provides our customers with a range of online AR/VR interactive content design, development and distribution tools and empowers our customers to create activities that offer experiences such as exhibition, showcase, live-streaming and marketing, with the goal to improve the level and extent of participation of their end users. After we made AR/VR SaaS one of our business focuses in 2020, our AR/VR SaaS business has grown at a fast pace. The revenue from our AR/VR SaaS business increased by 41.8% from RMB6.5 million in 2019 to RMB9.2 million in 2020, and further increased by 122.9% to RMB20.6 million in 2021, and increased by 353.2% from RMB2.1 million for the three months ended March 31, 2021 to RMB9.5 million for the three months ended March 31, 2022. As of March 31, 2022, the number of our AR/VR SaaS registered users reached over 14,000 and the number of our AR/VR SaaS subscribed paying users reached over 2,200.
- (iv) **IP.** Our IP business licenses IP rights to customers to enable them to develop games, cartoons, TV plays, movies and other works. During the Track Record Period, we mainly licensed out IPs we purchased from third parties. We have shifted our focus and going forward, we will mainly use IP resources to support our AR/VR businesses and license IP rights on a case-by-case basis to meet specific customer demands.

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We grew rapidly during the Track Record Period. In 2019, 2020 and 2021 and the three months ended March 31, 2022, our revenue was RMB250.9 million, RMB338.6 million, RMB595.3 million and RMB228.9 million, respectively. During the same period, our net profit was RMB41.9 million, RMB60.3 million, RMB71.7 million and RMB38.2 million, respectively.

### **Metaverse Ecosystem**

According to iResearch, Metaverse is a virtual universe with a sustainable existence based on the real world through AR/VR technical abilities. A person in the physical world may, with a digital avatar, enter the virtual universe with a fully functioning society and economy. According to a declaration made by the Metaverse Industry Committee on November 11, 2021, Metaverse is the third generation of the Internet.

The ecosystem of a Metaverse is jointly constructed by the interaction between the underlying technology tier, the scenario application tier, the device tier and the platform tier. According to iResearch, the platform tier comprises companies that directly operate the virtual universe of the Metaverse and provide services to end customers through platforms. The device tier comprises companies that provide devices for Metaverse experiences. The scenario application tier comprises service providers for business customers that construct the virtual universe of the Metaverse. As the virtual universe of the Metaverse is constituted of AR/VR content and services, AR/VR content and services providers are equivalent to scenario application tier companies. The underlying technology tier comprises companies that provide technology support for relevant parties in the Metaverse industry, for example the AI technology service providers.

The AR/VR content and services market is the scenario application tier in the Metaverse ecosystem. AR/VR is a key application for achieving and empowering the immersive experience in the Metaverse, and is the pre-requisite condition and an entry barrier during the development of the Metaverse.

We have begun to build our own Metaverse platform. According to iResearch, the elements of Metaverse platforms mainly include immersive experience, socializing channels, business function, and user self-development capabilities. In addition, the Metaverse caters for merchants and consumers simultaneously by providing a virtual space for business interaction. We believe that the experience we have accumulated over the years in the AR/VR business has equipped us with the capability to create a Metaverse platform with the key elements typical to a Metaverse platform. In November 2021, we announced that we will be publishing our Feitian Metaverse platform, which is expected to have a virtual commercial district in which users can travel around freely and enter the commercial space of merchants such as showrooms. We aim to provide access to the Metaverse to our business customers and users and connect them through the Feitian Metaverse platform. Our Feitian Metaverse platform is currently at a preliminary stage and we aim to eventually provide

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our customers with the ability to initiate business cooperation among themselves and with consumers in the virtual business space, which would improve the consumer experience on the one hand, and help our customers to explore business opportunities on the other hand.

### **OUR COMPETITIVE ADVANTAGES**

We believe the following competitive advantages have substantially contributed to our success and will drive our future development:

#### **A major provider of the AR/VR content and services market in China and benefit from the competitive advantages in the Metaverse development process**

According to iResearch, the ecosystem of a Metaverse is jointly constructed by the interaction between the underlying technology tier, the scenario application tier, the device tier and the platform tier. Participants of the scenario application tier and the underlying technology tier construct and empower the Metaverse, driving the development and growth of the Metaverse. According to iResearch, we ranked the first in terms of revenue in the AR/VR content and services market in China, amounting to 2.6% of the market share in 2021.

The AR/VR content and services market is the scenario application tier in the Metaverse ecosystem. According to iResearch, the market size of the AR/VR content and services market in terms of revenue in China grew at a CAGR of 110.2% from RMB1.1 billion in 2017 to RMB21.7 billion in 2021, and is expected to reach RMB130.2 billion by 2026, which serves as a major driver of the empowerment of the Metaverse.

#### ***AR/VR marketing services business***

We are one of the earliest companies entering the AR/VR services industry and a major provider in the AR/VR services industry in China, according to iResearch. According to iResearch, we ranked the first in terms of revenue in the AR/VR services market in China, reaching 13.5% of the market share in 2021, which was over 10% higher than that of the company ranking second.

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Working with media platforms and their agents, we primarily provided AR/VR marketing services to our advertising customers during the Track Record Period. The provision of AR/VR marketing services to advertising customers was our largest revenue contributor during the Track Record Period. According to iResearch, the marketing sector is one of the biggest sectors in the AR/VR services market. Marketing methods utilizing AR/VR technologies have advantages over traditional marketing methods. For example, VR technology can be used to simulate environments and display products in an interactive manner. Furthermore, AR technology can be used to track and locate, achieve physical interaction with end users, and improve the participation and enjoyment of users through interactive, immersive and scenario-based experiences. Compared with traditional marketing models, AR/VR advertisements can better capture the attention of end users and engage them. According to iResearch, the click conversion rate of traditional forms of advertising ranges from 0.3% to 15%, while that of AR/VR advertisements reaches 25%.

According to iResearch, as AR/VR advertisements offer widened channels to interact with end users, market players like us can obtain a deeper understanding of end users' behavior preference and improve the accuracy to distribute advertisements. In 2021, the online advertising market in China reached RMB942.1 billion, representing an increase at a CAGR of 26% from 2017. At present, online advertising is mainly in the forms of image, text and video. With the application and popularization of AR/VR technology in marketing and advertising industries, more advertising materials and marketing forms are expected to be presented in AR/VR in the future. According to iResearch, the AR/VR services market size in China in terms of revenue in 2021 was RMB2.8 billion. The market size of the AR/VR services market in terms of revenue in China is expected to increase from RMB5.3 billion in 2022 to RMB24.0 billion in 2026 at a CAGR of 45.9%.

We entered into the AR/VR services market in 2017 and started to offer AR/VR marketing services. According to iResearch, we are one of the first companies to enter the AR/VR services market in China. Leveraging on technologies accumulated in prior game developments and the user data and media resources accumulated in game distribution, we were able to make profits in the AR/VR services market in the same year. Through years of operation, we have accumulated a diversified customer base and media resources. In terms of customer base, during the Track Record Period, we provided AR/VR marketing services to a total of over 50 advertising customers. With respect to media resources, we mainly placed advertisements on diversified media platforms through over 30 agents during the Track Record Period. Leveraging our relationship with these media platforms and their agents, we can assist our advertising customers in acquiring sizeable Internet traffic. During the Track Record Period, we promoted over 250 advertising products, the majority of which were apps and websites. In addition to providing AR/VR marketing services, we have also strived to provide other performance-based AR/VR services and have taken initial steps in the culture and tourism industry.

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### *AR/VR content business*

According to iResearch, the application of the AR/VR content market concentrates in entertainment, education and other industries in China. We have extensive experience in AR/VR content development to empower customers from various industries, and we can provide an immersive experience of virtual universe to customers and end users. According to iResearch, the market size in terms of revenue of the AR/VR content market in China was RMB18.9 billion in 2021, and the AR/VR content industry in China is likely to maintain its wide application in various industries such as entertainment and education in the future.

During the Track Record Period, we provided AR/VR content to over 60 customers, and accumulated development experience in more than 150 AR/VR content projects through our AR/VR content business. These experiences can reduce our development cost for our AR/VR marketing services and AR/VR SaaS businesses. During the Track Record Period, we completed a number of AR/VR content projects for major customers. For example, in January 2018, we were engaged to reconstruct the virtual version of a physical store of a renowned international sporting goods retailer at a scale of 1:1. The virtual store presents the standard display and layout of a physical store to the sporting goods retailer’s sales agents and employees, thereby reducing the sporting goods retailer’s training cost to demonstrate the desired setting of a store. In addition, in September 2018, we were engaged to build a VR panoramic display project for a famous tourist attraction in Shanxi Province, China. Leveraging our 3D modeling, PBR and other technologies, end users can observe the details of the scenic spot with a 360-degree view by wearing a VR device, enabling them to enjoy the cultural tourist site from home.

As we are experienced in AR/VR-based content creation and possess rich accumulation of AR/VR content materials, we believe we have competitive advantages in the Metaverse platform development process. In addition, according to iResearch, one of the means for the operators of the Metaverse platform to generate revenue is to provide services to business customers, including marketing services. We believe our experience in providing AR/VR marketing services to cater to the demands of business customers also renders us more competitive in the deployment of the Metaverse platform as our insight on the needs of business customers and our experience accumulated through the provision of the AR/VR marketing services enables us to serve customers on a Metaverse platform in the future. In addition, our AR/VR SaaS platform empowers the users to participate in the creation and development with us. We believe our AR/VR technology can consolidate and strengthen our advantages. With the IP reserve we have accumulated over years of operation, we also believe we will be able to provide a diverse portfolio of IPs to users of our Metaverse platform in the future.

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According to a declaration made by the Metaverse Industry Committee on November 11, 2021, Metaverse is the third generation of the Internet. Metaverse will be the next stage of the development in the Internet industry which has the potential to cover all the business models currently existing in the Internet, and the boundary of the Metaverse is still expanding, according to iResearch. As we are one of the earliest companies entering the AR/VR content and services market in China, we believe we will be able to capture the opportunities of the Metaverse going forward.

### **Fast growing SaaS business**

Through the experiences accumulated in our AR/VR content and services business, we have developed a standardized AR/VR SaaS platform which allows our customers to create and publish AR/VR-based content. We provided AR/VR marketing services or content to customers from over 10 industries, including entertainment, gaming, Internet, e-commerce, culture and tourism, business services, education, finance, real estate, automobiles, live-streaming, technology and healthcare during the Track Record Period. We utilized these experiences to improve our AR/VR development engines and other technologies as well as enhance our efficiency. Once we identify AR/VR marketing services or content which can be standardized, we launch corresponding SaaS products or modules in due course to further enhance our growing AR/VR SaaS business.

Our AR/VR SaaS platform is driven by interactive content and serves as a handy toolbox for customers to carry out marketing activities, interact with existing users and attract new users through AR/VR interactions. Our customers can select styles and interaction approaches on our AR/VR SaaS platform to cater to their operational demands, and motivate end users through reward distribution, such as red packets and coupons, using tools offered by us on our AR/VR SaaS platform. As of March 31, 2022, over 14,000 users have registered on our AR/VR SaaS platform. Our AR/VR SaaS platform provides users with online AR/VR interactive content, and design, development and distribution tools to help them combine the application and immersive experience according to their own operational needs while monitoring performance results. As of March 31, 2022, the number of subscribed paying users of our AR/VR SaaS platform reached over 2,200.

As one of the first few companies operating an AR/VR SaaS platform according to iResearch, we have attracted attention from a number of leading companies from the Internet industry. In 2020, we became a partner of Tencent Qianfan Plan, which is a SaaS platform introduced by Tencent. Our AR/VR SaaS platform joined the Tencent Cloud SaaS platform, and we are the only AR/VR product provider in Tencent Qianfan Plan. Our AR/VR SaaS platform has also been elected as one of Tencent Qianfan’s selected products for high quality, good reputation and reliable service. In 2021, we further became the authorized service provider of the SaaS product of a top-tier e-commerce platform. Our AR/VR SaaS platform provides tools and modules for our



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customers to build their own VR cloud stores. As one of the first companies to provide VR cloud store designing service in China according to iResearch, we have become the core supplier of VR cloud store products for some top e-commerce platforms in China.

### **Multifaceted AR/VR technology**

We have multifaceted AR/VR technology that provides support for our AR/VR business. Our AR/VR technology can be divided into three categories, namely the underlying technology, the content technology and the platform technology. The underlying technology is our core capability, which supports all our major businesses and establishes our competitive advantages in the industry. The content technology addresses the customers’ demand and provides us with a base to grow our business. The platform technology enables our technology to be exported and empowers customers or developers to participate in the content production together with us.

Our success hinges upon our key technological capabilities in providing customers with high-quality AR/VR marketing services and offering end users with our AR/VR interactive content and immersive experience. Such key technologies include:

- **Underlying technology:** Our underlying technology includes cross-platform technology, interactive technology, gaming technology, AI technology, network technology, among others. Our cross-platform technology allows our AR and VR effects to be presented on Android, iOS, H5, Windows and other platforms. Our interactive technology and gaming technology provide a base for the development of interactive content. Our AI technology can, through machine learning algorithms, identify images, texts, voices, faces and motions and provide a foundation for the AR/VR interactive content. In addition, our network technology ensures the stable and smooth operation of our systems which further brings smooth experience to end users.
- **Content technology:** We have a number of AR/VR development engines through years of development and iteration, which have combined content development functions. Our AR/VR development engines improve our development efficiency by shortening the development time of AR/VR products. Our AR/VR development engines include our Uni-Play engine, Uni-AR engine, Uni-VR engine and rendering engine.



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- **Platform technology:** Our AR/VR SaaS platform provides a large number of AR/VR content modules, online editors and a range of data analytical tools, helping our customers to gain better designing experience on our AR/VR SaaS platform. In addition, we offer an AR/VR aPaaS platform to AR/VR interactive content developers. We allow developers to deploy the functions needed on our aPaaS low-code development platform and to strategically use the relevant tools to form their AR/VR solutions. Our platform technology enables our technology to be exported and empowers end users and developers to customize and develop AR/VR interactive content easily and efficiently, which in turn is expected to improve our AR/VR business ecosystem and attract more parties to participate in AR/VR content production.

For further details of our technologies, see the paragraph headed “— Our Technologies and Infrastructure” in this section. We believe that these technologies enable us to improve the conversion rate and strengthen marketing effect of our AR/VR marketing services, and improve the quality of content for our AR/VR content. Our multifaceted AR/VR technology and our experienced R&D development team are our core competencies as we continue to expand our business.

### **Strong synergy effect among our various business segments**

Our various business segments generate strong synergies among them. Our AR/VR marketing services, content and SaaS businesses cover the major aspects of the AR/VR content and services market, while our IP business empowers our AR/VR businesses.

Our AR/VR content provides a solid basis for AR/VR marketing services. We have accumulated extensive development experience in the AR/VR content business. Our project experience in the AR/VR content business has reduced our costs and enhanced our efficiency in providing AR/VR marketing services. During the Track Record Period, we provided over 150 AR/VR content projects to over 60 customers from various industries, including entertainment, gaming, education, culture and tourism, technology, healthcare and automobiles. Our AR/VR content experiences provide a foundation to our AR/VR marketing services business. We have built a comprehensive technical system and R&D structure in our AR/VR content business, and have developed an efficient development process and a comprehensive quality control system, which enables us to enhance our AR/VR marketing services and to ensure the efficiency and service quality of our AR/VR marketing services. Moreover, our AR/VR marketing services and AR/VR content businesses facilitate our AR/VR SaaS business. We utilize the experience we have gained in the provision of AR/VR content and services to improve our technologies including AR/VR development engines and to enhance our efficiency. Once we identify services or content which can be standardized, we launch corresponding SaaS products in due course to further enhance our growing AR/VR SaaS business.

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As our business scales up, there are also synergy effects and cross-sales opportunities between our AR/VR marketing services, AR/VR content, AR/VR SaaS and IP businesses. Such synergy effects include accumulation of customers, development of technologies and sharing of IP resources which would further improve our overall AR/VR business ecosystem to provide better customer service, enhance customer stickiness and create a virtuous cycle for our business. Cross-sales opportunities are also available among our businesses. For example, after the customers of our AR/VR marketing services business experience the effectiveness of the AR/VR-based marketing approaches, they may consider incorporating AR/VR solutions more pervasively and/or more frequently in their daily marketing activities. As a result, these customers may want to design AR/VR solutions by themselves, and thereby use our AR/VR SaaS platform services, transforming from being our AR/VR marketing services business customers to our AR/VR SaaS customers. Similarly, our AR/VR content customers may also further engage us to provide AR/VR marketing services or become our AR/VR SaaS subscribed paying users if they are impressed by our AR/VR interactive content. Particularly, after completing customized AR/VR content projects with us in 2020, a customer, recognizing the quality of our AR/VR content, further became a subscribed paying user of our AR/VR SaaS platform in 2021 and created simple AR/VR-based content using our AR/VR SaaS platform.

### **Management team with a broad vision and rich experience**

Since our incorporation, Mr. Wang, our chief executive officer, has been leading the strategic development of our Group. With more than 16 years of experience in the Internet technology industry, Mr. Wang is able to recognize the main industry trends and grasp market dynamics. With the strategic plans formulated by Mr. Wang for our Group, we were able to achieve rapid growth during the Track Record Period. Mr. Li, our executive Director and chief technology officer, has been assisting in overall management and R&D and technical management of our Group. Mr. Li has more than 15 years of experience in software engineering and he leveraged his rich industrial and technical experience and led the formulation of our R&D strategies. As of the Latest Practicable Date, most of our executive Directors have more than 10 years of experience in the Internet technology industry. A majority of our senior management members have been working together for over five years, which provides us with a stability that lays a foundation for our long-term development.

We believe that our experienced management team plays an important role in our success and will continue to be our valuable assets. Our management team possesses the requisite leadership, vision and in-depth industry knowledge to anticipate and seize market opportunities, formulate sound business strategies and facilitate effective implementation. We are therefore confident that our experienced management team will lead us to attain long-term development and growth.

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### OUR DEVELOPMENT STRATEGIES

We are committed to building China’s leading Metaverse platform serving business customers by connecting small and medium-sized companies with the Metaverse and building our own Feitian Metaverse platform. To achieve our vision, we have prepared the following development strategies:

#### **We intend to further optimize our operation of AR/VR marketing services, AR/VR content and AR/VR SaaS businesses**

We intend to extend and enhance our current position in the Metaverse scenario application tier in China. In terms of AR/VR marketing services, we intend to enhance customer loyalty, increase the retention rate of customers and solidify the relationship between our customers and us. Particularly, we plan to expand our operation team to better develop AR/VR marketing services plan for our customers taking into account the characteristics of their brands. We also plan to expand our after-sales team to offer better services to our customers. Furthermore, according to iResearch, marketing and e-commerce sectors are currently the major sectors of the AR/VR services industry in China. As a major provider in the AR/VR services industry in China, we plan to further expand our AR/VR services business beyond AR/VR marketing to other performance-based services and assist customers with their AR/VR-related operation. Specifically, we plan to provide AR/VR services to the culture and tourism and education industries through standardized models and customized content and charge customers based on the performance outcome. We have taken initial steps in this regard. For example, in August 2021, we were engaged to produce AR content on a mini-program of an AAAAAA tourist attraction in China for ongoing activities at the tourist attraction and received revenue based on the performance of the mini-program in terms of number of visitors and visits. For another example, we plan to cooperate with tourist attractions and open physical stores in the attractions. We plan to introduce history and cultural background of the attractions to tourists through VR videos. We plan to be in charge of content development, testing, hardware matching and operation of the projects. We also plan to conduct quality control and daily maintenance. We plan to share profit with the tourist attractions based on ticket sales according to a pre-determined percentage in a specified period. We entered into a cooperation agreement with an imperial palace, which is an AAAAAA tourist attraction, in China in 2022. For the education industry, we plan to partner with established companies with a customer base in the education industry and develop standardized course content based on AR/VR, for example geography and astronomy courses. We plan to be in charge of content design, development and testing, in addition to quality control, operation and after-sale services. We plan to share profit with our partners according to a pre-determined percentage in a specified period after they sell the courses to schools or institutions. We also plan to enhance our cooperation with media platforms by (i) entering into strategic cooperation with media platforms to ensure a steady

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flow of traffic that we require in our expansion of AR/VR marketing services business; and (ii) designing more interactive content modules that are tailored to media platforms taking into account the attributes and target audience of these media platforms.

In terms of AR/VR content, we plan to leverage our experiences in AR/VR interactive content creation to expand our AR/VR content business to cover more industries, particularly the manufacturing industry and the live-streaming industry, and to further penetrate into the industries we have already covered including the culture and tourism industry. For example, we plan to apply AR/VR content to various aspects of the design, manufacturing, marketing and the maintenance of industrial equipment. During the initial design phase of a product, we plan to use AR/VR technology to help designers express their design ideas more accurately, communicate their ideas to their customers more easily, and analyze and improve product models more efficiently, while in the manufacturing phase, we also plan to use AR/VR content to provide workers with more intuitive process guidance, assist them to complete tedious production processes via AR technology. For the live-streaming industry, by combining modeling and AI production technologies to produce virtual characters, we plan to introduce solutions for live-streaming by virtual characters in around 2023, achieving synchronization of expressions and actions through motion capture and facial recognition technologies. In addition, we plan to further penetrate into the culture and tourism industry. We intend to open offline VR experience stores at around 10 tourist attractions in China within the next three years, presenting history and cultural background of the attractions to the tourists through VR videos.

In terms of AR/VR SaaS, we plan to increase the coverage of our AR/VR SaaS business by expanding our AR/VR SaaS customer base among small and medium-sized companies. We also plan to continue to accumulate and summarize content or services that can be standardized, further explore the potential conversions from AR/VR content and services to AR/VR SaaS, and launch corresponding AR/VR SaaS products in due course. We intend to increase customer stickiness by constantly providing new AR/VR SaaS products to existing customers. For example, we plan to launch VR live-stream marketing for industries such as culture and tourism, second-hand houses and second-hand cars and develop AR SaaS products for live action role playing games for tourist attractions and VR education platform for schools. Specifically, for VR live-streaming marketing, utilizing our AR/VR SaaS platform, hosts may take audiences through 720 degrees fully immersive experiences, which is particularly suitable for industries such as culture and tourism, second-hand houses and second-hand cars. Audiences may watch and interact through mobile phones, personal computers or VR devices. For AR live action role playing games to be used in offline scenarios including tourist attractions, users may follow the storyline of the game, take part in the role play and follow the developments of the story using AR scanning, video introductions and 3D displays. For VR education to be used in schools or for training purposes, we plan to introduce education and training courses on our AR/VR SaaS platform. We plan to provide courses including commonly used development tools, 3D model production, animation production, AR content

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development and VR content development. Third party instructors or institutions may either use content on our AR/VR SaaS platform or upload their own course materials, which students may study with mobile phones, personal computers or VR devices.

We intend to use approximately [REDACTED], which will be funded by and represents approximately [REDACTED] of the [REDACTED] from the [REDACTED], to improve our services and products. See section headed “Future Plans and [REDACTED]” in this document for details.

### **We intend to further expand our presence in the Metaverse ecosystem in China**

As the core application for the construction of the Metaverse, AR/VR brings the immersive virtual universe experience to the users and connect the physical world with the virtual universe. As a result, AR/VR capabilities are the necessary conditions and an entry barrier during the process of the Metaverse development. Leveraging on our AR/VR technology accumulated over the years, we intend to build our Feitian Metaverse platform.

In November 2021, we announced that we will be publishing our Feitian Metaverse platform, which is expected to have a virtual commercial district in which users can travel around freely and enter the commercial space of merchants such as showrooms. We published our Feitian Metaverse information center on our website, which contains information such as introduction for developers and courses for beginners. Apart from the immersive experience brought by AR/VR, we plan to provide users with development tools, such as AR/VR scene construction and web-AR/VR solution technologies, which could enable the users to design and develop AR/VR content on our Metaverse platform. We plan to continuously build the Feitian Metaverse platform and to provide access to the Metaverse to our business customers and end users and connect them through the Feitian Metaverse platform. On our Feitian Metaverse platform, we plan to provide our customers with the ability to initiate business cooperation among themselves and with end users in the virtual business space, which would improve end users’ experience on the one hand, and help customers explore business opportunities on the other hand. We also plan to build tools to empower end users to create their own Metaverse space from an end-user perspective.

We plan to construct the Feitian Metaverse platform in three phases. We plan to complete the infrastructure construction in the first phase. In the first phase, we plan to create a virtual world with immersive experience, socializing channels and user self-development to boost the number of end users and increase the scale of our Metaverse world. We further plan to improve the coding tools for developers and carry out iterative and incremental improvement on the development tools to improve the efficiency of development. At that time, we will be able to invite developers by providing a platform in which the developers can engage and enhance content diversity with the UGC model. We are currently at the first phase of the development of our Feitian Metaverse platform and we currently focus on the infrastructure construction. We have completed the

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construction of the basic technical architecture and developed part of the core functions of our Feitian Metaverse platform, including a multiplayer open world, a sandbox system, a preliminary user and social system, a human-computer interaction system and a preliminary developer interface. We have also developed a small city block to test our preliminary technical architecture and its effect. To this end, we have developed a new network architecture that enables efficient interconnection between VR hardware, personal computers and mobile phones. We plan to test a beta version of our Feitian Metaverse platform in 2022, where users are expected to experience basic social functions, interactive games and online business meetings functions. We expect to use the beta version to collect user feedback and improve our Feitian Metaverse platform. We plan to launch the full version of our Feitian Metaverse platform in the first half of 2023. The full version is expected to mainly include social, entertainment and office functions. In the second phase, we plan to further improve content on our Feitian Metaverse platform and cover more life scenarios by acquiring digital assets and upgrading our system. Specifically, we plan to cover various life scenarios such as socializing, entertainment, office, education, culture and tourism, sports and live-streaming to provide end users with different experiences. We expect to continuously improve the content on our Feitian Metaverse platform throughout 2023 and 2024. In the third phase, we plan to improve the Feitian Metaverse platform ecosystem and facilitate users’ business activities in the platform. We plan to consolidate our customers of various business segments including AR/VR marketing services, content and SaaS on our Feitian Metaverse platform. We will also attract end users to our Feitian Metaverse platform and our customers and end users may interact and conduct business with each other. We expect to enter the third phase in 2024. Our second and third phases may overlap as we expect the improvement of content on our Feitian Metaverse platform to be a continuous process.

Our Feitian Metaverse platform is expected to facilitate our existing businesses. We plan to provide AR/VR marketing services on our Feitian Metaverse platform and by attracting users to visit the same, our Feitian Metaverse platform is expected to gather traffic for our customers of AR/VR marketing services. Our Feitian Metaverse platform may consolidate our customers on a single platform which may serve to enhance our brand name. We plan to offer content development services on our Feitian Metaverse platform and plan to charge our customers for the AR/VR content products. For example, users of our Feitian Metaverse platform may engage us to design and construct showrooms, panoramic virtual stores and industrial parks, for which we may charge on the basis similar to our AR/VR content projects. We plan to connect our AR/VR SaaS platform with our Feitian Metaverse platform and provide our customers with one-stop services, which is expected to attract more users to our AR/VR SaaS platform. See the paragraph headed “— Our Business — Metaverse platform under development” in this section. We intend to use approximately [REDACTED], which will be funded by and represents approximately [REDACTED] of the [REDACTED] from the [REDACTED], to develop our Feitian Metaverse platform. See section headed “Future Plans and [REDACTED]” in this document for details.



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### **We intend to strengthen our R&D capabilities**

We strive to consolidate and strengthen our technologies in the industry with continuous investment in the R&D field, and maintain, as well as enhance, our current position in technology. We plan to strengthen our AR/VR technology capabilities covering three categories, namely the underlying technology, the content technology and platform technology. Particularly, we plan to (i) strengthen our AI algorithm capabilities and image rendering capabilities which could enable our customers to achieve higher levels of display effects for their products and content; (ii) strengthen standardization and process building in content creation, and optimize them through big data algorithms; (iii) further enhance our AR/VR technology to adapt to next-generation AR glasses, VR glasses, holographic projection and 5G applications.

Specifically, we plan to continuously optimize our existing AI algorithms to further increase the accuracy and speed of image and word recognition, increase the accuracy of voice recognition and enhance the semantic analysis capabilities, improve the efficiency and accuracy of facial and motion recognition, increase the number of recognition points to build a foundation to support more diverse interaction modes. We also plan to gradually commence research on AI generated content to optimize interactive content through AI. We plan to achieve AI production of interactive content by 2024 to increase content production efficiency.

In addition, we intend to improve our data analysis capabilities through upgrading the big data algorithms and hardware of our existing data analysis platform to better understand end user behavior in interactive content and to strengthen standardization and process building in content creation. We plan to improve the quality of our products and services through identifying key issues valued by the users through data analysis.

We also plan to continuously improve and upgrade our Uni-Play engine, expand its interactive systems including identification system and social system to adapt to the next-generation hardware. We plan to add an economic system and a digital asset accreditation system in 2023 to enhance the concept of value for users in a virtual world. Further, we plan to add a governance system in 2024 to allow users to define interactive rules to enhance user participation. We also plan to further iterate and develop our Uni-AR and Uni-VR engines. On the one hand, we plan to timely update interactive modes through improving hardware and network functions and upgrading our AI algorithms. On the other hand, we plan to timely adapt our AR/VR content and services to AR and VR hardware products of different vendors to cover a wider user group in view of the growing hardware market in China. According to iResearch, the output of AR/VR headsets in China is expected to grow from 10.4 million pieces in 2022 to 57.4 million pieces in 2026. We plan to expand the adaptability of our engines to adapt to hardware platforms such as holographic projectors, holographic electronic sand tables and 3D interactive tables to develop more offline interaction scenarios. Furthermore, in order to adapt to 5G applications, we



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plan to develop our own cloud rendering engine to resolve the problems of weak rendering capability of mobile terminals and poor user experience. We plan to introduce our AR/VR interactive content solutions based on cloud rendering in around 2024. We also plan to enhance our user loading capabilities through investments in improving servers and network bandwidth. We intend to use approximately [REDACTED], which will be funded by and represents approximately [REDACTED] of the [REDACTED] from the [REDACTED], to strengthen our R&D capabilities. See section headed “Future Plans and [REDACTED]” in this document for details.

### **We plan to strengthen and continue to optimize our sales and marketing network**

We plan to attract new customers by enhancing our existing brands and marketing. Enhanced brands and marketing could drive the organic growth of our AR/VR SaaS platform, AR/VR marketing services and AR/VR content business while improving our relationship with existing customers, and increase customer engagement and retention rate. Specifically, we plan to (i) expand the sales and service network in cities such as Beijing, Shanghai, Shenzhen, Chengdu, Nanjing, Xi’an and Hangzhou to enhance existing customer service capabilities, explore new customer resources and strive for greater market share; (ii) build a CRM marketing system and upgrade the business information platform to reinforce the technical support in formulating marketing strategies and implementing marketing plans, and to enhance our ability to collect, organize and analyze marketing data through the information platform; (iii) strengthen our brand image through marketing effort, and participate more actively in summits, forums, exhibitions and other activities; and (iv) cultivate corporate culture by strengthening the sense of our mission and enterprise identity.

According to iResearch, the AR/VR content and services market size in terms of revenue in China was RMB21.7 billion in 2021 and is expected to increase from RMB35.7 billion in 2022 to RMB130.2 billion in 2026 at a CAGR of 38.2%. The AR/VR content market in terms of revenue in China is expected to increase from RMB30.4 billion in 2022 to RMB106.2 billion in 2026, representing a CAGR of 36.7%. The market size of the AR/VR services market in terms of revenue in China is estimated to increase from RMB5.3 billion in 2022 to RMB24.0 billion in 2026, representing a CAGR of 45.9%. The AR/VR marketing services market is a major component of the AR/VR services market in China. In addition, according to iResearch, tier one cities in China with annual gross domestic product of over RMB1 trillion including Shanghai, Beijing, Shenzhen, Chengdu, Hangzhou, Nanjing and Xi’an have stronger demand for AR/VR content and have better growth potentials as there are more companies and business activities in tier one cities which lead to stronger demand for AR/VR content and services. New technologies relating to AR/VR are also more widely applied and adopted early in tier one cities, which provides a base for the prevalence

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of AR/VR. In light of the considerable scale and the growth potentials of the AR/VR content and services market with AR/VR gaining popularity in China, we believe that there will be sufficient market demand to support our expansion plan and to allow us to further grow and develop our business.

Specifically, we plan to enhance our sales force in Beijing and to recruit a total of 33 additional sales and marketing staff members by 2024. We also plan to strengthen our sales teams in Shenzhen and Hangzhou and to recruit four to five additional sales and marketing staff members by 2024 in each city. We plan to set up new sales teams in Shanghai, Chengdu, Nanjing and Xi’an, each with a team of four members by 2024. We intend to use approximately [REDACTED], which will be funded by and represents approximately [REDACTED] of the [REDACTED] from the [REDACTED], to enhance our sales and marketing function. See section headed “Future Plans and [REDACTED]” in this document for details.

### **We intend to selectively pursue strategic investment and M&A**

As part of our overall growth strategy, we plan to seek acquisitions and investment opportunities to optimize our business ecosystem and expand our business scale. Specifically, we intend to focus on businesses that can supplement or enhance our existing business and are strategically beneficial to our long-term goals. Potential candidates include (i) companies in the AR/VR industry with core technologies supported by IPs which could help us improve our technology capabilities, (ii) companies with competitive advantages in AR/VR interactive content development and production which could help us enrich our content production capabilities, (iii) companies in the AR/VR industry with a wide base of clientele which could help us expand our customer base, and (iv) media platforms with high-quality Internet traffic resources which could mitigate our reliance on media platforms or their agents on the supply of traffic. In selecting acquisition and investment opportunities, we will take into account a number of considerations, including our strategic goals and the target company’s market position, management experience, valuation, track record and financial performance. As of the Latest Practicable Date, we had not identified any investment or acquisition targets. We intend to use approximately [REDACTED], which will be funded by and represents approximately [REDACTED] of the [REDACTED] from the [REDACTED], to pursue strategic investments and mergers and acquisitions. See section headed “Future Plans and [REDACTED]” in this document for details.

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### OUR BUSINESS

We provide AR/VR content and services in China and have begun to build our own Metaverse platform. According to iResearch, we ranked the first in terms of revenue in the AR/VR content and services market in China, amounting to 2.6% of the market share in 2021. We also ranked the first in terms of revenue in the AR/VR services market in China, reaching 13.5% of the market share in 2021.

The table below sets out our revenue by business nature:

	Year ended December 31,						Three months ended March 31,			
	2019		2020		2021		2021		2022	
	Percentage of total revenue		Percentage of total revenue		Percentage of total revenue		(Unaudited) Percentage of total revenue		Percentage of total revenue	
	Revenue (RMB'000)	%	Revenue (RMB'000)	%	Revenue (RMB'000)	%	Revenue (RMB'000)	%	Revenue (RMB'000)	%
AR/VR marketing services . . . . .	137,103	54.6	141,701	41.9	376,341	63.2	81,275	58.6	165,574	72.3
AR/VR content . . . . .	45,323	18.1	114,758	33.9	161,395	27.1	42,611	30.7	53,685	23.5
AR/VR SaaS . . . . .	6,514	2.6	9,238	2.7	20,588	3.5	2,101	1.5	9,522	4.2
IP . . . . .	30,519	12.2	29,811	8.8	4,472	0.8	4,717	3.4	—	—
Others <sup>(Note)</sup> . . . . .	31,483	12.5	43,090	12.7	32,494	5.4	8,045	5.8	88	0.0
<b>Total . . . . .</b>	<b>250,942</b>	<b>100.0</b>	<b>338,598</b>	<b>100.0</b>	<b>595,290</b>	<b>100.0</b>	<b>138,749</b>	<b>100.0</b>	<b>228,869</b>	<b>100.0</b>

*Note:* Our other businesses comprise text message services, promotion services, technical services, artist endorsement services, and historically, games and games related business.

Revenue from our AR/VR marketing services business increased during the Track Record Period primarily driven by the industry growth and our continuous enhancement of AR/VR marketing services. In particular, the significant growth of our revenue in 2021 was driven by the recovery of the economy due to further easing of the impact of COVID-19 and as a result of AR/VR gaining popularity which led to more customer demand. Revenue from our AR/VR content business increased during the Track Record Period primarily driven by the increasing recognition of our AR/VR content products and our improved operational and technical capabilities. Revenue from our AR/VR SaaS business increased during the Track Record Period primarily driven by the continuous improvement and optimization of our SaaS products as well as the increased demand for customized SaaS solutions from our customers. Revenue from our IP business decreased during the Track Record Period primarily as we have planned to mainly use IP resources to support our AR/VR business going forward and reserved quality IP rights for our own use. Revenue from our other businesses fluctuated during the Track Record Period primarily because our other businesses were supplemental to our AR/VR businesses.

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Our AR/VR marketing services, AR/VR content and AR/VR SaaS business segments are AR/VR related, whereas our IP business and other business are non-AR/VR related. The table below sets out our revenue of AR/VR related and non-AR/VR related businesses:

	Year ended December 31,						Three months ended March 31,			
	2019		2020		2021		2021		2022	
	Percentage of total Revenue		Percentage of total Revenue		Percentage of total Revenue		Percentage of total Revenue		Percentage of total Revenue	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
AR/VR businesses <sup>(1)</sup>	188,940	75.3	265,697	78.5	558,324	93.8	125,987	90.8	228,781	100.0
Non-AR/VR businesses <sup>(2)</sup>	62,002	24.7	72,901	21.5	36,966	6.2	12,762	9.2	88	0.0
<b>Total</b>	<b>250,942</b>	<b>100.0</b>	<b>338,598</b>	<b>100.0</b>	<b>595,290</b>	<b>100.0</b>	<b>138,749</b>	<b>100.0</b>	<b>228,869</b>	<b>100.0</b>

*Notes:*

- (1) AR/VR businesses comprise AR/VR marketing services, AR/VR content and AR/VR SaaS.
- (2) Non-AR/VR businesses comprise IP and other businesses.

Our business comprises four major business segments, namely AR/VR marketing services, AR/VR content, AR/VR SaaS and IP.

AR/VR marketing services business is currently our primary source of revenue. The business model of our AR/VR marketing services business is “*we develop and we help you use*”. We provide AR/VR content modules and development tools and help our customers place their advertisements. We charge our customers based on the performance outcome and operational effect of the services. Working with media platforms and their agents, we primarily provided solutions to our customers including the placement of advertisements during the Track Record Period. The provision of AR/VR marketing services to advertising customers was our largest revenue contributor during the Track Record Period. Our AR/VR marketing services solutions are designed to help our customers accurately deliver marketing information to target end-user groups and provide the experience of combining the virtual and the physical world, so that our customers can achieve their business objectives which we believe may in turn improve their return on marketing investment efficiently. In addition to providing AR/VR marketing services, we have also strived to provide other performance-based AR/VR services and have taken initial steps in the culture and tourism industry.

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Utilizing our self-developed AR/VR development engines, our AR/VR content business offers customized content according to the needs of our customers. We provide AR/VR content to customers from various industries, including entertainment, gaming, education, culture and tourism, technology, healthcare and automobiles, and bring end users a diversified and immersive experience in a virtual world. The business model of our AR/VR content business is “*we develop and you use*”. We develop AR/VR content according to the requirements of our customers, which are then utilized by the customers in their businesses and provided to the end users. We generally charge one-off fee when we provide the content products to our customers. We also utilize technology and experience accumulated in our AR/VR content business to support our AR/VR marketing services and AR/VR SaaS businesses. During the Track Record Period, we provided AR/VR content to over 60 customers, and gained experience from more than 150 AR/VR content projects.

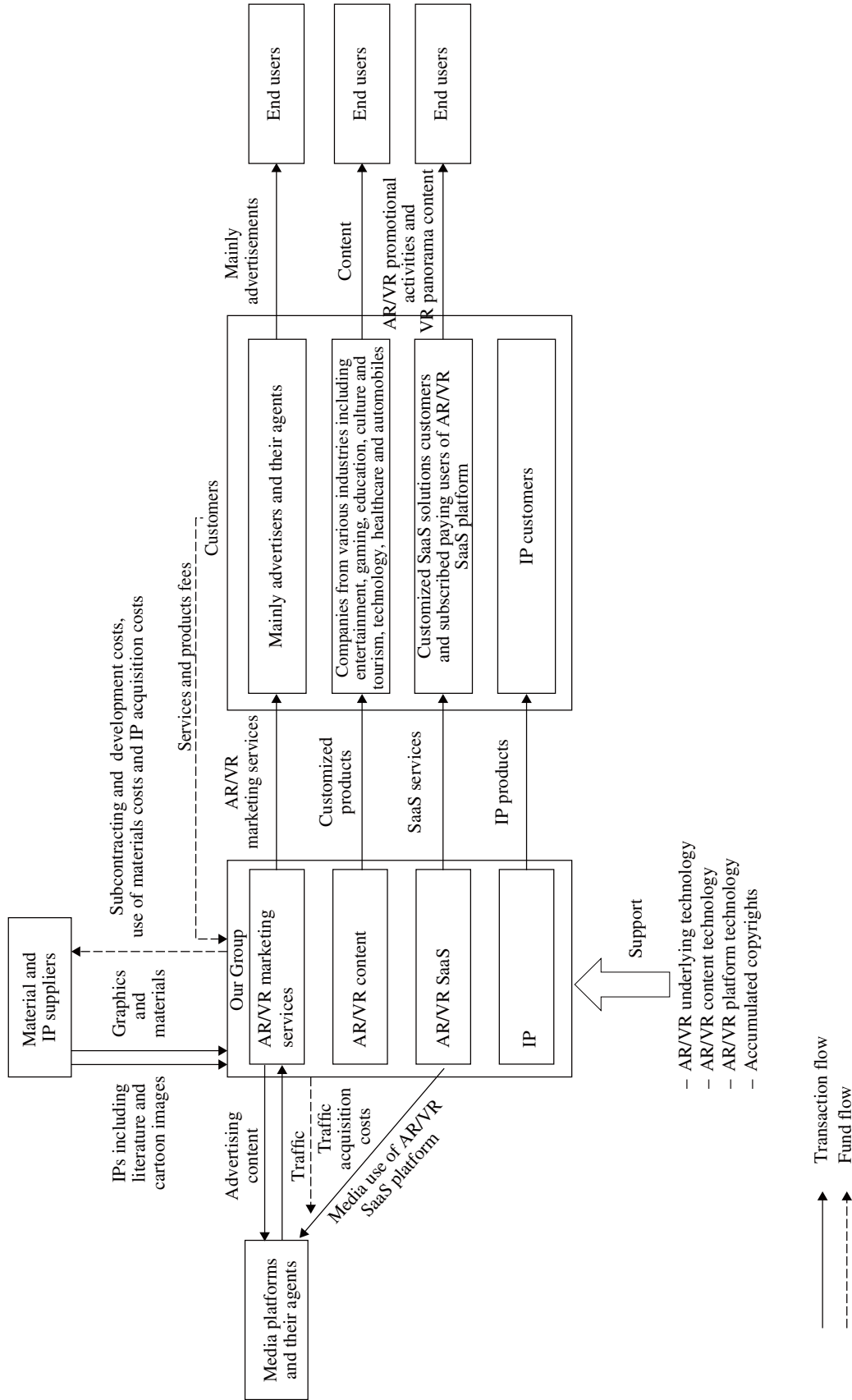
Leveraging the experiences we accumulated in the AR/VR content and services businesses, we provide standardized solutions on our AR/VR SaaS platform. The business model of our AR/VR SaaS business is “*you develop and you use*”. Our AR/VR SaaS platform enables our customers to generate, publish and utilize AR/VR content. We charge our customers for subscribing to our SaaS products or for developing customized SaaS solutions. Our AR/VR SaaS platform provides our customers with a range of online AR/VR content design, development and distribution tools and empowers our customers to create activities that offer experiences such as exhibition, showcase, live-streaming and marketing, with the goal to improve the level and extent of participation of their end users. After we made AR/VR one of our business focuses in 2020, our AR/VR SaaS business has grown at a fast pace. The revenue from our AR/VR SaaS business increased by 41.8% from RMB6.5 million in 2019 to RMB9.2 million in 2020, and further increased by 122.9% to RMB20.6 million in 2021, and increased by 353.2% from RMB2.1 million for the three months ended March 31, 2021 to RMB9.5 million for the three months ended March 31, 2022.

Our IP business licenses IP rights to customers to enable them to develop games, cartoons, TV plays, movies and other works. During the Track Record Period, we mainly licensed out IPs we purchased from third parties. We have shifted our focus and going forward, we will mainly use IP resources to support our AR/VR businesses and license IP rights on a case-by-case basis to meet specific customer demands.

Our AR/VR business brings value to various stakeholders and enables stakeholders to interact with each other while developing our own business. Our AR/VR business mainly involves media platforms and their agents, IP and material suppliers, customers and end users.

**BUSINESS**

Our AR/VR business model is illustrated as below:



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- **Media platforms and their agents:** We cooperate with diverse media platforms and their agents in a variety of modes to obtain traffic for our advertising customers who have AR/VR advertising needs. Media platforms and their agents from whom we purchase advertising traffic would use our AR/VR SaaS platform in the following steps to support our AR/VR marketing services.

Step 1: We develop AR/VR content modules and development tools and place them on our AR/VR SaaS platform.

Step 2: Media platforms or their agents from whom we purchase advertising traffic would register an account with our AR/VR SaaS platform as they require our AR/VR technology and expertise.

Step 3: Media platforms or their agents use our AR/VR SaaS platform to customize their own AR/VR content based on our modules.

Step 4: After generating AR/VR content on our AR/VR SaaS platform by using our AR/VR content modules, media platforms or their agents would embed advertising spaces in the AR/VR content.

Step 5: Media platforms or their agents would place a link to the AR/VR content on the media platform.

Step 6: Advertisements from our advertising customers would be inserted onto the advertising spaces. When users of the media platforms access the media platforms and click on the link to the AR/VR content, their devices will be connected to our server and the users of the media platforms would be able to browse the AR/VR content customized by the media platforms or their agents and exposed to the advertisements from our advertising customers.

On the one hand, the arrangement provides Internet traffic to our advertising customers and generates revenue for our AR/VR marketing services business; on the other hand, it makes our AR/VR content widely used on media platforms, enhancing brand recognition of our AR/VR SaaS platform while empowering media realization for media platforms. We make adjustments to the mix of our media platforms in accordance with market changes, media technological development and end-user behavior, and do not rely on any single media platform. While continuing to deepen our cooperation with existing media platforms and their agents, we also strive to explore business cooperation with new media platforms and their agents. Leveraging our relationship with these media



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platforms and their agents, we can assist our customers to obtain quality services and secure considerable traffic. During the Track Record Period, we promoted over 250 advertising products.

- **Customers:** For our AR/VR marketing services, our main target customers include companies that wish to enhance their visibility, maintain their existing market influence or raise their brand awareness, and their advertising agents and other companies that have demands for AR/VR marketing services. Our customers for AR/VR content are mainly companies from various industries, including entertainment, gaming, education, culture and tourism, technology, healthcare and automobiles. Our AR/VR SaaS business mainly provides services to small to medium companies with commercial interest in monitoring their own marketing performance. Our IP customers are mainly content developers which have a demand for our IP resources. We have accumulated a diversified customer base. During the Track Record Period, we have provided AR/VR marketing services or content to customers from over 10 industries, including entertainment, gaming, Internet, e-commerce, culture and tourism, business services, education, finance, real estate, automobiles, live-streaming, technology and healthcare.
- **Material and IP suppliers:** We cooperate with various material and IP suppliers to provide enriched content foundation including literature, cartoon images and other types of copyrights, graphic designs and video materials for all of our major business segments. We review the content material and IP material provided by material and IP suppliers, which are then further refined and integrated into our AR/VR products before being presented to our customers.
- **End users:** We bring our end users the experience of combining the virtual and the physical world. We have a wide variety of end users. With respect to our AR/VR marketing services, the end users include a diverse range of online and offline consumer groups targeted by our advertising customers. With respect to our AR/VR content, the end users include students, tourists, employees in companies and users from various industries. According to iResearch, AR/VR end users are currently mainly young people.

Our AR/VR underlying technology, AR/VR content technology, AR/VR platform technology and accumulated copyrights collectively lay the foundation of our operation. We are able to assist our customers in initiating a series of AR/VR activities which take place in various online or offline channels.

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### OUR SERVICES AND PRODUCTS

#### AR/VR marketing services

During the Track Record Period, AR/VR marketing services was our primary source of revenue. The AR/VR services market refers to the market that focuses on creating overall solutions to address customers’ business needs. The AR/VR services providers often generate revenue based on performance effect and may be involved in customers’ AR/VR-related operation. We primarily provide AR/VR marketing services to our advertising customers. The provision of AR/VR marketing services to advertising customers was our largest revenue contributor during the Track Record Period. For our AR/VR marketing services, we mainly engage advertising customers, media platforms and their agents, and end users. We provide advertising customers with solutions based on our self-developed and diversified AR/VR content. Enabled by our AR/VR development engines, our advertising customers’ advertisements are placed on various media platforms including apps, mini-programs, mini-games, H5 pages and official accounts. Our media platforms include apps from major Internet companies used for entertainment, social media, weather, reading and other purposes. The mini-programs, mini-games and official accounts are provided by third parties on WeChat, a Chinese instant messaging app. The H5 pages are websites accessible by the public. We help our advertising customers deliver marketing information to end users so that they can achieve their business objectives which we believe may in turn improve their return on marketing investment efficiently. At the same time, by effectively meeting the demand of our advertising customers with the traffic of media platforms, media platforms are able to monetize their traffic. According to iResearch, we ranked the first in terms of revenue in the AR/VR services market in China, amounting to 13.5% of the market share in 2021, which was over 10% higher than that of the company ranking second. The AR/VR marketing services market is a major component of the AR/VR services market in China.

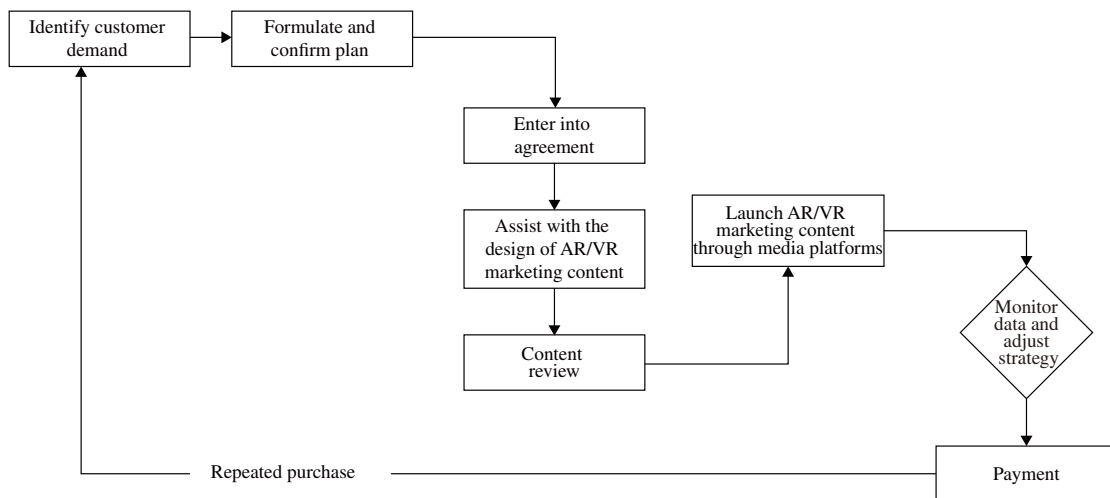
We usually develop AR/VR content modules and development tools and place them on our Wanjie Smart Marketing platform, our current AR/VR SaaS platform. Media platforms or their agents can use the modules and development tools on our AR/VR SaaS platform to customize their own AR/VR content where advertising spaces would be provided. Media platforms or their agents can place a link to the AR/VR content. By clicking on the link, end users will be able to view the AR/VR content and the advertisements from our advertising customers and thus generate revenue for our AR/VR marketing services. While we do not require registered users of our AR/VR SaaS platform to embed advertising space and display advertisements from our advertising customers in the AR/VR content developed on our SaaS platform, which, according to iResearch, is a common practice among AR/VR SaaS platforms, media platforms and their agents from whom we acquire traffic would embed advertising space and display our advertising customers’ advertisements to monetize their traffic and to ensure better display effects as our SaaS platform provides improved compatibility for the advertisements from our advertising customers.

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We help advertising customers to create cross-platform and AR/VR marketing materials, and furnish end users with an immersive experience. During the Track Record Period, we provided AR/VR marketing services to a total of over 50 advertising customers in various industries and promoted over 250 advertising products, the majority of which were apps and websites. Moreover, our AR/VR SaaS platform collaborates with diversified media platforms and help our customers utilize AR/VR technology to access the increased traffic in the 5G era and construct an immersive experience to increase the engagement level of users effectively.

### *Business process*

The business process of our typical AR/VR marketing services is illustrated as below:



- **Identify customer demand:** We first engage in discussions with potential advertising customers to understand their marketing demands and objectives. We introduce our AR/VR marketing services to the potential advertising customers to allow them to gain a preliminary understanding of how we may fulfil their marketing demand.
- **Formulate and confirm plan:** After identifying and clarifying potential advertising customers' demand, we develop a specific AR/VR marketing services plan according to the instructions and requirements of potential advertising customers taking into account characteristics of their brands. Our AR/VR marketing services plan typically includes online launch strategies, offline activity planning (if needed), target audience, and evaluation methods of marketing effect. We explain to the potential advertising customers on the forms of AR/VR content and the roles such AR/VR content plays in the overall marketing plan. After communicating with potential advertising customers about the marketing plan, we make adjustments according to their feedback and confirm the final plan with them.

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- **Enter into agreement:** After completing the initial business negotiation and confirming the AR/VR marketing services plan with the potential advertising customer, we enter into an agreement with the advertising customer.
- **Assist with the design of AR/VR marketing content:** We assist in designing AR/VR promotional activities and/or AR/VR scenarios in support of the formulated AR/VR marketing services plan. We usually develop AR/VR content modules and development tools and place them on our Wanjie Smart Marketing platform, our current AR/VR SaaS platform. Media platforms or their agents use the modules and development tools on our AR/VR SaaS platform to customize their own AR/VR content where the advertisements from our advertising customers are then embedded. We help our advertising customers choose media platforms and AR/VR content that match their advertisements. As each promotional activity has a specific target audience and each media platform has its own usual audience, our sales team would perform an initial matching of the advertisement from our advertising customer with the media platform according to the requirements and needs of the customer. We would then communicate with the media platform or its agent on the potential advertisement placement and obtain a quote for the advertising traffic. Finally, we would decide on which media platform our advertising customers' advertisement will be placed taking into account the quote obtained.
- **Content review:** Throughout the provision of AR/VR marketing services, our legal and compliance team reviews the advertisement content provided by our advertising customers to ensure service quality as well as compliance with the relevant laws and regulations.
- **Launch AR/VR marketing content through media platforms:** Media platforms or their agents can place a link to the AR/VR content. The AR/VR content and the advertisements are launched once the link is placed on the media platforms. By clicking on the link, end users will be able to view the AR/VR content and the advertisements from our advertising customers. With our diversified media platforms, we believe we can offer coverage of a large base of target audience with a diverse background. To a lesser extent, depending on the particular needs of a project, we may organize offline activities with the same theme as our online AR/VR advertisements placements to strengthen the marketing effect. We recognize revenue from offline activities as revenue of promotion services in our other businesses.
- **Monitor data and adjust strategy:** Once the launch is completed, we monitor the effect periodically. We are able to adjust the strategy promptly, including adjusting the media platforms and the target audience, thus achieving a performance effect satisfactory to our advertising customers.

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- **Payment:** At the end of an AR/VR advertising campaign, we prepare a completion report according to the advertising customers' requirements to inform them of the marketing results. We issue monthly statements to our advertising customers based on the marketing effect using one of our pricing models. According to iResearch, such arrangement is consistent with the industry practice across AR/VR services industry in China.

### *Material terms of agreements with our AR/VR marketing services customers*

We usually sign an annual underlying framework agreement with our advertising customers. Material terms of the agreement generally include:

- **Our scope of services:** According to the advertising customers' needs, our services generally include marketing planning and advertisement placements. Our advertising customers are entitled to monitor the status of advertisement placements.
- **Pricing, payment method and settlement:** We set out the pricing model of our marketing services in the framework agreement or in a separate advertising order with the customers. We charge our customers based on actual performance effect. Payment is usually settled in RMB by bank transfer.
- **Data statistics:** Generally, when assessing effect data statistics, the statistics from our advertising customers' statistics system shall prevail in case of discrepancies. We are entitled to check the authenticity of relevant data on the sales inquiry background platform and the sales reconciliation platform of the advertising customers.
- **Term:** The initial term is generally one year, and may be renewed for another year automatically upon expiry.

We are generally not required to refund any fees charged to our advertising customers under our agreements with them. We had not made material refund to our advertising customers during the Track Record Period.

### *Pricing models and fees settlement*

We charge AR/VR marketing services customers based on multiple pricing models for our AR/VR marketing services, which mainly include CPA, CPC and CPM. CPA, namely, the cost-per-action mechanism, is a performance-based pricing model where our advertising customers are charged on the basis of each action of the end user such as download, installation or registration. CPA suits advertising customers valuing end users taking specific actions, for

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example, registration of an account with them or downloading their apps. CPC, namely, the cost-per-click mechanism, is a performance-based metric and under which we charge our advertising customers when and if an end user clicks on the advertisement. CPC suits advertising customers pursuing the performance of an advertisement, as a click on the advertisement indicates a customer's interest in the distributed content, making such customer the advertiser's potential customer. CPM, which stands for cost-per-mille, depends on the number of viewers of the advertisement. Under CPM, we charge our advertising customers based on 1,000 impressions, which is the number of times the advertisements have been displayed. CPM suits advertising customers aiming to increase the exposure of their brands, products or services. For each transaction, we charge customers using one pricing model.

The unit price per CPA, CPC or CPM varies based on product type and media platform. The unit price per CPA, CPC or CPM is affected by several factors, including:

- (i) **Type of media platform.** Different media platforms charge differently as each platform has its own pricing policies and different market positions taken into account its target audiences and traffic characteristics;
- (ii) **Traffic characteristic.** Traffic acquisition unit price varies by (a) time slot when the marketing campaign is distributed, (b) the length of time it is distributed and (c) geographic location where the traffic was from. For example, unit price for traffic during lunch time and dinner time is relatively high;
- (iii) **Marketing budgets and aggregate purchase amount.** Larger marketing budgets and aggregate purchase amounts generally enables volume sales and lower unit price for traffic; and
- (iv) **Marketing campaign duration.** The length of marketing campaign duration usually affects the unit price for traffic.

During the Track Record Period, the fees we charged for each advertising product ranged from RMB30,000 to RMB20 million. The large fee variance was mainly due to differences in (i) the length of time we promoted the product and (ii) the number of advertising spaces for each product.

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The following table sets forth a breakdown of our revenue from our AR/VR marketing services business by pricing model during the Track Record Period:

	For the year ended December 31,						For the three months ended March 31,	
	2019		2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
CPA . . . . .	58,381	42.6	34,910	24.6	235,429	62.6	88,936	53.7
CPC . . . . .	—	—	40,178	28.4	9,372	2.5	2,394	1.4
CPM . . . . .	70,243	51.2	66,613	47.0	131,540	35.0	74,244	44.9
CPT <sup>(Note)</sup> . . . . .	8,479	6.2	—	—	—	—	—	—
<b>Total . . . . .</b>	<b>137,103</b>	<b>100.0</b>	<b>141,701</b>	<b>100.0</b>	<b>376,341</b>	<b>100.0</b>	<b>165,574</b>	<b>100.0</b>

*Note:* CPT, namely, the cost-per-time mechanism, is a time-based pricing model under which we charge our advertising customers for placing advertisements for a specific period of time contractually agreed by our advertising customers and us. We no longer adopt CPT, a pricing model after 2019 as our advertising customers preferred other pricing models over CPT.

We issue a monthly statement to our customers, which sets out the terms agreed between the parties, including the pricing model, unit price, number of units and the amount of each marketing campaign for customers to confirm. We generally grant a credit term of several working days to six months typically after we issue a VAT invoice to our customers.

As we are responsible to our advertising customers for the final marketing effect, we recognize revenue on a gross basis, and recognize the traffic acquisition costs with customers as cost. For further details of our revenue recognition policy, see the paragraph headed “Financial Information — Significant accounting policies and key sources of estimates — Revenue from contracts” in this document.

### *Our AR/VR marketing services customers*

Since our operation of AR/VR marketing services business in 2017, we have accumulated diverse customer groups from various industries. During the Track Record Period, our revenue mainly came from advertising customers from various industries, including entertainment, gaming, Internet, e-commerce, culture and tourism, business services, education, finance, real estate, automobiles, live-streaming and healthcare. We adopt a similar business model for our AR/VR marketing services for customers from all industries. For example, for the gaming and entertainment industries, we also follow the business process illustrated in the paragraph headed



## BUSINESS

“— Our Services and Products — AR/VR marketing services — Business process” in this section. Based on the requirements of our advertising customers, we charge our customers using one of our pricing models, namely CPA, CPM or CPC.

The following table sets forth a breakdown of our revenue from our AR/VR marketing services business by customer industry in absolute amounts and as a percentage of our total revenue from the AR/VR marketing services business for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,	
	2019		2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Gaming . . . . .	12,650	9.2	32,900	23.2	173,112	45.9	46,952	28.4
Entertainment . . . . .	7,320	5.3	7,194	5.1	31,830	8.5	27,668	16.7
Internet . . . . .	30,414	22.2	53,462	37.7	76,120	20.2	38,772	23.4
Culture and tourism . . .	14,934	10.9	13,693	9.7	33,788	9.0	25,828	15.6
E-commerce . . . . .	26,591	19.4	4,854	3.4	20,907	5.6	14,777	8.9
Real estate . . . . .	5,570	4.1	2,908	2.1	—	—	5,516	3.3
Automobiles . . . . .	3,166	2.3	1,613	1.1	7,420	2.0	3,350	2.0
Business services . . . .	16,098	11.7	16,327	11.5	2,242	0.6	864	0.6
Healthcare . . . . .	1,886	1.4	—	—	2,301	0.6	826	0.5
Finance . . . . .	3,668	2.7	5,378	3.8	16,091	4.3	517	0.3
Live-streaming . . . . .	—	—	2,632	1.9	4,224	1.1	504	0.3
Education . . . . .	14,806	10.8	740	0.5	8,306	2.2	—	—
<b>Total . . . . .</b>	<b>137,103</b>	<b>100.0</b>	<b>141,701</b>	<b>100.0</b>	<b>376,341</b>	<b>100.0</b>	<b>165,574</b>	<b>100.0</b>

### *Our diverse media platforms*

Generally, we place advertisements for our advertising customers by gaining traffic through various media platforms or their agents. During the Track Record Period, the major media platforms that we obtained traffic from include websites, apps and social media platforms. During the Track Record Period, we directly engaged 39 agents of media platforms through which we reached out to a wide group of media platforms and three media platforms which generated their own traffic through apps. We primarily dealt with agents of media platforms during the Track Record Period, which is a common industry practice according to iResearch, as most media platforms engage agents to handle their traffic resources. As we typically acquire traffic from small to medium media platforms, it is more efficient for us to directly engage agents of media platforms to reduce the number of counter-parties we negotiate with. No rebates were provided to

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## BUSINESS

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us by the media platforms or their agents during the Track Record Period. When we make bulk purchases, we may benefit from the enhanced negotiation power and may be able to obtain traffic with a more favorable price from media platforms or their agents.

### *Traffic acquisition cost*

We usually adopt CPA, CPC and CPM as the pricing model for our payment to media platforms or their agents. Our traffic acquisition cost is based on the price of traffic, as determined according to the real-time quote of the media platform or their agents, and the actual amount of the traffic purchased depends on the results of actual performance.

We mainly collect effect data statistics of each marketing campaign through our own platform. When the users access the AR/VR content on our server, we collect data including the number of the clicks on the advertisements and the duration of the viewing of the advertisements. In addition, our advertising customers would also share with us the data available to them. We generally use the effect data agreed upon between the parties as the basis for the amount of fees we charge our advertising customers. We check and verify the data statistics with our advertising customers, media platforms or their agents on a monthly basis. Our platform would generate effect data for the previous month, including the number of advertising spaces, advertisement impressions, clicks and conversions. We would review the data and prepare monthly statements for each product we promoted. Our monthly statements contain information, including the types of advertisement placements, unit price, number of units and total amount. We would then check and verify the data with our advertising customers and media platforms or their agents. If there is a dispute on the data, the party finding the data inaccurate must notify the other party within a stipulated time frame (usually from 48 hours to 15 days) and the data will be verified by both parties. If parties are unable to agree on the data within five days from the date of notice through negotiations, the buyer's data shall prevail. According to iResearch, our system of assessing data statistics is consistent with the common practice for assessing performance effects in the AR/VR services industry in China, in which case downstream buyers often prevail in case of discrepancies.

During the Track Record Period, we did not have any dispute with any of our advertising customers or media platforms or their agents in relation to the assessment of data statistics.

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### *Material terms of the agreements with media platforms and their agents*

We usually enter into an annual underlying framework agreement with agents of media platforms, and to a lesser extent, media platforms. Material terms of the agreements generally include:

- **Advertisement content:** We are obliged to ensure that none of the content we publish on the media platforms violates national laws, public order or good moral standards. The media platforms and their agents are entitled to review the materials we provide and to request for amendments.
- **Pricing, payment method and settlement:** We set out the pricing model of marketing services in the framework agreement or, to a lesser extent, in a separate advertising order with the media platforms or their agents. The amount of costs we are charged by the media platforms or their agents is based on actual performance effect using statistics from our system. Payment is usually settled in RMB by bank transfer.
- **Data statistics:** When assessing effect data statistics, the statistics from our statistics system shall prevail in case of discrepancies. We are responsible for the authenticity and validity of the effect data statistics. The media platforms or their agents may enter and check our statistics system in a way authorized by us.
- **Term:** One year in general.

### *Key Operating Data*

The following table sets forth certain key operating data of our AR/VR marketing services business:

	For the year ended December 31,			For the three months ended
				March 31,
	2019	2020	2021	2022
Number of advertising customers <sup>(1)</sup> . .	19	23	24	21
Monthly average number of advertising products promoted <sup>(2)</sup> . .	16	17	49	75
Average spending per advertising customer (RMB in thousands) <sup>(3)</sup> . .	7,216	6,161	15,681	7,884
Contract renewal rate <sup>(4)</sup> . . . . .	10.5%	17.4%	50.0%	81.0%

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## BUSINESS

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- (1) It refers to the number of customers who purchased our AR/VR marketing services during the period.
- (2) It refers to sum of the number of advertising products we promoted in our AR/VR marketing services business in each month for a period divided by the number of months during the period. Our monthly average number of advertising products increased from 17 in 2020 to 49 in 2021 mainly as advertising products we promoted for customers from the entertainment and Internet industries increased in 2021 driven by the growing market demands, which was reflected in the increase in our revenue from the entertainment and Internet industry customers in 2021. The increase of our monthly average number of advertising products in 2021 was also reflected in the increase in the average number of advertising products we promoted for both our existing and new customers. The average number of advertising products we promoted for each of our existing customers increased from 3.5 in 2020 to 5.2 in 2021 (excluded duplicated advertising products by month) and the average number of advertising products we promoted for each of our new customers increased from 1.9 in 2020 to 6.0 in 2021 (excluded duplicated advertising products by month). Our monthly average number of advertising products increased further to 75 in the three months ended March 31, 2022 mainly driven by the growing market demands, particularly demands from the entertainment and Internet industries.
- (3) It refers to the total revenue generated from our AR/VR marketing services business for a period, divided by the total number of advertising customers for the same period. Our average spending per advertising customer increased from RMB6.2 million in 2020 to RMB15.7 million in 2021 mainly due to the combined effect of (i) the increase in the average number of advertising products we promoted for both our existing and new customers. The average number of advertising products we promoted for our existing customers increased from 3.5 in 2020 to 5.2 in 2021 (excluded duplicated advertising products by month) and the average number of advertising products we promoted for our new customers increased from 1.9 in 2020 to 6.0 in 2021 (excluded duplicated advertising products by month); and (ii) the increase in the average promotional duration of the advertising products we promoted from 110.4 days in 2020 to 133.2 days in 2021.
- (4) It refers to the number of AR/VR marketing services contracts from recurring customers during the period divided by the total number of AR/VR marketing services contracts during the period. The contracts from recurring customers included contracts renewed automatically upon expiry in accordance with the annual framework agreements entered into with our advertising customers. The contract renewal rate of our AR/VR marketing services increased during the Track Record Period mainly because our Directors believe that more customers repeatedly engaged us in recognition of the services we provided. The contract renewal rate for the three months ended March 31, 2022 is high and will not be representative of the contract renewal rate for 2022 mainly because we generally do not reach out to as many new customers in the first quarter of each year as the rest of the year due to the closure of businesses at the beginning of the calendar year in which the Chinese New Year holidays fall resulting in fewer new customers in the first quarter of the year compared with other quarters. In addition, the contract renewal rate for the three months ended March 31, 2022 is not comparable to the contract renewal rates for 2019, 2020 and 2021 due to the difference in time span.

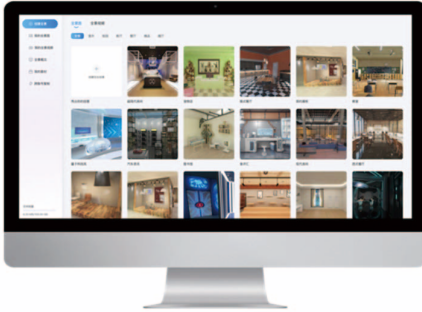
### *Cases*

- **Gaming and entertainment:** In April 2021, a top game development and operation company in China engaged us for its marketing campaign for one of its most popular games through an agent. Before the game advertisements were distributed, media platforms or their agents would customize AR/VR content on our AR/VR SaaS platform and embed advertising spaces. See the paragraph headed “— Our Business — Media platforms and their agents” in this section for detailed steps.

## BUSINESS

Below are the illustrations of how media platforms and their agents customize AR/VR content on our AR/VR SaaS platform and embed advertising spaces.

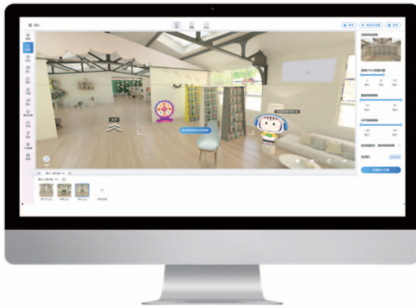
### VR



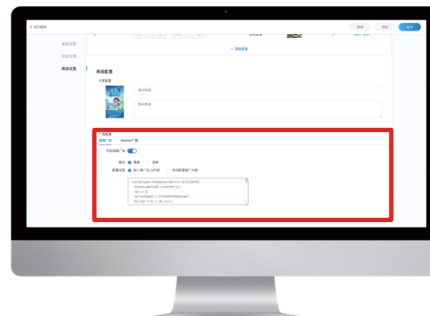
### AR



We provide AR/VR content modules and development tools on our AR/VR SaaS platform.



Media platforms or their agents customize their own AR/VR content based on our modules.



Media platforms or their agents embed advertising spaces in the AR/VR content.

#### Notes:

- (1) The advertising spaces are created in the VR content.
- (2) The appearance, size and position of the advertising spaces can be adjusted on the settings panel.

## BUSINESS

We carried out marketing campaigns for the game for over one year and placed the advertisements in the dynamic content environment created with our AR/VR content modules by various media platforms and their agents. We directly engaged eight agents to place advertisements for the game. Indirectly through their agents, we reached out to a wider group of media platforms.

Below are the illustrations of the game advertisements embedded in AR/VR content generated by media platforms or their agents using our AR/VR SaaS platform.





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## BUSINESS

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*Notes:*

(1) to (3) are advertisements displayed in VR content with advertisements placed in red squares for illustration purposes:

- (1) A home interior scene with advertisement on the picture hanging on the wall
- (2) An outdoor camping scene with advertisement on the painting board
- (3) A street scene with advertisement on the billboard

(4) to (6) are advertisements displayed in AR content with advertisements placed in red squares for illustration purposes:

- (4) An advertisement pop-up page at the start of the AR game
- (5) Description of the AR game
- (6) An advertisement pop-up page at the end of the AR game
- (7) Part of the advertisements have been blurred to protect customer sensitive information.

### **AR/VR content**

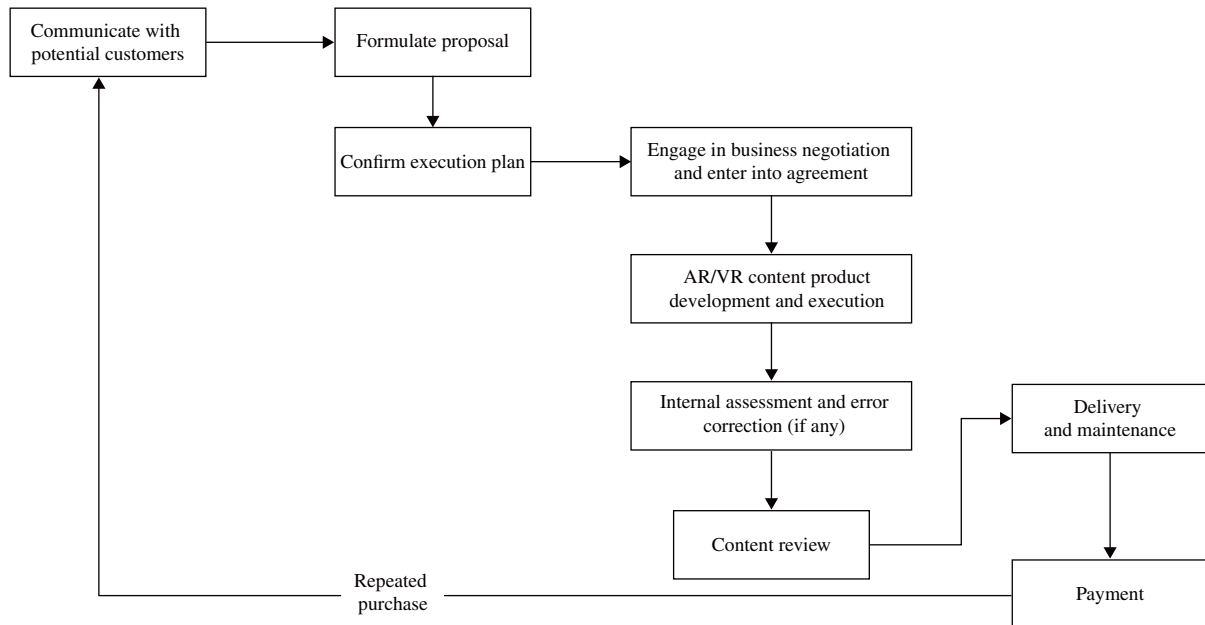
Utilizing our self-developed AR/VR development engines, our AR/VR content business offers customized content according to the needs of customers. The AR/VR content market refers to the market that focuses on providing content, building scenarios, and providing solutions using AR/VR technology for various industries. We provide AR/VR content to customers from various industries, including entertainment, gaming, education, culture and tourism, technology, healthcare and automobiles, and bring end users a diversified and immersive experience in a virtual world. During the Track Record Period, we provided AR/VR content to over 60 customers, and accumulated development experience in more than 150 AR/VR content projects. The time needed for developing different AR/VR content products may vary depending on the type and complexity of the product.



## BUSINESS

### *Business process*

Our AR/VR content primarily delivers AR/VR-based customized content to customers. Generally, it takes one month to one year from the commencement of an AR/VR content product development to the delivery of the AR/VR content product. The business process of our AR/VR content is illustrated as below:



- **Communicate with potential customers:** We engage in preliminary discussions with potential customers to understand the customers’ demand for the type of our AR/VR product and specific requirements for the interactive content.
- **Formulate proposal:** After understanding the customers’ demand, we conduct preliminary analysis and product design, based on which we will prepare an AR/VR product proposal.
- **Confirm execution plan:** We discuss with the potential customers about our preliminary AR/VR product proposal, make adjustments according to the customers’ feedback and confirm the final execution plan with the customers.
- **Engage in business negotiation and enter into agreement:** We usually enter into an agreement with our customers after understanding their demands and confirming the development plan and design parameters.

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## BUSINESS

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- **AR/VR content product development and execution:** During the process of product design, we maintain regular communication with our customers and modify our product and execution plan based on their feedback. We also provide progress reports on a regular basis according to our customers' needs. Based on the estimated workload of the product development, we may engage a subcontractor to assist in the product development. We typically subcontract art design and non-core technical support to third party service providers. Consent from our customers are usually not required for subcontracting.
- **Internal assessment and error correction (if any):** Our development team will examine and correct any operational error discovered in the internal assessment process. After we have corrected any error discovered and made necessary adjustments, we will conduct another assessment on the new version of the AR/VR product. We will repeat the assessment process until no further error is discovered.
- **Content review:** Throughout content development and product design, our legal and compliance team reviews the content to ensure product quality as well as compliance with the relevant PRC laws and regulations.
- **Delivery and maintenance:** We deliver our products to our customers within the time period stipulated in the agreement, assist our customers in installing, launching, testing the product, provide operational guidance to our customers' employees, and provide subsequent maintenance services as stipulated in the agreement.
- **Payment:** Generally, our customers pay us design and development fees after the AR/VR product is accepted. According to iResearch, such arrangement complies with the industry practice of the AR/VR content industry in China.

### *Pricing model*

We charge our customers different rates for the AR/VR content product development taking into account the following factors:

- **Complexity of design and development:** We charge a higher fee for more complex design or development. Prior to execution of contract, our R&D team assesses the estimated costs of design and development based on past experience of similar projects.
- **Business relationship:** We take into account our business relationship with customers, including the length of our cooperation with the customers and the strategic value of the customers to us.

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## BUSINESS

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- **Payment arrangement:** If customers pay a deposit to us within a short period of time after entering into the contract, we may offer a more favorable quotation to them by reference to the deposit amount. Some of our customers would pay 20% to 50% of the total price as the deposit.

While we utilize the existing modules provided on our AR/VR SaaS platform in providing customized AR/VR SaaS solutions, we develop our AR/ VR content products from scratch. During the Track Record Period, the fees we charged for each AR/VR content project ranged from RMB1,000 to RMB48 million. We generally divide our AR/ VR content products into two categories based on the price range:

- **Basic products:** For basic products, we generally charge less than RMB1 million for developing products with AR/VR content in simple forms and with short duration, for example cloud stores.
- **Advanced products:** For advanced products, we generally charge more than RMB1 million for developing products with AR/VR content in complicated forms providing more AR/VR experiences, for example entertainment content viewed on VR equipment and education content.

During the Track Record Period, the majority of our AR/VR content revenue was generated from products that we charged more than RMB1 million.

We have established a standard pricing guidance incorporating each of the above considerations for our sales team. Our sales team should obtain customer orders according to such guidance and provide sales proposals for internal approval. Once the proposals have been approved, a customer order will be included in our system according to the schedule agreed with our customer and such customer order will be carried out.

### *Our AR/VR content customers*

During the Track Record Period, we provided AR/VR content to customers from various industries, including entertainment, gaming, education, culture and tourism, technology, healthcare and automobiles. We utilize the same underlying technology and content technology and adopt a similar business model to produce AR/VR content for customers from different industries. In addition, we cater to the demands specified by customers from various industries aiming to provide content that meets their needs. For example, catering to the demands specific to customers from the entertainment industry, we typically need to outsource more art-designing services to subcontractors and acquire more content materials than we would for customers from other industries.

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The following table sets forth a breakdown of our revenue from our AR/VR content business by customer industry in absolute amounts and as a percentage of our total revenue from the AR/VR content business for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,	
	2019		2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Entertainment . . . . .	9,434	20.8	48,113	42.0	66,751	41.4	16,828	31.4
Gaming . . . . .	5,660	12.5	12,538	10.9	58,876	36.4	16,266	30.3
Education . . . . .	12,349	27.3	33,165	28.9	24,151	15.0	12,152	22.6
Technology . . . . .	5,557	12.2	1,962	1.7	7,286	4.5	4,752	8.9
Automobiles . . . . .	—	—	—	—	189	0.1	2,597	4.8
Culture and tourism . . .	12,323	27.2	13,555	11.8	4,081	2.5	1,090	2.0
Healthcare . . . . .	—	—	5,425	4.7	61	0.1	—	—
Total . . . . .	<u>45,323</u>	<u>100.0</u>	<u>114,758</u>	<u>100.0</u>	<u>161,395</u>	<u>100.0</u>	<u>53,685</u>	<u>100.0</u>

The contract renewal rate of our AR/VR content business amounted to 10.0%, 31.6%, 36.6% and 56.3% for 2019, 2020, 2021 and the three months ended March 31, 2022, respectively, representing the number of AR/VR content contracts from recurring customers during the period divided by the total number of AR/VR content contracts during the period. The contract renewal rate for the three months ended March 31, 2022 is high and will not be representative of the contract renewal rate for 2022 mainly because we generally do not reach out to as many new customers in the first quarter of each year as the rest of the year due to the closure of businesses at the beginning of the calendar year in which the Chinese New Year holidays fall resulting in fewer new customers in the first quarter of the year compared with other quarters. In addition, the contract renewal rate for the three months ended March 31, 2022 is not comparable to the contract renewal rates for 2019, 2020 and 2021 due to the difference in time span.

### *Material terms of the agreements with our AR/VR content customers*

We usually enter into a separate agreement with our customers for each AR/VR content product. The material terms of the agreement usually include:

- **Development period:** Our content development period generally ranges from one month to one year, depending on our customers’ requirements.
- **Our products:** We develop AR/VR content based on the design parameters required by our customers.

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## BUSINESS

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- **Intellectual property ownership:** Generally, our customers own the intellectual property of the products that they engage us to develop.
- **Payment and settlement:** Our customers generally pay the price of the AR/VR content product after the product is accepted. Some of our customers would pay the first portion, ranging from 20% to 50% of the total price, upon entering into of the agreement, and pay the outstanding balance upon acceptance of the product. During the Track Record Period, all AR/VR content agreements with our customers were settled in RMB.

Some of our agreements with AR/VR content customers contain a term requiring us to refund the customer at the discretion of the customer if our content leads to the customer receiving complaint, or results in dispute or litigation with third parties or administrative sanctions. We had not made material refund to our AR/VR content customers during the Track Record Period.

### *Material terms of the agreements with our AR/VR content suppliers*

Our major suppliers of AR/VR content business are primarily companies which offer subcontracting and development services or provide PGC video materials. For material terms of the agreements with our subcontractors, see the paragraph headed “— Our Suppliers — Subcontracting” in this section.

We usually enter into PGC video copyright cooperation agreements with suppliers of PGC video materials. Material terms of the typical agreements generally include:

- **Scope and means of cooperation:** We are entitled to use the PGC video materials whose copyrights belong to our suppliers. We may use the PGC video materials on the websites or the platforms we own or operate. We can decide how to use the PGC video materials, including uploading, copying, transmitting, promoting and editing the materials and making the materials available for our users to search, browse, view on demand or live-stream, and download.
- **Payment and settlement:** We are generally required to settle payment to our suppliers within 15 working days after our suppliers have delivered the PGC video materials and issued the relevant invoices to us.
- **Term:** The term of the agreement is generally around four years.
- **Termination:** The agreement may generally be terminated by the non-defaulting party in the event of a material breach that is not remedied within a prescribed time period.

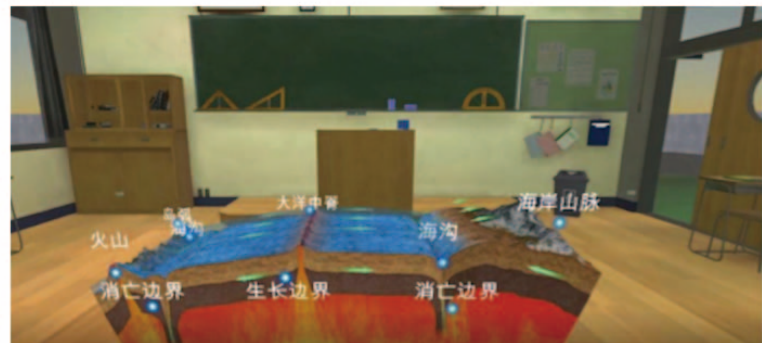
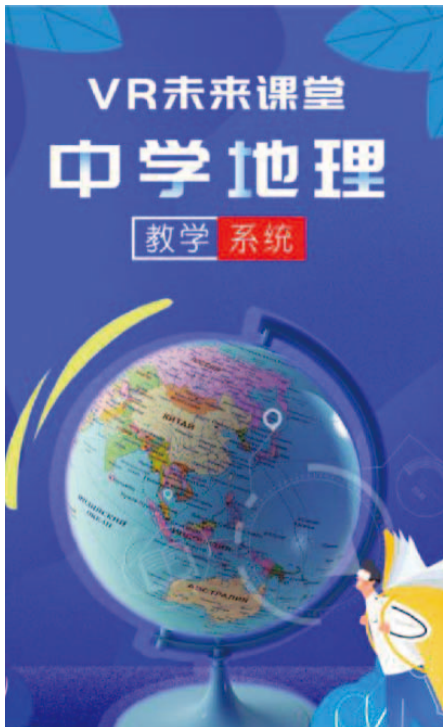
## BUSINESS

### Cases

Over the years of operation, we have accumulated abundant experience in AR/VR content development for our customers across various industries:

- **Education:** In 2021, we developed a VR courseware customized for a middle-school geography course for an education business subsidiary under an Internet technology group operating one of the largest search engines in China in terms of the average daily active users in 2020. By simply wearing a VR device, students can learn the structure of the earth, the formation of the air pressure zones in a visual and interactive way, thereby appealing to the interest of students and enhancing their level of involvement, which ultimately aims to make it easier for students to absorb the knowledge in the geography course. Compared with traditional teaching methods, an immersive learning environment brought by a VR courseware is designed to motivate students to learn and enhance their learning efficiency.

Below are the illustrations of the VR geography course materials.





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- **Gaming and Entertainment:** In 2021, a culture and entertainment company engaged us to develop a VR shooting game. Using our Uni-Play engine and Uni-VR engine and leveraging our PBR modeling and rendering technologies, we are able to present a science fiction world where users can battle with alien creatures by wearing VR equipment and holding electronic devices as weapons. According to iResearch, in 2021, there were over 666 million game players in China and the total revenue of the gaming industry in China was RMB296.5 billion. According to iResearch, the AR/VR games market in China is still at an early growing stage limited by the low hardware penetration rate. Nonetheless, the AR/VR games market is expected to experience significant growth with the development of 5G technologies and cloud gaming. For the avoidance of doubt, we were only engaged as a subcontractor to provide the VR content and were not involved in the games development or publishing.

Below are the illustrations of the VR game.



- **Culture and tourism (third-party Metaverse platform):** In November 2021, we were engaged by a subsidiary of a leading Internet company in China to develop a VR interactive product featuring an archaeological site of the Bronze Age culture in China for our customer’s Metaverse platform. After entering the archaeological site virtually on our customer’s Metaverse platform, the platform users may explore the site by digging the artifacts and learning the history and stories of the relevant artifacts. Platform users may also enjoy a singing show with band members featuring the signature artifacts at the archaeological site. Our VR interactive product became an integral part of our customers’ Metaverse platform.



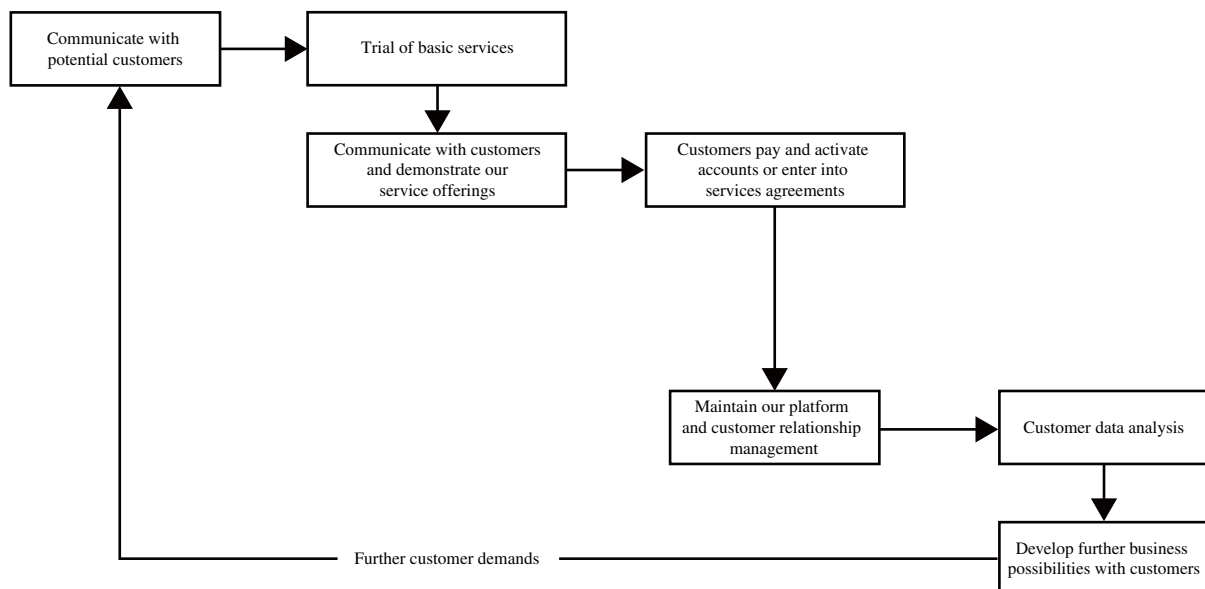
## BUSINESS

### AR/VR SaaS

We established our AR/VR SaaS platform based on our AR/VR technology and accumulated experiences. Our AR/VR SaaS platform connects media platforms, IP and material suppliers and customers. Leveraging on years of marketing experience, data, strategies and technology accumulated in AR/VR content and services, we launched our AR/VR SaaS platform in 2017, thereby delivering subscripitive and standardized AR/VR SaaS marketing solutions to our customers. After multiple iterations and upgrades, our AR/VR SaaS platform has matured and evolved into our current AR/VR SaaS platform, Wanjie Smart Marketing Platform. Our AR/VR SaaS platform enables our customers to monitor data and results. Our customers can select styles and interaction approaches on our AR/VR SaaS platform to cater to their operational demands, and motivate end users through reward distribution, such as red packets and coupons, using tools offered by us on our AR/VR SaaS platform. Our AR/VR SaaS platform provides our customers with a range of online AR/VR interactive content development and distribution tools and empowers our customers to create activities that offer experiences such as exhibition, showcase, live-streaming and marketing, with the goal to improve the level and extent of participation of their end users. For example, our customers may use the VR live-streaming function under VR panorama on our AR/VR SaaS platform to engage and interact with participants on mobile phones. Particularly, our customers may share the link to our VR panorama with participants, thereby the participants would be able to view the same scenes as the host.

### *Business process*

The business process of our AR/VR SaaS business is illustrated as below:



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- **Communicate with potential customers:** We first communicate with potential customers, introduce to them the functions and diversified services on our AR/VR SaaS platform and understand their business needs and objectives.
- **Trial of basic services:** Potential customers may register accounts on our AR/VR SaaS platform for free to try out the basic services provided on our platform. Registered users have access to three gigabytes of storage space, basic AR/VR interactive content modules, AR/VR marketing scenario production tools, basic marketing program and marketing data display.
- **Communicate with customers and demonstrate our service offerings:** After the registered users have obtained a preliminary understanding and experience of our AR/VR SaaS platform, we demonstrate to them our service offerings, which include storage space, AR/VR interactive content modules and design functions, customized brand marketing programs, VIP customer services and platform API connection support.
- **Customers pay and activate accounts or enter into services agreements:** Once the registered users are satisfied with our demonstrations, they will sign subscription agreements with us and pay us an annual subscription fee or enter into service agreements with us to create customized SaaS solutions and pay us fees as set out in the agreements. We then upgrade the customers' accounts to give them access to the services they have chosen or develop customized SaaS solutions meeting the specific requirements of our customers.
- **Maintain our platform and customer relationship management:** Our AR/VR SaaS platform, as a SaaS platform, is maintained by our professional team. We solve problems encountered by our customers when using the platform and continuously upgrade and improve our platform based on customers' feedback.
- **Customer data analysis:** We collect and analyze the relevant data generated from customers when using our AR/VR SaaS platform, such as the number of visits and visitors and the number of activity participants, when our customers carry out AR/VR promotional activities on our platform. Through our data collection and analysis, we can understand the marketing outcomes of the various AR/VR functions on our AR/VR SaaS platform. We also improve our platform services by updating and upgrading AR/VR interactive content modules and development tools based on the feedback from customers and the results of marketing performance.

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- **Develop further business possibilities with customers:** We keep in contact with our customers to understand their further requirements, such as artistic styles, interactive experiences, brand promotion, adjustment of functions and overall effect presentation, in order to develop additional business possibilities with customers.

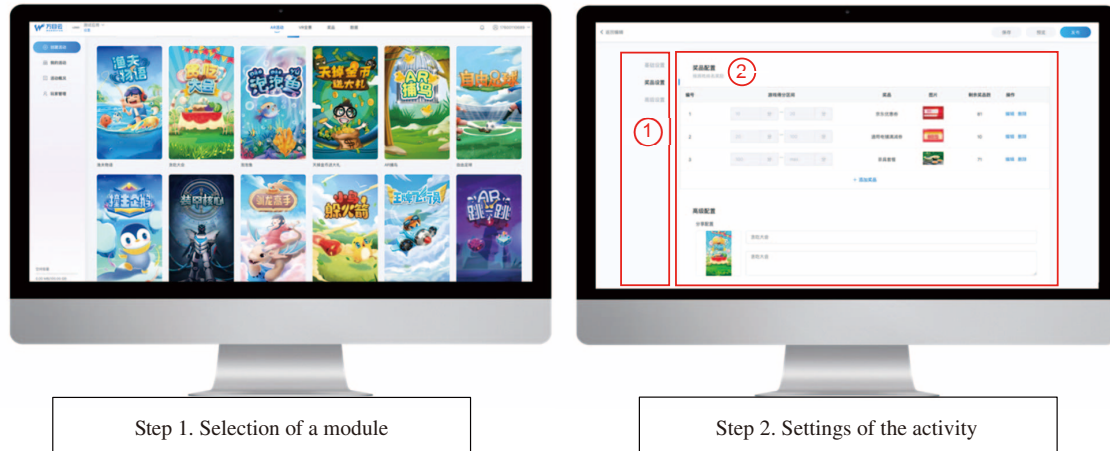
### *AR/VR SaaS services*

Our AR/VR SaaS services comprise subscription-based and customized AR/VR SaaS solutions. For both subscription-based and customized AR/VR SaaS solutions, we categorize our solutions into two types, namely AR/VR promotional activities and VR panorama content. Customers can create AR/VR promotional activities and VR panorama content by choosing from a wide variety of AR/VR interactive content modules available on our AR/VR SaaS platform, according to their needs to empower their marketing campaigns.

- **AR/VR promotional activities:** Our customers can first select a module for the AR/VR promotional activity, then configure specific AR/VR promotional activities by setting various activity parameters. For example, our customers may choose whether to allow AR scanning, set the number of participation in the activity, the start and end time of the activity, the probability of winning at a lucky draw and the restrictions of the lucky draw. Our customers can also set and upload AR recognition images, generate a QR code or a link to the AR/VR promotional activity and set advertisement configurations. Once all the settings are configured, end users can take part in the AR/VR promotional activity via a QR code or a link to a webpage.
- **VR panorama content:** Our customers can create VR panorama content to promote their products via our AR/VR SaaS platform. By selecting a VR panorama module, our customers can select opening prompts, opening animations, automatic cruise, mobile phone gyroscope, user login method, advertising platform, for which our AR/VR SaaS platform has access to the APIs of several top e-commerce platforms in China, and other parameters. As a result, our customers can build their own VR cloud stores and place interactive activities, including AR/VR promotional activities created on our AR/VR SaaS platform, to provide an entertaining and interactive viewing experience to end users.

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The pictures below demonstrate how our customers may create an AR activity through our AR/VR SaaS platform:



*Notes:*

- (1) Settings selection panel: displays settings including basic settings, reward distribution settings and advanced settings
- (2) Detailed settings panel: displays further settings including the name of the AR activity, time, limit on the number of participations, descriptions of the activity, reward and sharing information.

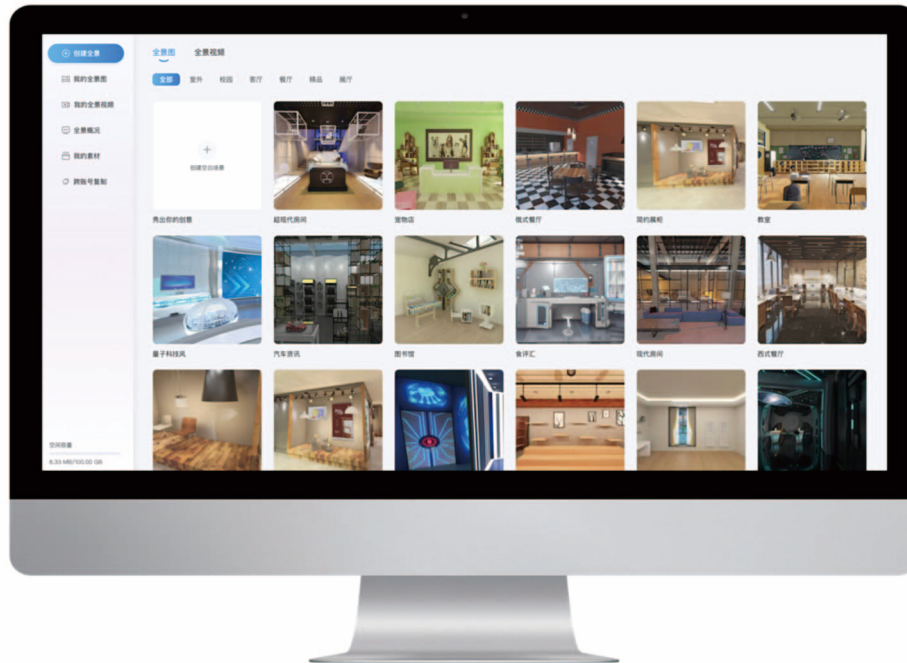
The pictures below demonstrate how end users may participate in the AR activity with mobile phones:



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*Note:* The pictures illustrate a typical AR activity game. After entering the game, a cartoon mouth will be generated with AR technology at the position of the player's mouth. The player may eat the fruits on the screen with the cartoon mouth by moving the player's mouth. The score is earned with each fruit eaten.

The pictures below demonstrate how our customers may create VR panorama content through our AR/VR SaaS platform:



Step 1. Selection of a module

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Step 2. Creation of VR panorama content with functions on the AR/VR SaaS platform

### Notes:

(1) to (4) are major function panels:

- (1) Function selection panel: displays all the functions of VR editor
- (2) Scenario management panel: all the scenarios may be managed through this panel
- (3) Function settings panel: after selecting functions from (1), more details settings may be made on this panel
- (4) Preview selection panel: displays different methods for preview

(5) to (10) provides examples of some of the specific functions we offer:

- (5) Shortcut: to switch to another scene or open a link
- (6) Activity: to place a link to built-in activities on the AR/VR SaaS platform, for example a carousel lottery
- (7) Insertion of objects: to insert 2D objects as ornaments
- (8) Insertion of characters: to insert characters with animation and voice
- (9) Insertion of texts: to insert texts as descriptions
- (10) Insertion of videos: to insert videos



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The pictures below demonstrate how end users may view the VR panorama content on personal computers, mobile phones and VR headsets:



### *Pricing and payment*

Our AR/VR SaaS services comprise subscription-based and customized AR/VR SaaS solutions, both offered to the registered users of our AR/VR SaaS platform.

### *Customized AR/VR SaaS Solutions*

For customized services, utilizing modules and development tools on our AR/VR SaaS platform, we assist our customers who are registered users of our AR/VR SaaS platform to develop, design and create customized AR/VR activities and VR cloud stores for our customers according to the themes and characteristics specified by our customers. We charge our customers mainly based on the complexity of the services required and the estimated duration and capacity requirement of the AR/VR activities. While we develop AR/VR content products from scratch, we utilize the existing modules provided on our AR/VR SaaS platform in providing customized



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AR/VR SaaS solutions. During the Track Record Period, we generally charged customers for customized AR/VR SaaS solutions ranging from RMB3,000 to RMB650,000 per project. We generally divide our customized AR/VR SaaS solutions into two categories based on the price range:

- **Basic solutions:** For basic solutions, we generally charge less than RMB200,000 for providing a customized solution using primarily modules on our AR/VR SaaS platform.
- **Advanced solutions:** For advanced solutions, we generally charge more than RMB200,000. While relying on existing modules on our AR/VR SaaS platform for basic framework, we provide additional art design works and 3D modeling as part of the solutions.

### *Subscription-based AR/VR SaaS Solutions*

With respect to subscription-based AR/VR SaaS solutions, we offer different pricing options to users of our AR/VR SaaS platform. All registered users of our AR/VR SaaS platform are entitled to enjoy part of the AR/VR functions for free. For subscribed paying users, the AR/VR SaaS platform offers three types of service packages, each with different features and functions to accommodate diverse customer needs. As of March 31, 2022, the number of our subscribed paying users reached over 2,200. We offer free and paid packages to users of our AR/VR SaaS platform:

- **Free package:** This package provides basic AR/VR marketing functions, including 3GB storage space, basic AR/VR interactive content modules, AR/VR marketing scenario production tools, basic marketing program and marketing data display.
- **Paid packages:** We offer three types of paid packages, which differ in the number of AR/VR interactive content modules and size of storage space allocated. As of March 31, 2022, the rate of our paid packages ranged from RMB6,800 to RMB14,800 per year.

### *Material terms of the agreements with our AR/VR SaaS customers*

We enter into one-year renewable subscription agreements with our subscribed paying users, allowing them access to our AR/VR SaaS platform with functions and modules matching their selected type of paid package upon payment of annual fees in full in advance. We are required to refund our subscribed paying users fees for the remaining agreement term according to our agreements if we stop providing services without a reasonable cause. We had not made material refund to our subscribed paying users during the Track Record Period.

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We usually enter into a separate agreement with our customers before providing a customized AR/VR SaaS solution. The material terms of the agreement usually include:

- **Term of project:** We are generally required to deliver the customized solution within one to six months from the date of the agreement, depending on our customers’ requirements.
- **Our services:** We assist our customers to design VR cloud stores or AR/VR promotional activities and provide technical support and maintenance for a period of three months after the project is completed.
- **Payment and settlement:** Our customers generally pay the price of the customized AR/VR SaaS solution after the solution is accepted and we have issued the relevant invoice.
- **Termination:** The agreement may generally be terminated by the non-defaulting party in the event of a breach of the agreement that is not remedied within a prescribed time period.

We are generally not required to refund any fees charged to our customers according to our customized AR/VR SaaS solution agreements. We had not made material refund to our customized AR/VR SaaS customers during the Track Record Period.

### *Material terms of the agreements with our AR/VR SaaS suppliers*

Our major suppliers of AR/VR SaaS business are primarily companies which offer subcontracting and development services or rent servers. For material terms of the agreements with our subcontractors, see the paragraph headed “— Our Suppliers — Subcontracting” in this section.

We usually enter into a separate agreement with our suppliers before renting their servers. The material terms of the agreement usually include:

- **Scope of services:** We are usually entitled to use the computing and network, cloud server, cloud data center, cloud cybersecurity, supervisory and management, domain name resolution, video service, big data and AI products of our suppliers in accordance to our business needs in compliance with the service agreements of our suppliers.

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- **Pricing, payment method and settlement:** We can choose the services required on the website of our suppliers and we will be charged accordingly. We can pay online or through bank transfer. We are usually required to pay within 10 working days upon the receipt of invoice.
- **Term:** Our contracts with our suppliers usually do not have a fixed term.
- **Termination:** Our suppliers are usually entitled to terminate part or all services with a notice at least 30 days before the termination.

### *Key operating data*

The number of registered users of our AR/VR SaaS platform grew from 1,828 as of December 31, 2019 to over 14,000 as of March 31, 2022. Among them, the number of our subscribed paying users reached over 2,200 as of March 31, 2022. The registered users and subscribed paying users of our AR/VR SaaS platform are individuals and companies in various industries including for example entertainment, Internet, technology and healthcare.

The following table sets forth certain key operating data of our AR/VR SaaS platform:

	As of or for the year ended December 31,			As of or for the three months ended
				March 31,
	2019	2020	2021	2022
Number of registered users . . . . .	1,828	4,007	12,265	14,634
Number of subscribed paying users <sup>(1)</sup> .	—	—	2,015	2,234
Number of customized AR/VR SaaS projects . . . . .	204	554	142 <sup>(3)</sup>	77 <sup>(3)</sup>
Average DAUs . . . . .	161	554	1,688	1,991
Average MAUs . . . . .	679	1,714	4,551	7,420
Peak MAUs <sup>(2)</sup> . . . . .	1,088	2,335	6,601	7,899
Monthly average revenue per subscribed paying user (RMB) <sup>(4)</sup> . . .	—	—	245	510
Contract renewal rate of subscription-based AR/VR SaaS <sup>(5)</sup> .	N/A	N/A	N/A	14.6%
Contract renewal rate of customized AR/VR SaaS <sup>(6)</sup> . . . . .	N/A	12.5%	25.0%	100.0%

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- (1) It refers to users who entered into subscription agreements with us and paid for the use of our AR/VR SaaS platform. We began to have subscribed paying users in 2021 because historically, our AR/VR SaaS platform was used to support our AR/VR marketing services business as our AR/VR SaaS platform was mainly used by media platforms and their agents to create an AR/VR content environment in which advertisements from our advertising customers are placed. Furthermore, prior to 2021, we provided access to our AR/VR SaaS platform mainly to expand our registered user base and to attract potential customers.
- (2) It refers to the peak value of MAUs during the relevant year/period.
- (3) We carried out customized AR/VR SaaS projects with a higher price range since the year ended December 31, 2021.
- (4) It represents the revenue generated from our subscription-based AR/VR SaaS business for the period, divided by the number of subscribed paying users of our AR/VR SaaS platform as of the last day of the period and further divided by the number of months during the period. Our monthly average revenue per subscribed paying user for 2021 is relatively low, which is mainly due to the drastic increase in the number of our subscribed paying users during 2021.
- (5) It refers to the number of renewed subscription agreements during the period divided by the total number of subscription agreements during the period. This calculation is not applicable to 2019, 2020 and 2021 as we began to have subscribed paying users in 2021. Our contract renewal rate for the three months ended March 31, 2022 is relatively low mainly because most of our subscribed paying users entered into subscription agreements with us since around mid-2021 and their subscriptions had not expired by March 31, 2022.
- (6) It refers to the number of customized AR/VR SaaS contracts from recurring customers during the period divided by the total number of customized AR/VR SaaS contracts during the period. This calculation is not applicable to 2019 as we started to generate revenue from customized AR/VR SaaS in 2019. The contract renewal rate for the three months ended March 31, 2022 is high and will not be representative of the contract renewal rate for 2022 mainly because we generally do not reach out to as many new customers in the first quarter of each year as the rest of the year due to the closure of businesses at the beginning of the calendar year in which the Chinese New Year holidays fall resulting in fewer new customers in the first quarter of the year compared with other quarters. In addition, the contract renewal rate for the three months ended March 31, 2022 is not comparable to the contract renewal rates for 2020 and 2021 due to the difference in time span. The contract renewal rate for our customized AR/VR SaaS business during the Track Record Period was high mainly because we had repeated purchases from same customers.

### *Customized AR/VR SaaS Solutions Cases*

#### *VR cloud store case*

- **Pharmaceutical:** In June 2020, a pharmaceutical company engaged us to design, develop and produce its VR cloud store. We designed and developed a VR cloud store using our AR/VR SaaS platform and placed products of the pharmaceutical company in the cloud store. Based on its product features and its corresponding consumer groups, we divided the VR cloud store into five zones: lobby, men’s zone, women’s zone, elderly’s zone, and kids’ zone. Through 3D modeling, scene rendering, and a 720-degree VR panorama display, we presented lively virtual scenes, thereby forming a deep connection between the consumers and the brand. Additionally, we designed and created a cartoon image for the pharmaceutical company, “Dr.

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Bear”, and placed it into the VR cloud store as a non-player character to help end users choose products suitable for them. The cartoon image designs provided a solid foundation for subsequent marketing of the pharmaceutical company. After the VR cloud store is completed and placed online, users may enter the VR cloud store through the pharmaceutical company’s store on one of the top e-commerce platforms in China. When users visit the VR cloud store and click on the products displayed in the cloud store, a description of the product with a link to the shopping cart will be displayed and users may complete the purchase with a few more clicks.

Below are the illustrations of the VR cloud store.



Notes:

- (1) Products are displayed in the VR cloud store.
- (2) When a user clicks on the product displayed in (1), a description of the product with a link to the shopping cart will be shown.
- (3) Part of the products have been blurred to protect customer sensitive information.

### AR promotional activity case

- **Catering:** In March 2019, we were engaged to create an AR interactive activity for a catering company. Upon entering into the restaurant, end users may wear AR glasses or scan a QR code with their mobile phones to enter into an AR scene of the restaurant. End users may then take part in marketing activities such as collecting red packets, and interact with the

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restaurant’s brand elements. The product made full use of the end users’ waiting time to be seated and the waiting time to be served at the restaurant, and reinforced end user loyalty to the brand by providing a fun and interactive experience.

Below are the illustrations of the AR interactive activity.



### IP business

Our IP business licenses IP rights to customers to enable them to develop games, cartoons, TV plays, movies and other works. During the Track Record Period, we mainly licensed out IPs we purchased from third parties, for examples, novels, cartoon characters and games. In addition, we have not proactively pursued business in our IP licensing segment since 2021. We have shifted our focus and going forward, we will mainly use IP resources to support our AR/VR businesses as we intend to strategically focus on our AR/VR businesses and license IP rights on a case-by-case basis to meet specific customer demands. We will continue to source external IP rights in the future mainly for our own use and to support our AR/VR businesses.

We usually enter into a license agreement with each of the IP customers for a fixed term. IP customers have a right to adapt the relevant work to develop and publish content in an agreed form, such as novels, movies, TV dramas, games and cartoons.



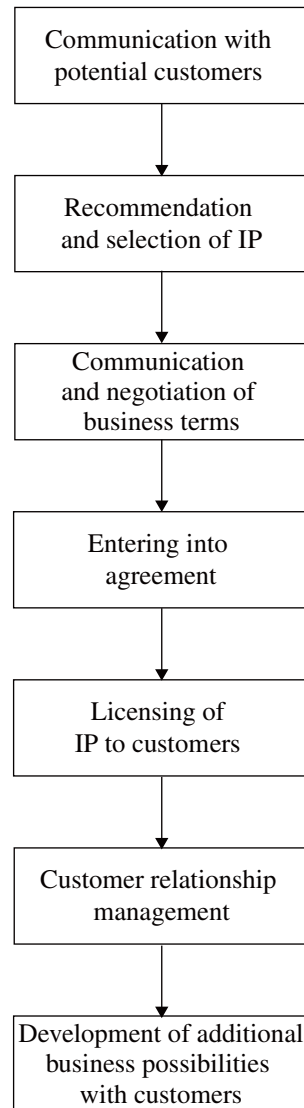
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### *Business process*

The chart set out below illustrates the business process of our IP business:



- **Communication with potential customers:** We first communicate with potential customers to understand their demands regarding the types of IP and the specific content.
- **Recommendation and selection of IP:** We undergo a searching and matching process in our IP database according to the demand of our potential customers. We recommend certain IPs to our potential customers for selection based on their demands.



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- **Communication and negotiation of business terms:** We communicate, negotiate and confirm with potential customers about the detailed business terms including license fee, term, region, channel and format.
- **Entering into agreement:** IP customers enter into formal agreements with us to purchase selected IPs. Our IP customers usually pay in full after receipt and acceptance of relevant documents evidencing the licensing of the IP.
- **Licensing of IP to customers:** We license IP to our customers according to the scope, content and format stipulated in the agreement.
- **Customer relationship management:** Our customer service team maintains close connection and communication with customers to understand their experience of and feedback on the licensed copyrights, and help customers solve any problems encountered in the course of using the copyrights.
- **Development of additional business possibilities with customers:** We introduce our other major businesses to IP customers and understand and explore their other demands.

### *Pricing model*

We generally charge our IP customers based on the IP our customers choose. We usually add a markup on the licensing fees we paid our IP suppliers taken into account the types and remaining licensing term of the IP.

During the Track Record Period, we generally charged our IP customers fees ranging from RMB30,000 to RMB3 million per IP license agreement. During the Track Record Period, we generally paid our IP suppliers fees ranging from RMB30,000 to RMB3 million per IP license agreement. Our major IP customers during the Track Record Period mainly included publication, culture and tourism, animation, technology development and gaming companies. For more details on our major IP customers who were also our top five customers during the Track Record Period, see the paragraph headed “— Our Customers” in this section.

### *Material terms of agreements with our IP customers*

The material terms of license agreements with our IP customers are set out below:

- **Licensed content:** The copyrights that are globally licensed to an IP customer may vary from case to case. In general, they include the right of reproduction, right of distribution, rental right, right of exhibition, right of showing, right of broadcasting,

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right of communication through information network, right of filming, right of adaptation, right of translation and right of compiling. We only license a certain IP right to one customer and we are generally not permitted to use the relevant IP rights after they have been licensed out to our customers. The copyright of the content developed and published from the IP rights licensed generally belongs to our customers.

- **Confidentiality:** Generally, except as otherwise provided by laws and regulations or with the prior consent of the other party, each party shall maintain the confidentiality of any information or trade secrets obtained throughout the business engagement with our IP customers.
- **Payment and settlement:** Generally, after the copyright certificate, the letter of authorization and any other document in connection with the IP as required by the IP customers are delivered to and accepted by our IP customers, our customers shall make payment to us.
- **Term:** The term of a license agreement is generally one to seven years. The term of some of our license agreements with customers are longer than the term of our license agreements with suppliers, which is up to five years, because we have licensed out some of the IP rights we developed, particularly software copyright for games, to our IP customers for a term of seven years.
- **Termination:** The license agreement may generally be terminated by the non-defaulting party in the event of a material breach that is not remedied within a prescribed time period.

We are generally not required to refund any fees charged to our IP customers by our agreements with the IP customers. We had not made material refund to our IP customers during the Track Record Period.

As advised by our PRC Legal Advisors, the above license agreements with our IP customers are legally binding.

### *Material terms of agreements with our IP suppliers*

The material terms of license agreements with our IP suppliers are set out below:

- **Licensed content:** Generally, all copyrights in a work are licensed to our Company, including but not limited to the right of reproduction, right of distribution, rental right, right of exhibition, right of showing, right of broadcasting, right of communication

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through information network, right of filming, right of adaptation, right of translation and right of compiling. We generally have a right to sub-license the IP rights. The license agreements are generally non-exclusive and our IP suppliers can continue to adopt copyrights in their work. We believe that our IP customers may be aware of such non-exclusivity as our customers may trace the IP rights by reviewing the copyright certificates and our license agreements with IP customers generally contain a clause that specifies the nature of authorization.

- **Payment and settlement:** We are generally required to settle payment to our IP suppliers between 20 and 60 days after our IP suppliers have provided proof of their IP rights and issued the relevant invoices.
- **Term:** The term of the license agreements with our IP suppliers are generally between one and five years.
- **Termination:** Our IP suppliers and us may terminate the license agreements in advance of the expiration of the term upon the occurrence of events such as failure of payment obligation by us, delay of delivery of requisite materials by our IP suppliers to us and by mutual written agreement.

As advised by our PRC Legal Advisors, the above license agreements with our IP suppliers are legally binding.

### Other businesses

During the Track Record Period, our other businesses comprised text message services, promotion services, technical services, artist endorsement services, and games and games related business.

- **Promotion services:** Our promotion services are non-AR/VR marketing services. We use the technologies we have accumulated and media platform resources to customize marketing strategies, analyze brand positioning, design advertisements and place the advertisements. We provide our customers with AR/VR marketing services to achieve their marketing targets such as establishing brand image, increasing brand exposure, and improving brand awareness. The advertisement content may be provided by our customers. We charge our customers based on the marketing effect of our promotion services. For 2019, 2020 and 2021 and the three months ended March 31, 2022, our revenue from promotion services was RMB7.8 million, RMB25.6 million, RMB6.1 million and nil, respectively.

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- **Text message services:** Our text message services are non-AR/VR marketing services. We provide text message services including customized text messages, scheduled transmission, diverse access and statistics gathering to corporate customers. Our text message services help corporate customers to conduct marketing promotion and manage their members. We charge our customers based on the number of text messages sent. For 2019, 2020 and 2021 and the three months ended March 31, 2022, our revenue from our text message services amounted to nil, RMB10.4 million, RMB25.8 million and RMB88,000, respectively.
- **Technical services:** We provide software development, video production, artistic design and other types of technical services. We charge our customers mainly based on the complexity of the projects. For 2019, 2020 and 2021 and the three months ended March 31, 2022, our revenue from technical services was RMB14.7 million, RMB5.2 million, RMB0.6 million and nil, respectively.
- **Artist endorsement services:** We engage in artist endorsement business and generate agency fee by providing artist endorsement services to advertising customers through third-party artist agencies. We negotiate the price we charge for artist endorsement services on a case-by-case basis taken into account our costs in obtaining the artist endorsement and promotion costs. For 2019, 2020 and 2021 and the three months ended March 31, 2022, our revenue from our artist endorsement services amounted to nil, RMB1.9 million, nil and nil, respectively.
- **Games and games related business:** We used to derive revenue from games development, games distribution and other games related business. We provided game products that we designed and developed to games publishers and operating platforms and shared with them the revenue generated from such game products based on a mutually agreed percentage. In 2019, seven of our games were still running. The number of downloads of our games was 936,768 and the average spending per downloaded user was RMB5.1 in 2019. For 2019, 2020 and 2021 and the three months ended March 31, 2022, our revenue from games and games related business was RMB9.0 million, nil, nil and nil, respectively. As advised by our PRC Legal Advisors, our games and games-related business was legal and in compliance with all applicable PRC laws and regulations during the Track Record Period. We decided to gradually scale down and finally completed the winding-down of our games and games-related business in 2019 mainly because we saw the development and fast growth of the AR/VR content and services market. Our history in the games business provided us with the experiences and advantages in technologies and operations which would be beneficial to our shift to the AR/VR content and services business. We made a strategic shift on our business focus to AR/VR content and services to take advantage of the opportunities and to fulfill the

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unmet customer demands in the AR/VR content and services market. As a result of our strategic foresight and business shift to AR/VR content and services, we became one of the earliest providers in China’s AR/VR content and services market. There was no current and non-current assets being disposed of, written-off or impaired in relation to the winding-down of our games and games-related business in 2019, and no one-off cost was incurred as a result of the winding-down. During the Track Record Period, we did not have any lawsuit in relation to our games or games-related business brought by our customers or suppliers. As of the Latest Practicable Date, we did not have any unsettled claims or disputes with customers or suppliers of our games or games-related business.

### **Metaverse platform under development**

In November 2021, we announced that we will be publishing our Feitian Metaverse platform, which is expected to have a virtual commercial district in which users can travel around freely and enter the commercial space of merchants such as showrooms. We are currently at the first phase of the development of our Feitian Metaverse platform and we currently focus on the infrastructure construction at this phase. We have completed the construction of the basic technical architecture and developed part of the core functions of our Feitian Metaverse platform, including a multiplayer open world, a sandbox system, a preliminary user and social system, a human-computer interaction system and a preliminary developer interface. We have also developed a small city block to test our preliminary technical architecture and its effect. To this end, we have developed a new network architecture that enables efficient interconnection between VR hardware, personal computers and mobile phones. According to iResearch, based on publicly available information such as market news and the interviews conducted with major industry participants, currently there is no similar Metaverse platform in the market developed by our major peers in China that offer AR/VR content or services.

According to iResearch, the elements of Metaverse platforms mainly include immersive experience, socializing channels, business function, and user self-development capabilities. In addition, the Metaverse caters for merchants and consumers simultaneously by providing a virtual space for business interaction. We believe that the experience we have accumulated over the years in the AR/VR business has equipped us with the capability to create a Metaverse platform with the key elements typical to a Metaverse platform. We aim to provide access to the Metaverse to our business customers and users and connect them through the Feitian Metaverse platform.

Our business background as a game developer in our early years has allowed us to accumulate precious experience to construct a Metaverse platform. According to iResearch, as a simulation based on reality, video game is the foundation form and prototype of a Metaverse, and the Metaverse is the extension and enhancement of a game world. According to iResearch, the penetration of the Metaverse is mainly driven by the popularization among the users. Rich content

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and interactive designs are the keys to improve user experience. As a company which possesses game industry’s experience, we possess know-hows to combine content, technology and user habits during the construction of the Metaverse platform, which we believe gives us a competitive advantage.

According to iResearch, the AR/VR-based content creation for Metaverse is different from that of graphics, texts and videos. Certain AR/VR-based content creation experience is desired for a participant to create content for Metaverse. As we are experienced in AR/VR-based content creation and have accumulated rich AR/VR content materials over the years of operation, we believe we have competitive advantages in the Metaverse platform development process. In addition, according to iResearch, one of the means for the operators of the Metaverse platform to generate revenue is to provide services to business customers, including marketing services. We believe our experience in providing AR/VR marketing services to cater to the demands of business customers also renders us more competitive in the deployment of the Metaverse platform as our insight on the needs of business customers and our experience accumulated through the provision of the AR/VR marketing services enables us to serve customers on a Metaverse platform in the future. In addition, we believe that our customers’ resources provide us with potential demand-side support for the development of our Metaverse platform. As more market players enter the AR/VR industry, companies with content accumulation and technology capabilities, such as AR/VR development engines and SaaS/aPaaS platforms, are expected to hold the first-mover advantages and build an entry barrier, according to iResearch. Our AR/VR SaaS platform empowers the users to participate in the creation and development with us. We believe our AR/VR technology can consolidate and strengthen our advantages. With the IP reserve we have accumulated over years of operation, we also believe we will be able to provide a diverse portfolio of IPs to users of our Metaverse platform in the future.

Notwithstanding that Metaverse is currently at the 1.0 concept version stage and its development is highly uncertain and currently immature, our Feitian Metaverse platform is expected to facilitate our existing businesses in the future. Similar to our AR/VR SaaS platform which was historically used to support our AR/VR marketing services business, we plan to initially use our Feitian Metaverse platform to facilitate our existing businesses. We plan to provide AR/VR marketing services on our Feitian Metaverse platform and by attracting users to visit the same, our Feitian Metaverse platform is expected to gather traffic for our customers of AR/VR marketing services, thereby reducing a portion of our traffic acquisition costs. In addition, having our own platform and traffic would significantly assist in our understanding of current market trend and user preferences, thereby reducing our reliance on media platforms and their agents. Our Feitian Metaverse platform may consolidate our customers on a single platform which serves as an entry point for our customers to Metaverse. We plan to offer content development services on our Feitian Metaverse platform and plan to charge our customers for the AR/VR content products. For example, users of our Feitian Metaverse platform may engage us to design and construct

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## BUSINESS

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showrooms, panoramic virtual stores and industrial parks, for which we may charge on the basis similar to our AR/VR content projects. In addition, with the technology and experience accumulated in constructing our Feitian Metaverse platform, we expect to explore more business opportunities with other Metaverse platforms. We have taken initial steps in this regard and have offered AR/VR content to a leading Internet company in China for its Metaverse platform. See the paragraph headed “— AR/VR content — Cases — Culture and tourism (third-party Metaverse platform)” in this section. We plan to connect our AR/VR SaaS platform with our Feitian Metaverse platform, thus providing our customers with one-stop services, which we hope will be able to attract more users to our AR/VR SaaS platform and increase our revenue from subscriptions to our AR/VR SaaS platform. Users of our AR/VR SaaS platform may also experience the content they generated from our AR/VR SaaS platform on our Feitian Metaverse platform.

We may also explore different business activities on our Feitian Metaverse platform. For example, we plan to implement in our Feitian Metaverse platform marketing, promotional functions and facilities that enable live-streaming, concerts and press conferences, business conferences, virtual scenarios for education, sports, culture and tourism and other industries. In addition, we may offer subscriptions to users and provide some of the functions on the Feitian Metaverse platform to users on an annual, quarterly, or monthly basis. We may also launch a trading platform to facilitate monetization from content development.

As advised by our PRC Legal Advisors, no particular qualification or license is required for developing our current businesses through our Feitian Metaverse platform. Depending on the future business activities we carry out through our Feitian Metaverse platform, we may require different types of licenses and permits including a Permit for Network Culture Business (網絡文化經營許可證), a VATS business operating license and a Permit for Spreading Audio-Visual Programs via Information Network (信息網絡傳播視聽節目許可證). We may also conduct business cooperation with third-party entities that have obtained relevant licenses and permits. As advised by our PRC Legal Advisors, if we comply with the requirements and qualifications of relevant laws and regulations, and complete the approval process of the relevant authorities, there will be no material legal obstacles for us to obtain the relevant licenses and permits and to conduct the relevant businesses. In addition, we plan to engage PRC legal advisors to monitor changes in laws and regulations in relation to the Metaverse in general and the business activities we plan to carry out on our Feitian Metaverse platform to ensure our awareness of and compliance with the relevant laws and regulations. We also plan to designate personnel to be in charge of our compliance with the relevant laws and regulations.

We published our Feitian Metaverse information center on our website, which contains information such as introduction for developers and courses for beginners.



## BUSINESS

Below are the illustrations of our Feitian Metaverse website and interface for developers.

### Feitian Metaverse information website



### Demonstration snapshot of our Feitian Metaverse platform



On our Feitian Metaverse platform, we aim to eventually provide our customers with the ability to initiate business cooperation among themselves and with consumers in the virtual business space, which would improve the user experience on the one hand, and help customers to explore business opportunities on the other hand.

As of the Latest Practicable Date, we have incurred RMB16 million (equivalent to approximately HK\$18 million) in developing our Feitian Metaverse platform, all of which were from our own funds generated from our operations. 14 of our engineers and 17 of our designers

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have contributed to the development of our Feitian Metaverse platform, most of whom possess bachelor’s degrees or above and have over eight years’ experience in software development or art and animation designs. We expect to invest a total of approximately HK\$107 million in the development of our Feitian Metaverse platform, among which [REDACTED] is expected to be funded by the [REDACTED] from the [REDACTED] and HK\$45 million is expected to be funded by our own funds generated from our operations. Out of the [REDACTED] of the [REDACTED] from the [REDACTED] expected to be used in developing our Feitian Metaverse platform, we expect to utilize (i) approximately [REDACTED] to recruit a team of approximately 13 staff members, including five engineers, two product managers, two art designers and four operation and promotion staff members; (ii) approximately [REDACTED] to purchase servers with substantial data storage capacities and purchase high performance cloud computing services and high-speed network services; (iii) approximately [REDACTED] to engage subcontractors to provide art-designing services; and (iv) approximately [REDACTED] to promote our Feitian Metaverse platform through advertising on online channels. See section headed “Future Plans and [REDACTED]” in this document for details on the proposed use of [REDACTED] of the [REDACTED] from the [REDACTED] for the development of our Feitian Metaverse platform. Out of the estimated HK\$45 million of our own funds invested or to be invested in developing our Feitian Metaverse platform, we expect to utilize HK\$15 million on recruiting talents for developing our Feitian Metaverse platform and HK\$30 million on engaging subcontractors to provide art-designing services and non-core technical support. As our plan for Feitian Metaverse platform is at a preliminary stage with no committed business model for monetization, our development of and future operation with respect to Feitian Metaverse platform is highly uncertain and it may not be possible to fully discern the trends that we are subject to. See the paragraph headed “Risk Factors — Risks Relating to Our Business and Industry — Due to our lack of or limited operating history in the AR/VR content and services businesses, the Metaverse industry and the Feitian Metaverse platform, it may be difficult for investors to evaluate our business and growth” in this document.

### OUR CUSTOMERS

Our customers for AR/VR marketing services are mainly advertisers and their agents. Our customers for AR/VR content are mainly companies from various industries, including entertainment, gaming, education, culture and tourism, technology, healthcare and automobiles. Our customers for AR/VR SaaS are mainly customized AR/VR SaaS solutions customers and subscribed paying users of our AR/VR SaaS platform. Recent regulatory changes in the gaming and education industries may give rise to more stringent compliance requirements for some of our customers. As advised by our PRC Legal Advisors, our current businesses are not subject to the recent regulatory changes in the gaming and education industries given the facts that (i) recent regulatory changes only apply to game developers, publishers and operators, and education service providers; and (ii) we primarily engage in AR/VR marketing services, AR/VR content and AR/VR

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## BUSINESS

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SaaS businesses, and such businesses are not subject to the gaming and education regulatory regimes. Accordingly, such more stringent compliance requirements are not applicable to us. However, our business may be indirectly affected when our customers’ businesses are affected as our customers may reduce their overall spending, possibly their purchases of our services, if their businesses are adversely impacted by the more stringent compliance requirements. Our PRC Legal Advisors are of the view that our services offered to customers in various industries have not been adversely affected by the recent regulatory changes in their industries in all material respects. During the Track Record Period, all of our customers are located in China. We generally grant a credit term of several working days to six months typically after we issue a VAT invoice to our customers and our customers generally pay us in RMB by bank transfer. For details of payment arrangements, see the paragraphs headed “Material terms of the agreements with media platforms and their agents”, “Material terms of the agreements with our AR/VR content customers”, and “Material terms of agreements with our IP customers” in this section. For 2019, 2020 and 2021 and the three months ended March 31, 2022, revenue from our recurring customers in the respective periods amounted to RMB80.5 million, RMB116.2 million, RMB345.8 million and RMB177.9 million, respectively. Our recurring customers in the respective periods contributed to approximately 32.1%, 34.3%, 58.1% and 77.7% of our revenue for 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. For AR/VR marketing services, we usually enter into annual framework agreements with our advertising customers with an initial term of one year in general, which may be renewed for another year automatically upon expiry. For AR/VR content, our content development period generally ranges from one month to one year. For subscription-based AR/VR SaaS services, we enter into one-year renewable subscription agreements with our subscribed paying users. For customized AR/VR SaaS solutions, we usually deliver the customized solution within one to six months from the date of the agreement. In each of 2019, 2020 and 2021 and the three months ended March 31, 2022, revenue from our top five customers accounted for approximately 46.1%, 38.5%, 39.2% and 30.7% of our total revenue for the respective year/period. In each of 2019, 2020 and 2021 and the three months ended March 31, 2022, revenue from our largest customer accounted for approximately 12.0%, 14.2%, 10.2% and 7.5% of our total revenue for the respective year/period.

## BUSINESS

The details of our top five customers in 2019 (by revenue) are set out in the following table:

Customer	Main service/ product purchased	Revenue <i>(RMB'000)</i>	Percentage of total revenue <i>(%)</i>	Background and principal business activities	Year of commencement of business relationship	Registered capital <i>Note (4)</i> <i>(RMB)</i>	Credit Term <i>Note (5)</i>
Customer Group A . . .	AR/VR marketing services	30,233	12.0	A group of PRC companies principally engaged in advertisement design, production and agency business	2018	<i>Note (1)</i>	15 working days to around 2 months after receipt of invoice
Customer B . . .	AR/VR marketing services	29,651	11.8	A PRC company principally engaged in advertisement design, production, agency and telecommunications business	2019	1,000,000	20 working days after receipt of invoice
Customer C . . .	AR/VR marketing services	25,776	10.3	A PRC company principally engaged in advertisement production, publication, design, agency and digital content production service	2019	3,900,000	20 working days after receipt of invoice
Customer Group D . . .	AR/VR marketing services and AR/VR content	17,015	6.8	A group of PRC companies principally engaged in technology development, consultation, transfer, promotion, graphic design and production	2019	<i>Note (2)</i>	20 working days after receipt of invoice
Customer E . . .	IP	12,953	5.2	A listed PRC company principally engaged in literary and artistic creation and animation design whose revenue in 2020 was RMB108.1 million and total assets as of December 31, 2020 was RMB135.0 million	2016	53,500,000	60 working days after receipt of invoice
<b>Total . . . . .</b>		<b><u>115,628</u></b>	<b><u>46.1</u></b>				

## BUSINESS

The details of our top five customers in 2020 (by revenue) are set out in the following table:

Customer	Main service/ product purchased	Revenue <i>(RMB'000)</i>	Percentage of total revenue <i>(%)</i>	Background and principal business activities	Year of commencement of business relationship	Registered capital <i>Note (4)</i> <i>(RMB)</i>	Credit Term <i>Note (5)</i>
Customer F . . .	AR/VR content	48,113	14.2	A PRC company (subsidiary of a NASDAQ and Hong Kong listed company) principally operating a video search platform and a PGC content viewing platform	2019	5,953,909	5 working days after receipt of invoice
Customer G . . .	AR/VR marketing services	37,640	11.1	A PRC company principally engaged in advertising business	2020	5,681,800	20 working days after receipt of invoice
Customer H . . .	AR/VR marketing services	19,264	5.7	A PRC company principally engaged in advertisement design, production, agency and publication	2020	5,000,000	20 working days after receipt of invoice
Customer I . . .	AR/VR marketing services	13,854	4.1	A PRC company principally engaged in advertisement design, production, agency and publication	2020	10,000,000	20 working days after receipt of invoice
Customer J . . .	AR/VR content	11,415	3.4	A PRC company principally engaged in advertisement design, agency and publication	2020	10,000,000	5 working days to 30 working days after receipt of invoice
<b>Total . . . . .</b>		<b>130,286</b>	<b>38.5</b>				

## BUSINESS

The details of our top five customers in 2021 (by revenue) are set out in the following table:

Customer	Main service/ product purchased	Revenue <i>(RMB'000)</i>	Percentage of total revenue <i>(%)</i>	Background and principal business activities	Year of commencement of business relationship	Registered capital <i>Note (4)</i>	Credit Term <i>Note (5)</i>
Customer Group K . . .	AR/VR content	60,686	10.2	A group of PRC companies (subsidiary of a NASDAQ and Hong Kong listed company) principally engaged in copyright transfer and agency, computer software technology development, advertising and entertainment production	2019	<i>Note (3)</i>	6 months after receipt of invoice
Customer L . . .	AR/VR marketing services	56,446	9.5	A PRC company (subsidiary of a Hong Kong listed company) principally engaged in mobile advertising and network video products distribution	2021	USD100,000,000	10 working days after receipt of invoice
Customer M . . .	AR/VR marketing services	46,129	7.7	A PRC company principally engaged in computer software technology development and advertising business	2021	RMB5,000,000	20 working days after receipt of invoice
Customer H . . .	AR/VR marketing services	35,085	5.9	A PRC company principally engaged in advertisement design, production, agency and publication	2020	RMB5,000,000	20 working days after receipt of invoice
Customer N . . .	AR/VR marketing services	34,974	5.9	A PRC company principally provided Internet advertising service	2020	RMB6,121,011	5 working days after receipt of invoice
<b>Total . . . . .</b>		<b>233,320</b>	<b>39.2</b>				

## BUSINESS

The details of our top five customers for the three months ended March 31, 2022 (by revenue) are set out in the following table:

Customer	Main service/ product purchased	Revenue	Percentage of total revenue	Background and principal business activities	Year of commencement of business relationship	Registered capital <sup>Note (4)</sup>	Credit Term <sup>Note (5)</sup>
		<i>(RMB'000)</i>	<i>(%)</i>				
Customer O . . .	AR/VR marketing services	17,232	7.5	A PRC company principally engaged in advertising design, production, agency, publishing	2022	RMB61,416,300	20 working days after receipt of invoice
Customer P . . .	AR/VR marketing services	16,656	7.3	A PRC company principally engaged in information technology consulting services; technical services, technology development, technical consulting, technical exchanges, technology transfer, technology promotion; office services; advertising design, agency; advertising production	2021	RMB14,000,000	20 working days after receipt of invoice
Customer Group K . . .	AR/VR content	13,787	6.0	A group of PRC companies (subsidiaries of a NASDAQ and Hong Kong listed company) principally engaged in copyright transfer and agency, computer software technology development, advertising and entertainment production	2019	<i>Note (3)</i>	6 months upon presentation of delivery confirmation and invoice or 15 working days after receipt of invoice
Customer Q . . .	AR/VR marketing services	11,692	5.1	A PRC company principally engaged in technology development, technical services, technology transfer; advertising business; e-commerce	2022	RMB1,000,000	20 working days after receipt of invoice
Customer R . . .	AR/VR marketing services	11,052	4.8	A PRC company principally engaged in technical services, release various domestic advertisements	2021	RMB20,000,000	20 working days after receipt of invoice
<b>Total . . . . .</b>		<b><u>70,419</u></b>	<b><u>30.7</u></b>				



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## BUSINESS

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*Notes:*

- (1) The registered capital of our customers in Customer Group A is RMB10,000,000 and RMB1,000,000, respectively.
- (2) The registered capital of our customers in Customer Group D is RMB3,000,000 and RMB10,000,000, respectively.
- (3) In 2021, we had transactions with three entities of Customer Group K and the registered capital of our customers in Customer Group K is USD800,000, RMB13,421,280,000 and RMB5,953,909 respectively. In the three months ended March 31, 2022, we had transactions with four entities of Customer Group K and the registered capital of our customers in Customer Group K is USD800,000, RMB13,421,280,000, USD45,200,000 and RMB5,953,909 respectively.
- (4) The registered capital in the table are amounts as of March 31, 2022.
- (5) Invoice in the credit term refers to a VAT invoice.

During the Track Record Period, we did not have any material dispute with any of the above customers nor did we receive any material complaint from any of such customers.

Our top five customers in each of 2019, 2020 and 2021 and the three months ended March 31, 2022 were Independent Third Parties and none of our Directors or their respective close associates or any Shareholder (who to the best knowledge of our Directors owned more than 5% of our issued share capital as of the Latest Practicable Date) had any interest in any of our top five customers as of the Latest Practicable Date. To the best knowledge of our Directors, none of our top five customers were our suppliers during the Track Record Period.

**BUSINESS**

**Top five projects**

The following table sets out our top five projects with the highest revenue contribution for each of our major business segments for 2019:

<u>Business segment</u>	<u>Rank</u>	<u>Service/Product description</u>	<u>Customer</u>	<u>Background and principal business activities</u>	<u>Contract amount</u>	<u>Revenue recognized during the year</u>	<u>Gross margin</u>
					<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>
<b>AR/VR marketing services. . . . .</b>	1.	Promotion of an e-commerce platform	Customer B	A PRC company principally engaged in advertisement design, production, agency and telecommunications business	11,080	10,453	20.0
	2.	Promotion of an e-commerce platform	Customer B	A PRC company principally engaged in advertisement design, production, agency and telecommunications business	9,740	9,189	21.2
	3.	Promotion of a children’s products manufacturing and trading company	Customer A	A group of PRC companies principally engaged in advertisement design, production and agency business	8,594	8,107	16.6
	4.	Promotion of automobile	Customer C	A PRC company principally engaged in advertisement production, publication, design, agency and digital content production service	7,966	7,515	19.2
	5.	Promotion of a sightseeing spot	Customer D	A PRC company principally engaged in technology development, consultation, transfer, promotion, graphic design and production	7,686	7,251	16.4

**BUSINESS**

<u>Business segment</u>	<u>Rank</u>	<u>Service/Product description</u>	<u>Customer</u>	<u>Background and principal business activities</u>	<u>Contract amount</u>	<u>Revenue recognized during the year</u>	<u>Gross margin</u>
					<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>
<b>AR/VR content . . .</b>	1.	A VR game	Customer S	A PRC company (subsidiary of a Hong Kong listed company) principally engaged in the technical development of game software, advertising business, digital content technology services for cartoons and games	6,000	5,660	49.5
	2.	VR interactive color and text identification system	Customer T	A PRC company principally engaged in education, new media and digital content business	3,200	3,019	63.1
	3.	VR content special customization	Customer U	A PRC company principally engaged in production, technology development and consulting, agency and advertisement	2,112	1,992	40.9
	4.	Small potted plant set design	Customer D	A PRC company principally engaged in technology development, consultation, transfer, promotion, graphic design and production	1,750	1,651	63.5
	5.	AR multiplayer real-time online collaboration system	Customer W	A PRC company principally engaged in software development, technology promotion, computer software and hardware service and sales of electronic appliances	1,600	1,509	77.5

**BUSINESS**

Business segment	Rank	Service/Product description	Customer	Background and principal business activities	Contract amount	Revenue recognized during the year	Gross margin
					<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>
AR/VR SaaS . . . . .	1.	Museum art exhibition	Customer X	A PRC company principally engaged in technology development, promotion, transfer and consultation, data management and software service business	657	620	20.5
	2.	International film festival	Customer Z	A PRC company principally engaged in surveillance equipment imaging system software and hardware, communication equipment sales, import and export business	521	492	20.4
	3.	Technology development and event organization for a moving company	Customer X	A PRC company principally engaged in technology development, promotion, transfer and consultation, data management and software service business	452	426	20.6
	4.	AR interactive activity for a catering company	Customer Z	A PRC company principally engaged in technology development, promotion, transfer and consultation, data management and software service business	433	408	20.2
	5.	Stage show	Customer Y	A PRC company principally engaged in surveillance equipment imaging system software and hardware, communication equipment sales, import and export business	390	368	20.1

**BUSINESS**

The following table sets out our top five projects with the highest revenue contribution for each of our major business segments for 2020:

<u>Business segment</u>	<u>Rank</u>	<u>Service/Product description</u>	<u>Customer</u>	<u>Background and principal business activities</u>	<u>Contract amount</u>	<u>Revenue recognized during the year</u>	<u>Gross margin</u>
					<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>
<b>AR/VR marketing services. . . . .</b>	1.	Promotion of news platform	Customer G	A PRC company principally engaged in advertising business	12,477	11,770	19.8
	2.	Promotion of calendar app	Customer G	A PRC company principally engaged in advertising business	11,556	10,902	25.9
	3.	Promotion of news platform	Customer G	A PRC company principally engaged in advertising business	11,343	10,701	19.0
	4.	Promotion of smart data platform	Customer I	A PRC company principally engaged in advertising design, production, agency and publication	8,880	8,377	20.6
	5.	Promotion of data recovery platform	Customer AA	A PRC company principally engaged in information technology, computer software development, promotion and consultation, advertisement and production business	7,165	6,759	21.3

**BUSINESS**

Business segment	Rank	Service/Product description	Customer	Background and principal business activities	Contract amount	Revenue recognized during the year	Gross margin
					(RMB'000)	(RMB'000)	(%)
AR/VR content . . .	1.	VR presentation of dark fairy tales	Customer AB	A PRC company principally engaged in technology service, development, consultation, transfer and promotion business	8,400	7,925	54.6
	2.	VR natural world, astronaut experience, ocean walk, absolute experience and space walk	Customer AD	A PRC company principally engaged in technology service, development, consultation, transfer and promotion, production, advertisement and agency business	4,000	3,774	98.7
	3.	VR around the world	Customer W	A PRC company principally engaged in software development, technology promotion, computer software and hardware service and sales of electronic appliances	3,860	3,642	57.8
	4.	VR physics class	Customer AE	A PRC company principally engaged in technology service, development, consultation, transfer and promotion, sales of computer software and hardware, and Internet sales business	3,500	3,302	98.7
	5.	VR chemistry class	Customer J	A PRC company principally engaged in advertisement design and agency services business	3,200	3,019	98.7

**BUSINESS**

Business segment	Rank	Service/Product description	Customer	Background and principal business activities	Contract	Revenue	Gross margin
					amount	recognized during the year	
					<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>
AR/VR SaaS . . . . .	1.	Technology center browsing interactive panorama	Customer AF	A PRC company principally engaged in Internet technology and computer technology development, technology transfer, consultancy, service and e-commerce business	579	546	21.2
	2.	Golf panorama	Customer X	A PRC company principally engaged in technology development, promotion, transfer and consultation, data management and software service business	552	521	17.6
	3.	618 celebration event	Customer AH	A PRC company principally engaged in technology development, promotion, transfer and consultation, data management and software service business, computer and mobile phone software development and sales	171	161	62.7
	4.	Interactive marketing	Customer AG	A PRC company principally engaged in design, production, agency and advertisement business	100	94	21.0
	5.	Yuanxiao festival event	Customer AH	A PRC company principally engaged in technology development, promotion, transfer and consultation, data management and software service business, computer and mobile phone software development and sales	50	47	63.7



## BUSINESS

The following table sets out our top five projects with the highest revenue contribution for each of our major business segments for 2021:

Business segment	Rank	Service/Product description	Customer	Background and principal business activities	Contract amount	Revenue recognized during the year	Gross margin
					<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>
<b>AR/VR marketing services. . . . .</b>	1.	Promotion of novel website	Customer AI	A PRC company principally engaged in technology development, transfer and consultation services, design, production, agency and advertisement business	20,933	19,748	23.2
	2.	Promotion of mobile game	Customer H	A PRC company principally engaged in advertisement design, production, agency and publication	12,957	12,224	23.8
	3.	Promotion of mobile game	Customer H	A PRC company principally engaged in advertisement design, production, agency and publication	11,453	10,805	21.9
	4.	Promotion of video game	Customer M	A PRC company principally engaged in computer software technology development and advertising business	11,232	10,596	21.0
	5.	Promotion of computer game	Customer M	A PRC company principally engaged in computer software technology development and advertising business	11,154	10,522	21.4

**BUSINESS**

Business segment	Rank	Service/Product description	Customer	Background and principal business activities	Contract amount	Revenue recognized during the year	Gross margin
					(RMB'000)	(RMB'000)	(%)
AR/VR content . . .	1.	A computer game	Customer AB	A PRC company principally engaged in technology service, development, consultation, transfer and promotion business	7,000	6,604	61.3
	2.	Civil air defense simulation exercise system based on 3D visualization technology	Customer AJ	A PRC company principally engaged in data processing services, Internet technology services, software development and sales and game production business	6,000	5,660	57.8
	3.	Resident physician skills assessment system and VR version of resident physician course	Customer AK	A PRC company principally engaged in technology development, consultation, service and transfer, computer technology training business	3,600	3,396	46.4
	4.	VR game cutting edge plan	Customer AL	A PRC company principally engaged in import and export, agency, Internet services and advertisement business	3,500	3,302	55.7
	5.	VR game escape from hell	Customer W	A PRC company principally engaged in software development, technology promotion, computer software and hardware service and sales of electronic appliances	3,200	3,019	60.1

**BUSINESS**

Business segment	Rank	Service/Product description	Customer	Background and principal business activities	Contract amount	Revenue recognized during the year	Gross margin
					<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>
AR/VR SaaS . . . . .	1.	AR bird catching	Customer AF	A PRC company principally engaged in Internet technology and computer technology development, technology transfer, consultancy, service and e-commerce business	542	511	41.6
	2.	VR cloud store for a tourist attraction	Customer X	A PRC company principally engaged in technology development, promotion, transfer and consultation, data management and software service business	540	509	60.9
	3.	AR activity striking penguins	Customer AF	A PRC company principally engaged in Internet technology and computer technology development, technology transfer, consultancy, service and e-commerce business	465	439	65.2
	4.	VR cloud store for a farm	Customer X	A PRC company principally engaged in technology development, promotion, transfer and consultation, data management and software service business	463	437	58.8
	5.	One hundred children’s songs	Customer X	A PRC company principally engaged in technology development, promotion, transfer and consultation, data management and software service business	440	415	53.4

## BUSINESS

The following table sets out our top five projects with the highest revenue contribution for each of our major business segments for the three months ended March 31, 2022:

Business segment	Rank	Service/Product description	Customer	Background and principal business activities	Contract amount	Revenue recognized during the period	Gross margin
					<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>
AR/VR marketing services . . . . .	1.	Promotion of a novel website	Customer AI	A PRC company principally engaged in technology development, transfer and consultation services, design, production, agency and advertisement business	11,080	10,453	24.5
	2.	Promotion of a short video website	Customer P	A PRC company principally engaged in Information technology consulting services; technical services, technology development, technical consulting, technical exchanges, technology transfer, technology promotion; office services; advertising design, agency; advertising production	9,216	8,694	22.4
	3.	Promotion of a short video website	Customer O	A PRC company principally engaged in information services on the Internet, communication engineering, advertisement design and publication	8,123	7,663	22.2
	4.	Promotion of a game	Customer R	A PRC company principally engaged in technical services, release various domestic advertisements	6,442	6,077	24.1

**BUSINESS**

<u>Business segment</u>	<u>Rank</u>	<u>Service/Product description</u>	<u>Customer</u>	<u>Background and principal business activities</u>	<u>Contract amount</u>	<u>Revenue recognized during the period</u>	<u>Gross margin</u>
					<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>
	5.	Promotion of a novel app	Customer AM	A PRC company principally engaged in television program production, movie production, information service consultation, software development and sales, advertisement production and design	6,321	5,964	24.5
AR/VR content . . . .	1.	Copyright for a PGC video	Customer F	A PRC company (subsidiary of a NASDAQ and Hong Kong listed company) principally operating a video search platform and a PGC content viewing platform	4,665	4,401	20.2
	2.	VR simulation of a fighter aircraft	Customer AE	A PRC company principally engaged in technology service, development, consultation, transfer and promotion, sales of computer software and hardware, and Internet business	4,180	3,865	58.6
	3.	VR soccer game	Customer AN	A PRC company principally engaged in Internet information service, publication of television drama and movie, Internet game service, software development, advertisement design and production services	3,960	3,661	56.6

**BUSINESS**

Business segment	Rank	Service/Product description	Customer	Background and principal business activities	Contract amount <i>(RMB'000)</i>	Revenue recognized during the period <i>(RMB'000)</i>	Gross margin <i>(%)</i>
	4.	VR ski game	Customer AB	A PRC company principally engaged in technology service, development, consultation, transfer and promotion business	3,300	3,051	63.2
	5.	VR flight simulator	Customer AO	A PRC company principally engaged in technology promotion, Internet cultural activities and Internet information services	3,250	3,005	56.9
AR/VR SaaS . . . . .	1.	Travel guide	Customer AP	A PRC company principally engaged in technology development, service, consultation, advertisement production, design and dissemination, software development, data processing and Internet cultural activities	268	253	53.6
	2.	A temple in Lhasa, Tibet	Customer X	A PRC company principally engaged in technology development, promotion, transfer and consultation, data management and software service business	250	236	48.5
	3.	Compilation of stories	Customer AP	A PRC company principally engaged in technology development, service, consultation, advertisement production, design and dissemination, software development, data processing and Internet cultural activities	249	235	55.1

## BUSINESS

Business segment	Rank	Service/Product description	Customer	Background and principal business activities	Contract amount	Revenue recognized during the period	Gross margin
					<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>
	4.	A gymnasium	Customer AP	A PRC company principally engaged in technology development, service, consultation, advertisement production, design and dissemination, software development, data processing and Internet cultural activities	239	225	63.4
	5.	A computer game	Customer AP	A PRC company principally engaged in technology development, service, consultation, advertisement production, design and dissemination, software development, data processing and Internet cultural activities	219	206	65.6

*Note:* Our customers of the top five projects for AR/VR marketing services were largely consistent with our top five customers for 2019, 2020 and 2021 and the three months ended March 31, 2022. Our customers of the top five projects for AR/VR content may not be one of our top five customers for 2019, 2020 and 2021 and the three months ended March 31, 2022 mainly because our major AR/VR content customers tend to engage us in several different projects in a year/period and each project may not be significant in terms of amount of revenue. None of our customers of the top five projects for AR/VR SaaS was our top five customers for 2019, 2020 and 2021 and the three months ended March 31, 2022 mainly because our AR/VR SaaS projects tend to be less complex and small in scale in terms of amount of revenue.



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## BUSINESS

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### MARKETING AND BRAND PROMOTION

We conduct online and offline marketing campaigns for brand promotion and marketing. We establish and enhance our brand awareness through online channels such as search engines, social media promotion and targeted advertising. We also enhance our brand awareness and improve our brand image and influence through participating in offline activities such as industry related exhibitions and conferences.

We promote our AR/VR SaaS platform on various media platforms. We aim to improve and enhance our brand exposure and awareness through issuing media reports on various topics, such as our products and services, cooperation with key customers and large-scale events involving various media. In addition, we hold and attend annual business summits, industry related exhibitions and other events to demonstrate the strength of our products and services to potential customers.

As of the Latest Practicable Date, our sales and marketing team had 33 members, carrying out marketing activities in Beijing, Shenzhen and Hangzhou.

### OUR CUSTOMER SERVICES

We value our customers' feedback on our services and have taken measures to handle complaints effectively. We strive to minimize the number of customer complaints by focusing on improving the capabilities of all our employees and strengthening the communication among them. Our departments cooperate together to act quickly to deal with customer complaints in a timely manner. The main department that handles complaints from customers is our operations department. Our operations department is responsible for investigating the matter, finding out the responsible persons, suggesting solutions, and formulating and implementing preventative and corrective measures. For major complaints from customers, the manager of the operations department will record the complaint and pass relevant information to other responsible departments and the general manager, and will hold an emergency meeting to devise a solution. After the complaint is handled, we also ask the customers how satisfied they are with the results and improve our measures accordingly.

During the Track Record Period and up to the Latest Practicable Date, we did not receive any complaint about our service or product which has a material adverse impact on our business or operating performance from our customers or any regulator.

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## BUSINESS

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### OUR SUPPLIERS

Our major suppliers are primarily agents of media platforms which provide traffic and companies which offer subcontracting and development services or provide content materials or IPs. Substantially all of our traffic acquisition costs were paid to agents of media platforms during the Track Record Period, which is common in the industry according to iResearch, as most media platforms engage agents to handle their traffic resources. During the Track Record Period, all of our suppliers were located in China. Sometimes we prepay our suppliers. In other occasions, our suppliers other than subcontractors grant us a credit term of 10 to 60 working days typically after our suppliers issue a VAT invoice to us. We generally settle payments with our suppliers in RMB by bank transfer. For details of payment arrangements with our subcontractors, see the paragraph headed “— Subcontracting” in this section. In each of 2019, 2020 and 2021 and the three months ended March 31, 2022, the expense paid to our top five suppliers accounted for approximately 49.9%, 41.1%, 45.1% and 54.2% of our cost of revenue for the respective year/period. In each of 2019, 2020 and 2021 and the three months ended March 31, 2022, the expense paid to our largest supplier accounted for approximately 16.1%, 9.7%, 13.5% and 14.8% of our cost of revenue for the respective year/period.

## BUSINESS

The details of our top five suppliers in 2019 (by cost of revenue) are set out in the following table:

Supplier	Main service/ product provided	Cost of revenue <i>(RMB'000)</i>	Percentage of cost of revenue <i>(%)</i>	Background and principal business activities	Year of commencement of business relationship	Registered capital <i>Note (4)</i> <i>(RMB)</i>	Credit Term <i>Note (5)</i>
Supplier A . . .	Traffic acquisition	28,208	16.1	A PRC company principally engaged in software development, product design and advertisement design, production, agency and publication	2019	50,000,000	10 working days after receipt of invoice
Supplier B . . .	Traffic acquisition	19,711	11.2	A PRC company principally engaged in technology development, transfer, promotion and service and advertisement design, production, agency and publication	2019	10,000,000	20 working days after receipt of invoice
Supplier C . . .	Traffic acquisition	18,708	10.7	A PRC company principally engaged in the technical service within the Internet technology field, the development of computer hardware and software, the research and development of online games, website design and development	2019	10,000,000	20 working days after receipt of invoice
Supplier Group D . . .	Traffic acquisition and subcontracting and development services	10,481	6.0	A group of PRC companies principally engaged in advertisement design, production, agency and publication; technology development, technology transfer, technology services, technology consulting; copyright agency services	2018	<i>Note (1)</i>	5, 15 or 20 working days after receipt of invoice, or 30 working days
Supplier Group E . . .	PGC video materials and IP purchase	10,377	5.9	A group of PRC companies (subsidiaries of a PRC listed company) principally engaged in the production, reproduction and publication of features, columns, variety shows, animations, radio dramas and TV series	2018	<i>Note (2)</i>	60 working days after receipt of invoice
<b>Total . . . . .</b>		<b>87,485</b>	<b>49.9</b>				

## BUSINESS

The details of our top five suppliers in 2020 (by cost of revenue) are set out in the following table:

Supplier	Main service/ product provided	Cost of revenue <i>(RMB'000)</i>	Percentage of cost of revenue <i>(%)</i>	Background and principal business activities	Year of commencement of business relationship	Registered capital <i>Note (4)</i> <i>(RMB)</i>	Credit Term <i>Note (5)</i>
Supplier F . . .	Traffic acquisition	22,670	9.7	A PRC company principally engaged in computer technology-related services and advertisement design, agency and publication	2020	10,500,000	10 working days after receipt of invoice
Supplier G . . .	PGC video materials	22,170	9.5	A PRC company (subsidiary of a PRC listed company) principally engaged in the production, reproduction and publication of features, columns, variety shows, animations, radio dramas and TV series	2018	600,000,000	60 working days after receipt of invoice
Supplier Group H . . .	IP Purchase	18,245	7.8	A group of PRC companies principally engaged in technology development, consultation and services and advertisement design, production, publication and agency business	2019	<i>Note (6)</i>	60 working days after receipt of invoice
Supplier A . . .	Traffic acquisition	18,032	7.7	A PRC company principally engaged in software development, product design and advertisement design, production, agency and publication	2019	50,000,000	Nil
Supplier I . . .	IP purchase and traffic acquisition	14,911	6.4	A PRC company principally engaged in game software, technical development, technical services, technical consulting, production, reproduction, distribution	2019	10,000,000	Nil
<b>Total . . . . .</b>		<b>96,028</b>	<b>41.1</b>				

## BUSINESS

The details of our top five suppliers in 2021 (by cost of revenue) are set out in the following table:

Supplier	Main service/ product provided	Cost of revenue <i>(RMB'000)</i>	Percentage of cost of revenue <i>(%)</i>	Background and principal business activities	Year of commencement of business relationship	Registered capital <i>Note (4)</i> <i>(RMB)</i>	Credit Term <i>Note (5)</i>
Supplier B . . .	Traffic acquisition	56,560	13.5	A PRC company principally engaged in technology development, transfer, promotion, service and consultation and advertisement design, production, agency and publication	2019	10,000,000	20 working days after receipt of invoice
Supplier A . . .	Traffic acquisition	44,688	10.6	A PRC company principally engaged in software development, product design and advertisement design, production, agency and publication	2019	50,000,000	Nil
Supplier J . . . .	PGC video materials	35,425	8.4	A PRC company principally engaged in advertisement design, production, agent technology development	2020	2,000,000	15 working days after receipt of invoice
Supplier K . . .	Traffic acquisition	26,813	6.4	A PRC company principally engaged in technology service, transfer, development, promotion, advertisement design, production, agent and publication business	2021	10,000,000	Nil
Supplier L . . .	Traffic acquisition	25,979	6.2	A PRC company principally engaged in technology development and advertising agency	2021	10,000,000	Nil
<b>Total . . . . .</b>		<b><u>189,465</u></b>	<b><u>45.1</u></b>				

## BUSINESS

The details of our top five suppliers for the three months ended March 31, 2022 (by cost of revenue) are set out in the following table:

Supplier	Main service/ product provided	Cost of revenue <i>(RMB'000)</i>	Percentage of cost of revenue <i>(%)</i>	Background and principal business activities	Year of commencement of business relationship	Registered capital <i>Note (4)</i>	Credit Term <i>Note (5)</i>
Supplier B . . .	Traffic acquisition	23,034	14.8	A PRC company principally engaged in technology development, transfer, promotion, service and consultation and advertisement design, production, agency and publication	2019	RMB10,000,000	20 working days after receipt of invoice
Supplier M . . .	Traffic acquisition	17,379	11.2	A PRC company principally engaged in design, produce, represent, publish advertisements	2021	RMB20,000,000	Nil
Supplier N . . .	Traffic acquisition	16,648	10.7	A PRC company principally engaged in technology development and advertising agency	2021	RMB10,000,000	Nil
Supplier O . . .	Traffic acquisition	14,184	9.1	A PRC company principally engaged in technology development, technical consultation, technology transfer, technology promotion, and technical services	2021	RMB2,000,000	Nil
Supplier P . . .	Traffic acquisition	13,126	8.4	A PRC company principally engaged in technical service, technical development, technical consultation, technical exchange, technology transfer, technology promotion, advertising design, agency	2021	RMB10,000,000	20 working days after receipt of invoice
<b>Total . . . . .</b>		<b><u>84,371</u></b>	<b><u>54.2</u></b>				

*Notes:*

- (1) The registered capital of our suppliers in Supplier Group D is RMB101,570,000, RMB500,000 and RMB10,000,000, respectively.
- (2) The registered capital of our suppliers in Supplier Group E is RMB600,000,000 and RMB10,000,000, respectively.
- (3) The registered capital of our suppliers in Supplier Group H is RMB1,255,429 and RMB10,000,000, respectively.
- (4) The registered capital in the table are amounts as of March 31, 2022.
- (5) Invoice in the credit term refers to a VAT invoice.

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During the Track Record Period, we provided a short-term loan with a principal amount of RMB12.4 million to Supplier B. For details of the loan, see the paragraph headed “Financial Information — Discussion of Certain Key Consolidated Balance Sheet Items — Loan receivables” in this document.

During the Track Record Period, we did not have any material dispute with any of the above suppliers nor did we receive any material complaint from any of such suppliers.

Our top five suppliers in each of 2019, 2020 and 2021 and the three months ended March 31, 2022 were Independent Third Parties and none of our Directors or their respective close associates or any Shareholder (who to the best knowledge of our Directors owned more than 5% of our issued share capital as of the Latest Practicable Date) had any interest in any of our top five suppliers as of the Latest Practicable Date. To the best knowledge of our Directors, none of our top five suppliers were our customers during the Track Record Period.

### **Subcontracting**

We generally engage subcontractors to provide art-designing services and non-core technical support when we encounter capacity constraints. During the Track Record Period, all of our subcontractors were located in China and all of the subcontractors fees were denominated in RMB. While we primarily fulfil our customers’ demands using our own resources, by adopting use of subcontractors, our Directors believe that our Group was able to maintain a degree of flexibility in our pace of expansion and leverage on the market advantage of certain subcontractors. We select subcontractors on a case-by-case basis, based on their background and qualifications in providing services to us, for maximizing value to our customers. For 2019, 2020 and 2021 and the three months ended March 31, 2022, our subcontracting and development costs were RMB21.3 million, RMB22.6 million, RMB36.9 million and RMB14.6 million, respectively, representing approximately 12.1%, 9.7%, 8.8% and 9.4% of our cost of revenue for the same periods, respectively. During the Track Record Period, we generally paid our subcontractors ranging from RMB2,000 to RMB3 million per project. For the details on the year of commencement of business relationship with our major subcontractors during the Track Record Period, see the paragraph headed “— Our Suppliers” in this section.

We usually sign subcontracting agreements with our subcontractors. Material terms of the typical agreements generally include:

- **Scope of services:** We generally engage subcontractors to (i) create 2D and 3D art designs, including but not limited to icons, characters, objects and landscapes; and (ii) provide non-core technical support.



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- **Right to inspection:** We may inspect the work of our subcontractors produced under the agreement and request modifications to such work before acceptance of their work.
- **Obligations of our subcontractors:** Our subcontractors are obligated to ensure that all work created pursuant to the agreements do not violate any applicable laws and regulations.
- **IPs:** We own the IPs of the art designs that are created by our subcontractors pursuant to the agreements.
- **Payment:** We generally pay our subcontractors based on the length of the project. We usually pay our subcontractors in full after signing the agreement or after acceptance of their work for short-term projects. We may pay our subcontractors in two or three instalments based on the percentage of completion for long-term projects. We pay our subcontractors in RMB by bank transfer.
- **Term:** Depending on the scope of services, our subcontractors are given a certain period, for example one month, to deliver their work.
- **Termination:** We are generally entitled to terminate the subcontracting agreement if our subcontractors could not complete the projects within the prescribed time period for reasons caused by our subcontractors.

Our Directors confirm that all of our subcontractors are Independent Third Parties during the Track Record Period and we do not place any undue reliance on any of our subcontractors.

## RESEARCH AND DEVELOPMENT

As a technology-driven AR/VR content and services company, we continuously strengthen our research and development ability. For 2019, 2020 and 2021 and the three months ended March 31, 2022, our research and development expense was RMB11.4 million, RMB15.0 million, RMB21.7 million and RMB8.2 million, respectively, representing approximately 4.6%, 4.4%, 3.6% and 3.6% of our total revenue for the same periods, respectively. During the Track Record Period, we also outsourced the development of some of our non-core technologies and interactive content modules to third parties, the IP rights of which belong to us. We did not capitalize any research and development expenditures during the Track Record Period.

Our research and development currently has a focus on technology development and content development. As of the Latest Practicable Date, we had a research and development team of 67 full-time employees, representing approximately 46.5% of our employees. As of the Latest

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Practicable Date, our research and development team had 31 engineers and 29 designers, most of whom possessed bachelor's degrees. Our research and development team members have expertise in software development and art and animation designs. Our research and development team is led by Mr. Li, who has more than 15 years of experience in software engineering.

We are committed to strengthen our research and development based on our annual research and development plan and our prediction of market demands. Our research and development plan as of the Latest Practicable Date involves:

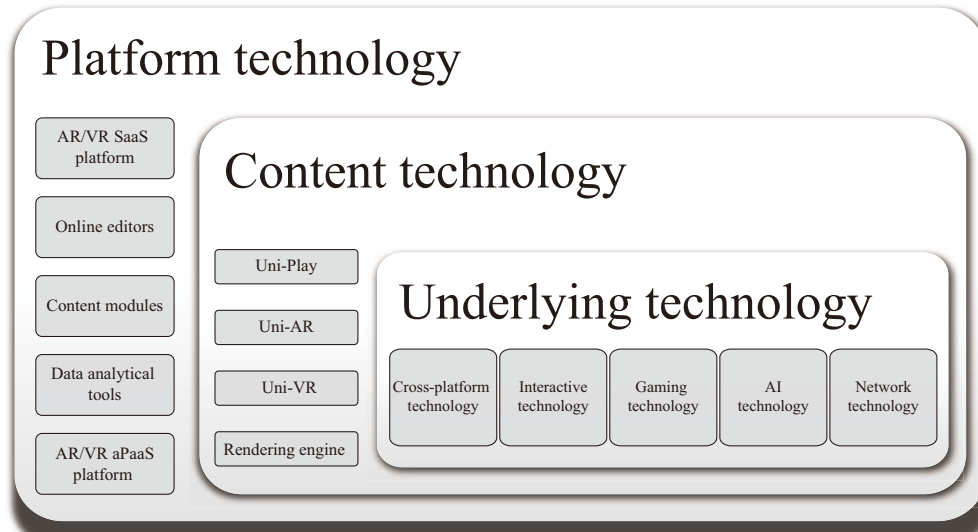
- strengthening our AI algorithm capabilities and image rendering capabilities which could enable our customers to achieve higher levels of display effects for their products and content;
- strengthening standardization and process building in content creation, and optimize them through big data algorithms; and
- further enhancement of our AR/VR technology to adapt to next-generation AR glasses, VR glasses, holographic projection and 5G applications.

We plan to continue to upgrade our research and development system to explore potential demands of customers, while further improving our quality of service to enhance our operation and marketing abilities.

### OUR TECHNOLOGIES AND INFRASTRUCTURE

We have multifaceted AR/VR technology that covers and provides support for our AR/VR business. Our AR/VR technology can be divided into three categories, namely the underlying technology, the content technology and the platform technology. The underlying technology is our core capability, which supports all our major businesses and establishes our competitive advantages in the industry. The content technology addresses the customers' demand and provides us with a base to grow our business. The platform technology enables our technology to be exported and empowers customers or developers to participate in the content production together with us. Our success hinges upon our key technological capabilities in providing customers with high-quality AR/VR marketing services and offering end users with our AR/VR interactive content and immersive experience.

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### Underlying technology

Our underlying technology includes cross-platform technology, interactive technology, gaming technology, AI technology, network technology, among others. Our cross-platform technology allows our AR and VR effects to be presented on Android, iOS, H5, Windows and other platforms. Particularly, our cross-platform technology developed a series of APIs connecting various platforms to unify access to different platforms. Our interactive technology and gaming technology provide a base for the development of interactive content. Our interactive technology mainly includes our algorithms that could respond accurately to gestures recognition, space location, eye-movement, voices and captured-motion. Our gaming technology mainly includes 3D modeling, physical engines, user interface framework and data driven technology. Our AI technology can, through machine learning algorithms, identify images, texts, voices and faces and motions. Particularly, our facial recognition and motion recognition capabilities under our AI technology aim to achieve higher accuracy in identifying faces and body movements of end users, with a view to produce better interaction effects with our interactive technology. In addition, our network technology ensures the stable and smooth operation of our systems which further brings smooth experience to end users.

### Content technology

Our comprehensive AR/VR development engines include our Uni-Play engine, Uni-AR engine, Uni-VR engine and rendering engine, all of which improve development efficiency by shortening the development time of AR/VR products and enables us to carry out cross-platform development and provide one-stop development solutions with a full platform coverage. The Uni-Play engine was first launched in 2012. Through years of development and iteration, our Uni-Play engine has combined functions including messages, e-mails, tasks, accomplishments and

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archive. The Uni-AR engine released in 2016 further improved the AR cross-platform solution and presented AR effects on apps, H5 and mini programs. We launched the Uni-VR engine in 2017 which offered comprehensive VR cloud store solutions to our customers. In the same year, we launched our rendering engine. Our rendering technology helps us present AR/VR interactive content with richer graphic effects, making it easier to catch users’ attention.

### Platform technology

- **AR/VR SaaS platform technology:** Our AR/VR SaaS platform provides a large number of AR/VR content modules, online editors and a range of data analytical tools, helping our customers to gain better designing experience on our AR/VR SaaS platform. Our platform technology enables our technology to be exported and empowers end users and developers to customize and develop AR/VR interactive content easily and efficiently, which in turn is expected to improve our AR/VR business ecosystem and attract more parties to participate in AR/VR interactive content production. With respect to online editors, our AR/VR SaaS platform provides tools such as AR/VR scene construction and web-AR/VR solutions, helping our customers to gain better designing experience on our AR/VR SaaS platform. The settings and layout of our AR/VR SaaS platform are designed to follow our AR/VR marketing services cycle, thereby empowering our AR/VR marketing services. In particular, our AR/VR SaaS platform has built up access to the APIs of several top e-commerce platforms in China, which allows users to export AR/VR content from our AR/VR SaaS platform to e-commerce platforms. In addition, our AR/VR SaaS platform is equipped with diversified analytical tools and functional modules, including AR/VR interactive marketing, marketing promotion, media monetization, VR video conversion, text message service, WeChat official account assistant, among others, covering the business cycle of AR/VR marketing services.
- **AR/VR aPaaS platform technology:** We allow developers to quickly deploy the functions needed on our aPaaS low-code development platform and to strategically use the relevant tools to form their AR/VR solutions.

### Our information technology infrastructure

We use cloud and offline products to develop our main products and services, which can ensure high scalability and reliability, process large amounts of data in real time and carry out complex and diverse designs according to the actual circumstances of users.

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The main features of our information technology infrastructure are set out below:

- **Reliability and stability:** We set up multiple redundancy to ensure the reliability of our information technology infrastructure. Our internal network is equipped with multiple security measures to protect our database from unauthorized access, and adopts complex security measures for the internal and external communication and transmission of encrypted data. We also use firewalls to prevent unauthorized access to our systems. Furthermore, we have an automatic monitoring system that keeps track of the key indicators of our business operations and information technology infrastructure. The system triggers an alarm when any indicator exceeds the safety limit, allowing us to respond quickly to emergencies. During the Track Record Period, we did not experience any major service interruptions.
- **Security:** We adopt a variety of data backup methods, including local backup and cloud backup, to ensure data security and prevent data loss. We encrypt and store customer data to guarantee the security of sensitive data.
- **Scalability:** We use microservice technology to build the cloud architecture of our platform, so that we can operate all parts of our business through scalable and standardized service modules with independent and automatic features, and quickly adapt to new business requirements by adding new service modules. We can also fine-tune each service module and integrate common functions into separate modules, in order to maintain a simple architecture, improve the efficiency and flexibility of our system, and reduce maintenance costs.
- **High performance:** We deploy resources to different server node vendors, operators and regions via multiple domain names while using technologies such as real-time network speed detection to detect the best communication path. This achieve high-speed data loading and improve user experience.

## DATA PROTECTION AND PRIVACY

We accumulate data in the course of our business operations. We take compliance with the laws and regulations of data protection and privacy seriously and strive to protect our data from being misappropriated or misused. We only collect and store limited personal data such as mobile phone numbers from registered users of our AR/VR SaaS platform. We do not obtain information of the users' real identities when they first register with us as the users may use pseudonyms to register on our AR/VR SaaS platform and we are not able to trace the mobile phone numbers provided by the registered users to the individuals owning the mobile phone numbers. Any user that intends to register an account with us must agree to our terms of service and data privacy

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policy, pursuant to which such user must agree to our collection, storage and use of its personal data in accordance with applicable PRC laws and regulations. If a registered user of our AR/VR SaaS platform wishes to become a subscribed paying user or would like to use our customized AR/VR SaaS solutions, we will enter into a contract with such user and only then will we obtain the contracting party’s identity information. However, we do not use the contracting party’s identity information to track their online activities on our AR/VR SaaS platform.

In providing AR/VR marketing services, we collect data such as the duration of the end users viewing or participating in the activities, the number of participations and the scores from the participations, with a view to analyzing end users’ behavior and to improve our services. We do not collect any personal data of the end users.

We regard all accumulated data as confidential information. We are obligated not to disclose any information collected from customers without their consent and approval. We have the required manpower and have established electronic and management procedures to protect and safeguard our data assets, including measures to prevent unauthorized access, preserve data integrity, and ensure proper use of data. Employees of different levels or with different duties are assigned different levels of system and different data access rights. We manage user roles and rights through a centralized control, and only system operators are allowed to access the physical location of our servers. In addition, we have built a hardware firewall where all traffic is inspected and filtered. We conduct a comprehensive security review of data assets on an annual basis, and perform ad hoc security reviews from time to time.

Our legal director is responsible for overseeing the legal compliance of our business practices related to data privacy. We provide ongoing training for operational and technical personnel to enhance their knowledge on data privacy. Our PRC Legal Advisors are of the view that we comply with all applicable PRC laws and regulations in all material respects regarding information security and privacy protection as detailed in the paragraph headed “Regulatory Overview — Laws and Regulations relating to Information Security and Privacy Protection” in this document.

## SEASONALITY

Our business is subject to seasonal fluctuations. Our revenue from the first quarter of each calendar year generally contributes a smaller portion of our total revenue in the year, primarily due to the closure of businesses at the beginning of the calendar year in which the Chinese New Year holidays fall, resulting in less demand from our customers. We expect our revenue to continue to fluctuate based on seasonal factors.

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### COMPETITION

The AR/VR content and services industry in which we operate is highly fragmented and intensely competitive. We are in direct competition with other AR/VR content and services providers in China. We believe that our business has advantages over our competitors’ in terms of multifaceted AR/VR technologies and AR/VR interactive content production capabilities. Our multifaceted AR/VR technologies, namely the underlying technology, the content technology and the platform technology, provide support for our AR/VR business. The underlying technology is our core capability, which supports all our major businesses and establishes our competitive advantages in the industry. The content technology addresses the customers’ demand and provides us with a base to grow our business. The platform technology enables our technology to be exported and empowers customers or developers to participate in the content production together with us. As we are one of the earliest companies entering the AR/VR content and services market in China, we have accumulated years of experience in AR/VR interactive content production and have a wide industry coverage of customers. We expect competition in the AR/VR content and services industry to intensify. See the paragraph headed “Risk Factors — Risks Relating to Our Business and Industry — We face intensive competition in the markets in which we operate and may not be able to compete successfully against our existing and future competitors” in this document. For further details of the competition in our industry, see the section headed “Industry Overview” in this document.

### INTELLECTUAL PROPERTY RIGHTS

We own key intellectual property rights and proprietary rights related to business operations. As of the Latest Practicable Date, we had registered 31 trademarks in various categories, had nine invention patents, one design patent, 287 software copyrights and 21 artwork copyrights in China and 10 trademarks in Hong Kong, and have applied for the registration of six trademarks in various categories and three invention patents in China. In China, we had 13 registered domain names as of the Latest Practicable Date.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not been involved in any major disputes or pending legal proceedings related to any intellectual property rights, nor received any notice of claims for infringement of intellectual property rights.

For further details of our intellectual property, see the paragraph headed “Statutory and General Information — B. Further Information about the Business of our Company — 2. Intellectual Property Rights” in Appendix IV to this document.



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### INSURANCE

We are subject to the social insurance system of the PRC and are required to make contributions for our employees towards five categories of insurance, consisting of basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. We have elected not to maintain certain types of insurances, such as business interruption insurance or key man insurance. Our Directors are of the view that our insurance coverage is adequate and in line with the industry norm. During the Track Record Period, we did not make any material insurance claims in relation to our business. See the paragraph headed “Risk Factors — Risks Relating to Our Business and Industry — We may not have sufficient insurance coverage to cover our potential liability or losses and as a result, our business, financial conditions, results of operations and prospects may be materially and adversely affected should any such liability or losses arise” in this document for further details.

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”)

We are committed to environmental protection and promoting corporate social responsibility and best corporate governance practices to develop sustainable value for stakeholders, undertaking our responsibilities as a corporate citizen. We have established ESG policies which set forth our environmental protection measures, social responsibility principals and internal governance.

Under our ESG policies for environmental protection, we aim to promote usage of renewable resources and reduce production of hazardous chemicals and gas emissions. Our ESG policies for social responsibility and corporate governance aim to ensure that our business meets applicable laws and regulations, contribute to social responsibility causes and promote employees’ work safety. We also established ESG policies for corporate governance, which aim to manage risks in operation and enhance our operational efficiency. In addition, we endeavor to reduce any negative impacts on the environment through our commitment to energy saving and sustainable development. We will also focus on embracing diversity within our organization and equal and respectful treatment of all of our employees in their hiring, training, wellness and professional and personal development. While maximizing equal career opportunity for everyone, we will also continue to promote work-life balance and create a happy culture in our workplace for all of our employees.

We believe that it requires collective effort from our Board to evaluate and manage material ESG issues, therefore we have not established any sub-committee for ESG issues. Our Directors have collective and overall responsibility for our ESG strategy and reporting, ensuring that our ESG policies are duly implemented and comply with the latest standards and managing material ESG issues (in particular, climate-related risks and opportunities). The management will implement our ESG strategy and policies and make timely report to our Directors on ESG issues. Our

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Directors also support us in fulfilling our environmental and social responsibilities. Our Directors are responsible for identification, assessment and management of our ESG-related risks at least once a year, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. Our Directors may assess or engage independent third party(ies) to evaluate the ESG risks and review our existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate the risks.

As a practitioner in the AR/VR content and services industry, in view of the non-manufacturing nature of our business, we believe that our operations are not a major source of environmental pollution. Our operations do not involve directly generating any significant air and noise pollution, and discharging waste. Hence, we are not aware of any relevant environmental laws and regulations in respect of air pollution and greenhouse gas emissions, discharge into water and land, and generation of hazardous and non-hazardous waste that would cause a significant impact to our environment. Under the oversight of our management, we actively identify and monitor the actual and potential impact of environmental, social and climate-related risks on our business, strategy and financial performance, and incorporate the considerations for these issues into our business, strategic and financial planning. Our Board will be collectively responsible for establishing, adopting and reviewing the ESG vision and targets of our Group, identifying key performance indicators (“KPIs”) and the relevant measurements and evaluating, determining and addressing our ESG related risks (including climate-related risks and opportunities the Group has identified over the short, medium and long term and their impact on the Group’s business, strategy and financial performance) in accordance with Appendix 27 to the Listing Rules. Our Directors will be involved in the formulation of the mechanisms and the related policies. We will assess and evaluate the ESG related risks, take mitigation steps and review our existing strategy, targets and internal control measures on an ongoing basis. Since our business operations do not involve the manufacturing of products, we do not currently have any material liabilities relating to health, work safety and environment, and do not expect that we will incur any material liabilities in this regard which could have any material adverse impact on our business and operating results.

Despite our minimal impact on the environment, we recognise our social responsibilities in managing environmental impacts associated with our operations and the importance of minimizing potential risks that might affect the implementation of our business plan, strategy and financial performance.

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We consider energy consumption and resource utilizations as environmental concerns relevant to our operation. We identify and assess environmental risks according to the relevant legal requirements and environmental consequences. We have adopted the following measures to identify, assess and manage risks that may arise from these aspects:

### Energy consumption

- Our energy consumption is mainly derived from electricity consumption from our offices and IT servers maintained at the data centers of our external service providers. Electricity consumption is also the main source of indirect greenhouse gas emissions. Therefore, increasing energy efficiency and reducing our carbon footprint has been one of the key considerations of our operations.
- We reduce the energy consumption and carbon footprint through:
  - installing energy efficient lighting and ensuring that lights are switched off when not in use, either manually or through automatic sensors;
  - switching off certain IT equipment or automatically shutting down the power for certain systems and devices; and
  - implementing air conditioning controls, including requirements on the lowest temperature, regular maintenance of air cooling technologies and optimal timing controls.

Our estimated electricity consumption during the Track Record Period of our offices is illustrated in the following table:

	Year ended December 31,			Three months ended
	2019	2020	2021	March 31,
	<i>kWh</i>	<i>kWh</i>	<i>kWh</i>	2022 <i>kWh</i>
Electricity Consumption . . . . .	33,683	40,191	147,576	86,507

*Note:* Our estimated amount of electricity consumption is calculated based on an average price of RMB1.205 per kWh.

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Our electricity consumption increased in 2021 mainly as we moved to larger office premises in 2021 to fit the increasing number of employees driven by our business expansion. Notwithstanding that we expect to continue to expand our business and increase our headcounts, we plan to take measures to maintain our electricity consumption at the level similar to that of 2021.

### **Resource utilizations**

- In relation to resource utilization management of our offices, we adopt a document management system and a paper management system with the aim to reduce the amount of paper used for record keeping and to avoid unnecessary printing. We also ask our employees to be mindful of the environment when using office supplies and encourage them to reuse office supplies.
- We consider our water consumption to be insignificant as no water is required in our daily business operations apart from small-scaled domestic use by our employees. To avoid generating plastic waste from the use of plastic bottles, we have installed water dispensers that filter tap water for drinking purposes at our offices.
- In addition, we encourage our employees to commute by public transport. We also encourage teleconferences as opposed to physical meetings to reduce travel.

### **Climate Change**

We acknowledge that climate-related issues pose a certain level of threat to us. Climate-related risks identified by us can be classified into two major categories: physical risk and transitional risk.

We define physical risks as risks that potentially cause physical impact to us. We believe that climate-related issues may bring about the risk of increasingly severe extreme weather events, such as more frequent storms, typhoons and flooding. We may potentially be impacted by an increased operation and maintenance cost, as well as increased investment in insurance for protection. The health and safety of employees may also be endangered.

In view of the nature of our business, our Directors are of the view that physical risks from climate change will not have major impact on our business operation or business strategy. In the case of extreme natural weather, we will actively respond to the relevant policies of local government and make contingency plans to ensure the safety of our employees and facilities. In the case of acute physical risks such as flood and fire, we will also make corresponding contingency plans and disaster preparation plans.

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Due to climate change and climate-related issues, consumers may shift their preferences to a sustainable lifestyle, while regulators may require increasing disclosure on emission. Such transitional risks which require us to move towards a sustainable business model may potentially lead to impacts such as increased operational cost from change of operational practices. For example, we may need to switch to energy efficient lighting or increase greenery areas on our operational premises. With regard to increasing responsibilities on emission disclosure, we may be impacted by increased cost to execute more stringent monitoring measures on emissions and resource consumption.

During the Track Record Period, our business, our results of operation and financial condition were not materially adversely impacted by any climate-related incident.

### **Training and safety in workplace**

- We put strong emphasis on work safety, and we are committed to meeting all health and safety statutory requirements. Our employees are required to attend safety training upon commencement of their respective employment.
- We have established a business continuity plan in the event of extended service outages caused by factors beyond our control (e.g., natural disasters, man-made events). All Company sites are expected to implement preventive measures to minimize the risks of employee injury and fatality, and operational disruptions. Operations are expected to recover only when the safety of employees is ensured. We also have an evacuation procedure. In the event of a fire at our workplace, a designated personnel will assist in the evacuation of our employees and take a roll call at a designated assembly point.
- We have adopted a total ban on smoking in all of our facilities. Smoking is strictly prohibited in all enclosed areas in the offices, including private offices, conference/meeting rooms, warehouses, common areas, pantries, washrooms and reception areas.
- We are committed to providing a safe and healthy working environment for our employees. During the Track Record Period, we did not have any material accidents in the course of our business operations, nor did we receive any material claims against us for personal or property damage, health, or safety related compensation.

### **Corporate Social Responsibility**

Since our founding, we are highly committed to sustainable corporate responsibility projects, through charitable endeavours and by extending the benefits of our ecosystem to society at large.

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During the Track Record Period, our achievements and initiatives in the area of corporate social responsibility include the following:

- *COVID-19 relief effort.* We take the health and safety of our employees as a top priority. We provide all of our employees with masks and other protective equipment immediately after the COVID-19 outbreak.
- *Our people.* We continuously invest in the training and career development of young talents. We strive to provide our engineers and other employees with comprehensive social benefits, a diverse work environment and a wide range of career development opportunities. We provide support to the physical and mental health of our team members and their families by providing an array of programs that help them to be in their optimum level of well-being. We are committed to the education, recruitment, development and advancement of our team members. We focus on the improvement of employees’ professional development, and have made efforts to incentivise our employees to set goals and attain a “sense of fulfilment”. Additionally, we place special emphasis on the building of a talent pipeline and cohesive organisational culture. We have established a comprehensive system for employee training and development, covering leadership, general competencies, professional competencies, and others. Our comprehensive training program includes corporate culture, employee rights and responsibilities, team building, professional behaviour, job performance, management skills, leadership, and administrative decision-making.
- *Data protection and privacy.* We are committed to protecting personal information and privacy. We have established and implemented a strict company-wide policy on data aggregation and processing. See the paragraph headed “— Data protection and privacy” in this section for more details.

### **Board diversity**

- We have adopted a board diversity policy which sets out the objectives and approach to achieving and maintaining diversity of the Board in order to enhance the effectiveness of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, language, cultural background, educational background, industry experience and professional experience. Our Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of technology, business management, finance and accounting, etc. Our Directors, with two females and five males, ranging from 37 years old to 56 years old, are able to bring a balance of diversity perspectives to our Board.

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- We are also committed to adopting a similar approach to promote diversity within management (including but not limited to the senior management) of our Company to enhance the effectiveness of corporate governance of our Company as a whole. For further details of our board diversity policy, see the paragraph headed “Directors and Senior Management — Board diversity policy” in this document.

During the Track Record Period, we did not receive any complaint from our business partners, customers or any other parties in respect of any ESG issues and we have not experienced any material environmental or workplace safety incidents arising from our operations. Our Directors further confirm that our Group had not been involved in any material non-compliance issues in respect of any applicable laws and regulations associated with ESG during the Track Record Period and up to the Latest Practicable Date.

We did not directly incur any cost of compliance with applicable ESG-related rules and regulations during the Track Record Period. Our Directors expect that our Group will not directly incur any significant costs for compliance with applicable ESG-related rules and regulations in the future.

Going forward, the Nomination Committee is delegated by our Board to be responsible for compliance with relevant codes governing board diversity under the Code. After the [REDACTED], the Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis.

## PROPERTY

Our headquarters is located in Beijing. As of the Latest Practicable Date, we did not have any self-owned property, and we leased five properties from Independent Third Parties, which are mainly used as our office space, and the expiry dates of the lease agreements are between November 2022 and June 2025. During the Track Record Period, we were not involved in any dispute arising from the leased properties.

As of the Latest Practicable Date, the lessor of one of our leased properties for use as our office space had not provided us with valid title certificates, relevant authorization documents or permissions evidencing their rights to lease the properties to us. As a result, the lease may not be valid, and there are risks that we may not be able to continue to use such property. Our Directors are of the view that the above-mentioned title defect would not materially and adversely affect our business operations because if we have to terminate the lease or relocate from such leased property with a title defect, we believe we will be able to relocate to alternative premises within a short period of time under comparable terms without incurring substantial additional costs.



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Pursuant to the applicable PRC laws and regulations, property lease contracts must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, we had not registered the property lease contracts of five of our leased properties, primarily due to the lack of cooperation or lack of relevant title certificates from the landlords in registering the lease contracts, which were beyond our control. Our PRC Legal Advisors have advised us that the lack of registration of the lease contracts will not affect the validity of the lease agreements under PRC laws, and have also advised us that a maximum penalty of RMB10,000 may be imposed for non-registration of each lease. The estimated total maximum penalty is RMB50,000. In the event that we are required to relocate from the leased properties, given the nature of our operation, we believe that it would not be difficult for us to identify and relocate to alternative premises at comparable costs and the relocation would not result in any material disruptions to our business. Although we may incur additional relocation costs, our Directors are of the view that this would not have any material impact on our business, financial position and results of operation. During the Track Record Period and up to the Latest Practicable Date, we had not been ordered by any authorities to register any of the unregistered lease agreements.

As of the Latest Practicable Date, we did not own any properties. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempted from compliance with the requirements of section 342(1)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our Group's interests in land or buildings.

## LICENSES AND PERMITS

As advised by our PRC Legal Advisors, during the Track Record Period and up to the Latest Practicable Date, we have obtained all necessary licenses, approvals, permits, registration and archival filings granted by the relevant government authorities that are significant to our business operations in China. Such licenses, approvals, permits, registration and archival filings are still in full force and effective as of the Latest Practicable Date. We plan to update all relevant licenses, approvals, permits, registration and archival filings from time to time to comply with relevant laws and regulations.

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License/Permit/Certificate	Holder	Issuing Authority	Date of Grant	Expiry Date
Value-added telecommunications business operating license (within business scope of internet content provider)	Ophyer Technology	BCA	July 22, 2020 <sup>(1)</sup>	July 22, 2025
Value-added telecommunications business operating license (within the business scope of information services other than internet content provider)	Ophyer Technology	BCA	July 22, 2020 <sup>(1)</sup>	July 22, 2025
Radio and television programs production business license	Zhongrunxing	Beijing Municipal Radio and Television Bureau	April 25, 2021 <sup>(2)</sup>	April 24, 2023
Value-added telecommunications business operating license (within business scope of internet content provider)	Beijing Xingshi	BCA	September 17, 2021	September 17, 2026
Value-added telecommunications business operating license (within business scope of internet content provider)	Hupo Jinyuan	BCA	October 14, 2021	October 14, 2026
Value-added telecommunications business operating license (within business scope of internet content provider)	Shenzhen Huachuang	Guangdong Province Communication Administration	October 27, 2021	October 27, 2026

*Notes:*

- Ophyer Technology has been operating with a value-added telecommunications business operating license (within business scope of Internet content provider) since 2015 and a value-added telecommunications business operating license (within the business scope of information services other than Internet content provider) since 2010.
- Zhongrunxing has been operating with a radio and television programs production business license since 2017.

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### EMPLOYEES

As of the Latest Practicable Date, we had 144 full-time employees, all of whom are located in China. The following table sets out the number of employees by function as of the Latest Practicable Date:

<u>Type of Employees</u>	<u>Number of Employees</u>	<u>Percentage of Total Number (%)</u>
Research and development . . . . .	67	46.5
Sales . . . . .	33	22.9
Operation . . . . .	18	12.5
Finance and Administration . . . . .	19	13.2
Management . . . . .	7	4.9
<b>Total</b> . . . . .	<u>144</u>	<u>100.0</u>

Our success depends on our ability to attract, motivate, train and retain qualified personnel. We believe we offer our employees competitive compensation packages and an environment that encourages self-development and, as a result, have generally been able to attract and retain qualified personnel and maintain a stable core management team. We value our employees and we are committed to growing with our own employees.

We recruit personnel through professional headhunting companies and recruitment websites. We have set up an employee incentive scheme to link employees' remuneration to their overall performance, and a performance-based remuneration reward system to keep them motivated. The promotion of each employee is not merely based on such employee's position and seniority. We also have a structured salary system consisting of basic salaries, incentive payments and bonuses.

In addition, we place strong emphasis on providing trainings to our employees in order to enhance their professional skills, understanding of our industry and work place safety standards, and appreciation of our value, as well as satisfying customer services. We offer different training programs for employees at various positions. For example, we offer induction training for newly recruited employees to attend as we strive for consistency and high quality of the services we offer to our customers. In addition, we provide trainings specifically catering for different skills and knowledge needed for different positions including product training, business training, finance training and management training. We strive to maintain a local talent pool and offer a promotion path for excellent employees in our Group.

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During the Track Record Period, we did not have any material labor disputes or labor strikes that could have a material adverse impact on our business, financial position or operating results. In accordance with the applicable laws and regulations in the PRC, we have paid social security contributions (including retirement pension scheme, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance) and housing provident fund for our employees. During the Track Record Period and up to the Latest Practicable Date, we paid full social insurance contributions and housing provident fund for all our employees except for two employees who voluntarily gave up the right to housing provident funds.

As advised by our PRC Legal Advisors, according to the *Regulation Concerning the Administration of Housing Provident Fund* (《住房公積金管理條例》), enterprises must register with the competent managing center for housing funds and open an account in a bank for the deposit of employees' housing funds. Employers are required to contribute, on behalf of their employees, to housing provident funds on time and in full. Any employer who fails to fully contribute may be ordered to make up the difference within a stipulated time limit, and the provident fund administration center may apply to the People's Court for mandatory enforcement against those who still fail to comply after the expiry of such period. Since during the Track Record Period the relevant employees are employed by Ophyer Technology and Beijing Flowing Cloud, respectively, the housing provident fund shall be paid by Ophyer Technology and Beijing Flowing Cloud, respectively, and under the supervision of the relevant regulatory authorities in Beijing pursuant to the applicable laws and regulations. As advised by our PRC Legal Advisors, we may be subject to maximum administrative fines of RMB100,000 for the above non-payment of housing provident fund contributions.

Our Directors, as advised by our PRC Legal Advisors, are of the view that the non-compliance incident of our Group in relation to housing provident fund contributions will not have a material adverse impact on our Group's operations and financial condition. Our PRC Legal Advisors are also of the view that the likelihood that our Company is prosecuted by the relevant PRC Government authorities is remote. This is primarily because: (i) the employees who voluntarily gave up the right to housing provident funds were migrant workers and according to a public reply by Beijing Housing Provident Fund Management Center on its official website on July 21, 2020, there is no compulsory requirement for payment of housing provident funds under relevant laws or regulations for migrant workers; (ii) we have not been subject to any regulatory actions or penalties in connection with the housing provident fund contributions; and (iii) the competent authorities have issued the relevant confirmations confirming that during the Track Record Period and we have not been penalized for violating laws and regulations relating to failures to comply with payment of housing provident fund contributions. We have adopted a set of internal policies in relation to housing provident fund contributions. We will endeavor to pay social insurance and housing provident fund for our employees in accordance with applicable laws and regulations.

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### LEGAL PROCEEDINGS AND COMPLIANCE

We may be involved in legal or other disputes in the course of our daily business operations. During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending litigation, arbitration or administrative proceedings (including any bankruptcy or take-over proceedings) that we believe will have a material adverse impact on our business, operating results, financial position or reputation.

We are subject to a wide range of PRC laws and regulations in the ordinary course of business. For more details, see the section headed “Regulatory Overview” in this document. As advised by our PRC Legal Advisors, save as disclosed in “— Employees” and “— Property” in this section, we had complied with the laws and regulations of the PRC applicable to us in all material respects during the Track Record Period and up to the Latest Practicable Date.

### RISK MANAGEMENT AND INTERNAL CONTROL

We are subject to various risks during our operations, see the paragraph headed “Risk Factors — Risks Relating to Our Business and Industry” in this document. We have established a risk management system and relevant policies and procedures which we consider suitable for our business operations. Our policies and procedures are aimed at managing and monitoring our business performance.

To monitor the continuous implementation of risk management policies and corporate governance measures after the [REDACTED], we have adopted or will continue to adopt, among other things, the following risk management measures:

- establish the Audit Committee to review and supervise our financial reporting process and internal control system. Our Audit Committee consists of three members: Ms. Wang Beili, Mr. Jiang Yi and Mr. Tan Deqing. For the qualifications and experiences of these members, see the section headed “Directors and Senior Management” in this document;
- adopt various policies to ensure the compliance with the Listing Rules, including but not limited to policies in respect of risk management, connected transactions and information disclosure;
- provide regular anti-corruption and anti-bribery compliance training for senior management and employees in order to enhance their knowledge of and compliance of applicable laws and regulations; and

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- arrange our Directors and senior management to attend training seminars on Listing Rules requirements and the responsibilities as directors of a Hong Kong-[REDACTED] company.

We have established risk management and internal control systems, including policies and procedures that we believe are appropriate for our business operations. In particular, we have adopted and implemented risk management policies in all key aspects of our business operations such as financial reporting, information systems, regulatory compliance and human resources.

### **Financial reporting risk management**

We have implemented a set of accounting policies for the risk management of financial reporting, such as financial reporting management policies, budget management policies, financial statement preparation policies, and finance department and employee management policies. We have implemented various procedures to put such accounting policies in place, and our finance department will review our management accounts in accordance with such procedures. We also provide trainings to personnel in the finance department on an as-needed basis focusing on accounting policies, tax management, financial reporting and other related topics.

As of the Latest Practicable Date, our finance department consisted of nine employees, led by our chief financial officer who has more than 14 years of experience in accounting and finance.

### **Information risk management**

We have implemented multiple measures to ensure our compliance with PRC laws and regulations relating to data privacy and security. We have designated personnel with over 10 years of experience in the information technology industry to take charge of data protection and to monitor the operations of our information technology infrastructure.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material breach of information or loss of data, nor have we experienced any material infringement and/or unauthorized use of the intellectual property rights of our copyrighted softwares.

### **Operational risk management**

In order to effectively manage our compliance and legal risks, we have adopted strict internal procedures to ensure that our business operations are in compliance with relevant rules and regulations. Under these procedures, our legal and compliance department performs the essential function of reviewing and updating the forms of contracts we enter into with our customers and suppliers. Before we enter into any contract or business arrangement, our legal and compliance

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department examines the terms of the contract and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparty to fulfill its obligations under business contracts, and all necessary relevant due diligence materials.

We improve our internal policies and update our internal templates for legal documents from time to time in response to any changes in laws, regulations and industry standards. In addition, we review the implementation of our risk management policies and measures from time to time to ensure that such policies and the relevant implementation are effective and adequate.

### **Human resources risk management**

We have established a set of internal control policies that cover all aspects of human resource management, including recruitment, training, professional ethics and legal compliance. We adhere to high recruitment standards and strict procedures to ensure the quality of our new employees. We provide customized training to employees in different departments as necessary. Our internal management policies incorporate guidelines on codes of conduct, professional ethics and prevention of fraud, malpractice and corruption. We have also established an anonymous reporting channel, through which potential violations of internal policies or illegal acts at all levels of our Group can be reported to the management in a timely manner, and appropriate measures can be taken to mitigate any damage.

### **Corporate governance measures**

We have established an Audit Committee, which is mainly responsible for assisting our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board. The Audit Committee comprises three independent non-executive directors, of which the chairlady has appropriate professional qualifications.

### **Ongoing measures to regulate the implementation of risk management policies**

Our Audit Committee, internal control department and senior management are responsible for ongoing oversight of the implementation of our risk management policies across our Company to ensure the internal control systems are effective in identifying, managing and mitigating the risks involved in the course of our business operations.



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### IMPACTS OF COVID-19 ON OUR OPERATIONS IN CHINA

#### Background

COVID-19 has spread all around the world since January 2020. As of the Latest Practicable Date, the COVID-19 pandemic has affected global public health and seriously disrupted tourism and economy. In response to the COVID-19 pandemic, the Chinese government has taken a variety of control and restriction measures, including the quarantine measures that pose restrictions on access and suspension of work in various provinces and cities in China.

On February 17, 2020, the *Guidelines on Scientific and Targeted Measures to Prevent and Control COVID-19 at Different Levels*\* (《關於科學防治精準施策分區分級做好新冠肺炎疫情防控工作的指導意見》) (“**Guidelines**”) was issued by the Joint Prevention and Control Mechanism of the State Council. According to the Guidelines, relevant county-level government departments in China are required to formulate specific measures to prevent and control the spread of COVID-19 locally.

Our business office is located in Beijing, one of the areas affected by COVID-19. On March 16, 2020, the *Measures on Prevention and Control of COVID-19 and Guarantee of Orderly Resumption of Work and Production of Enterprises*\* (《關於全力做好疫情防控工作保障企業有序復工復產的若干措施》) was published by the General Office of Beijing Municipal People’s Government, pursuant to which enterprises were encouraged to make epidemic prevention and control schedule and contingency plans, report exceptional cases to the disease prevention and control authorities timely, and to adopt flexible work arrangements.

To comply with the relevant public announcements and notices issued by the government to control the COVID-19 pandemic, we requested half of our employees to work from home from February 2, 2020 to March 2020. Employees who attended office were required to keep a distance of one meter from each other following the guidelines of the industrial park where our offices were located. On March 9, 2020, the operation of our Beijing office was fully resumed and we have not had any office disruption since then.

According to measures implemented by the Chinese government and information available to Directors as of the Latest Practicable Date, our Directors believe that COVID-19 pandemic will not pose permanent impact on our Group because most of our businesses are carried out through the Internet. Moreover, the social restrictions may promote the market demand for our AR/VR interactive content (such as VR cloud stores). The potential impacts of COVID-19 on our Group’s business in China stated herein are based on our Directors’ best estimation and beliefs, are prepared based on the latest information available to our Directors as of the Latest Practicable Date, and are subject to the development of the COVID-19 pandemic. For further details of the

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risks, see the paragraph headed “Risk Factors — Risks Relating to our Business and Industry — We face risks related to natural disasters, health epidemics, and other public safety concerns” in this document.

### **Potential impacts on the AR/VR industry**

According to iResearch, under the impact of the COVID-19 pandemic, a large number of offline activities have been transferred online and users have more practical experience in living on and working through the Internet. As the COVID-19 pandemic has restricted traveling, demand for online interactive scenarios such as remote office and distance education based on AR/VR has increased. As users spend more time staying at home during the COVID-19 pandemic, demand for online entertainment such as watching AR/VR content and playing AR/VR games has also increased. As the COVID-19 pandemic has restricted some business activities such as tourism and house viewing, the demand for online panoramic tours and house viewings based on AR/VR technology has also increased. Users forming habits of transferring their daily activities online will provide a good user base for the popularization of the AR/VR industry. The AR/VR content and services industry will benefit from the popularization and development of the AR/VR industry. The COVID-19 pandemic has some short-term negative impact on the AR/VR industry. For example, production of AR/VR hardware was delayed during the pandemic resulting in the decrease in the supply of AR/VR hardware. However, the supply of AR/VR hardware is expected to grow in the future driven by the increasing demand for AR/VR hardware. For another example, as some industries such as culture and tourism were adversely affected by the COVID-19 pandemic, expenditures on AR/VR were cut down. In the long run, however, users may form the habit of online sightseeing during the pandemic, which may drive the growth of AR/VR content in culture and tourism in the future. Taking into account the impact of the COVID-19 pandemic, the AR/VR content and services market size in terms of revenue in China is expected to increase from RMB35.7 billion in 2022 to RMB130.2 billion in 2026 at a CAGR of 38.2%, according to iResearch.

### **Potential Impacts on our Business**

The COVID-19 pandemic had a certain impact on our business in 2020. Our revenue from AR/VR content and services businesses grew at a slower pace in 2020, which was mainly due to the COVID-19 outbreak as, to the best knowledge, information and belief of our Directors after having made reasonable enquiries, some of our advertising customers scaled down their budget, spending and marketing investment in the first half of 2020.

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Throughout the outbreak of COVID-19 from February to March 2020, we maintained our operation by allowing around half of our employees to work from home. As the COVID-19 pandemic has gradually been brought under control in China, all of our business operations were back on track during the second half of 2020.

An outbreak of the Omicron, a COVID-19 variant, in China and globally since the beginning of 2022 had again caused more stringent measures implemented in the affected areas, including temporary lock-down measures in various regions of China, including in particular Shanghai, certain districts of Beijing and Hainan. To comply with the relevant anti-pandemic requirements of the government of Chaoyang District, Beijing, we implemented a mandatory work-from-home policy for the period from May 5, 2022 to May 29, 2022. Our office re-opened on May 30, 2022 and our employees resumed working in the office by batches. The COVID-19 pandemic situation in China in the seven months ended July 31, 2022 was more severe as compared to the seven months ended July 31, 2021 due to sporadic outbreaks in multiple regions. The recent COVID-19 outbreak in China has not had a material impact on our business operations and financial performance.

In the unlikely event that we are forced to suspend our business operations as a result of the COVID-19 pandemic, whether due to government policy or any other reasons beyond our control, we estimate our financial resources as of July 31, 2022 could satisfy our necessary costs for over one year. Our key assumptions in the worst case scenario where our business operations are forced to be suspended due to the impact of the COVID-19 pandemic include: (i) approximately [REDACTED] of the [REDACTED] of the [REDACTED], assuming the [REDACTED] is fixed at the mid-point of the indicative [REDACTED], being [REDACTED] per Share, will be used in general working capital; (ii) we will not generate any income due to the suspension of business; (iii) no further cash receipts from customers or cash payment to suppliers; (iv) full time staff, including operational and administrative staff, are encouraged to apply unpaid leave under mutual consent or dismissed upon proper notice in accordance with the employment contract and no significant compensation is incurred; (v) minimal operating and administrative costs will be incurred to maintain our operation at minimum level (including staff costs, office expenses, fees to be incurred as a [REDACTED] company such as annual [REDACTED], annual audit fee, financial reports and compliance adviser fee); (vi) all necessary routine expenditure and payments, including costs as discussed in (v) and lease liabilities are paid on a monthly basis; (vii) the expansion plans and business strategies as stated in the paragraph headed “— Our Development Strategies” in this section are delayed under such condition; (viii) there will be no further internal or external financing; and (ix) no further dividend will be declared and paid under such situation.

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The abovementioned extreme situations may or may not occur at the same time or at all. The abovementioned analysis is for illustrative purposes only and are assumptions. Our Directors currently assess that the likelihood of such situation(s) occurring is remote. The actual impact caused by the COVID-19 pandemic will depend on its subsequent development; therefore, there is a possibility that such impact to our Group may be out of our control and beyond our estimation and assessment.

As COVID-19 only had a relatively limited impact on our business during the Track Record Period and up to the Latest Practicable Date, our Directors believe that the COVID-19 pandemic will have a relatively limited impact on our businesses in the long term. Nevertheless, we plan to stay alert and closely monitor and evaluate the market situation based on any development of the COVID-19 pandemic in the future.

### AWARDS AND RECOGNITION

The following table sets forth the major awards and achievements we acquired during the Track Record Period:

Year	Awards/Honors	Award-granting Institution	Award-winning Entity
2018 . . .	2018新三板TOP100最具投資價值企業 (2018 NEEQ Top 100 Most Valuable Companies for Investment*)	2018新三板投資年會 (NEEQ 2018 Annual Investment Meeting*)	Ophyer Technology
2018 . . .	2018 Forbes China Top 100 NEEQ Enterprises	Forbes China	Ophyer Technology
2019 . . .	中關村高新技術企業 (Zhongguancun High and New Technology Enterprises*)	中關村科技園區管理委員會 (Zhongguancun Science and Technology Park Management Committee*)	Ophyer Technology
2020 . . .	2019品牌強國(文化科技行業)十大創新力企業 (2019 Brand Power (Culture and Technology Industry) Top 10 Innovative Enterprises*)	品牌強國經濟論壇 (Brand Power Economic Forum*)	Ophyer Technology

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<u>Year</u>	<u>Awards/Honors</u>	<u>Award-granting Institution</u>	<u>Award-winning Entity</u>
2021 . . .	新浪VR大浪淘沙2020年度優秀XR行業應用 (Sina VR Big Wave Taosha 2020 Outstanding XR Industry Application*)	Sina VR	Ophyer Technology
2021 . . .	2021年京東天工平台優質供應商 (2021 Outstanding Supplier of JD Tiangong Platform*)	JD.com	Ophyer Technology
2021 . . .	副會長單位 (Vice President Unit)	中關村虛擬現實產業協會 (Zhongguancun Virtual Reality Industry Association*)	Ophyer Technology
2021 . . .	京東ARVR最佳創意獎 (JD ARVR Most Creative Award*)	JD.com	Ophyer Technology