*You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements as of and for each of the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2023, and the accompanying notes included in the Accountants' Report set out in Appendix I to this document. Our consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), which may differ in material aspects from generally accepted accounting principles in other jurisdictions. You should read the entire Accountants' Report and not merely rely on the information contained in this section.*

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

OVERVIEW

We are a publisher of online game products in China. We run our online game publishing business under the brand of "Tan Wan" and are devoted to marketing and operating online games (in particular mobile games) in China. According to Frost & Sullivan, we are the fifth largest company for publishing mobile game products in terms of revenue in China in 2022.

Since our inception, we have enabled marketing and operation of 11 game products for more than five years and 28 game products for more than three years as of April 30, 2023. We maintained an average of five years of business relationships with our five largest game developer clients during the Track Record Period. As of April 30, 2023, the game products we marketed and operated had accumulated 418.0 million registered users. For the four months ended April 30, 2023, we achieved an average monthly active user (MAU) of 9.4 million for the game products we marketed and operated. During the Track Record Period, the average monthly revenue per paying user (ARPPU) of all the game products we marketed and operated was RMB411.1. In addition to game products, we also export our core capabilities to enabling marketing of online literature products.

Furthermore, apart from our "Tan Wan" brand, the end-user insights we accumulate allow us to spot other needs of end-users. We have developed our own consumer product brands in new consumption scenarios, including the instant food brand "Zha Zha Hui" (渣渣灰) and pop toy brand "Bro Kooli."

In 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, we generated a revenue of RMB2,872.4 million, RMB5,735.7 million, RMB8,817.2 million, RMB2,846.7

million and RMB2,448.3 million, respectively. In 2021, 2022 and the four months ended April 30, 2022 and 2023, we generated a profit of RMB616.4 million, RMB491.5 million, RMB124.6 million and RMB242.1 million, respectively. We recorded a loss of RMB1,301.1 million in 2020.

BASIS OF PRESENTATION

Our consolidated financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from January 1, 2023, together with the relevant transitional provisions, have been consistently applied by us in the preparation of the consolidated financial statements throughout the Track Record Period. Our consolidated financial statements have been prepared under the historical cost convention, except for financial assets at FVTPL which have been measured at fair value.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our business, results of operations and financial condition are affected by general factors driving China's economy, in particular, the digital economy, and the mobile game industry. These factors include levels of per capita disposable income, levels of consumer spending, rate of internet and mobile penetration, overall digitalization spending and other general economic conditions in China that affect consumption and business activities in general. In particular, we have benefited from the rapid growth of China's digital economy and its demand for more mobile game products. According to Frost & Sullivan, the market size of the mobile game industry in China in terms of user spending increased from RMB158.0 billion in 2018 to RMB240.2 billion in 2022 at a CAGR of 11.0% and is expected to reach RMB343.0 billion in 2027, representing a CAGR of 7.4% from 2022 to 2027. We anticipate that the demand for mobile game products across various industry verticals will continue to grow.

In particular, we believe our results of operations are more directly affected by the following major factors:

- Our ability to attract new clients and deepen engagement with existing clients;
- Our ability to reach and retain the target end-user base for the mobile game products marketed and operated by us;
- Our ability to continually enhance our full lifecycle online game publishing business and other marketing business offerings to realize long-lasting effects of the products we market and operate and enable more consumer product business opportunities;

- Our ability to effectively manage our costs and expenses and enhance operating efficiency; and

- Our ability to continually innovate our technology capabilities.

Our ability to attract new clients and deepen engagement with existing clients

Our revenue increased significantly by 99.7% from RMB2,872.4 million in 2020 to RMB5,735.7 million in 2021 and further increased by 53.7% to RMB8,817.2 million in 2022. Such growth was in part driven by our ability to attract new clients and expand and extend our relationship with existing clients.

First, we are dedicated to identifying, engaging and retaining clients with the potential to create and develop online game products, with long-lasting effects. We leverage our deep insights into the mobile game industry to automate marketing and monetization, freeing our potential clients, primarily developers of online game products, to focus on what they do best — developing high caliber online game products. As of December 31, 2020, 2021 and 2022 and April 30, 2023, we had accumulated 61, 89, 109 and 126 enterprise clients for our online game publishing business and other marketing business, respectively.

Second, our future growth is also dependent on our ability to maintain and deepen relationships with our existing clients. Such relationship allows us to continue to expand our services to better serve the needs of our clients. We adhere to a "land, expand, extend" business model. After prospecting and landing clients, we focus on expanding and extending our relationship with the clients, including using one or more of our core capabilities to achieve a prolonged lifecycle, a stronger financial performance and a greater brand recognition of the products we market and operate. We maintained an average of five years of business relationships with our five largest clients during the Track Record Period, indicating the long-term value of our business relationship with our clients and our ability to retain and grow revenue from clients. To deepen our relationship with existing clients, we will continue to enhance our data insights and develop proprietary technology to improve our online game publishing business and other marketing business. We expect that our ability to increase adoption of our services within existing clients will increase our future opportunities through additional sales.

Our ability to reach and retain the target end-user base for the online game products marketed and operated by us

Our results of operation are dependent upon our ability to reach the target end-user base, in particular, the ability to convert potential new end-users into registered users and convert registered user into paying end-users, of the online game products we market and operate. The size and quality of our end-user base determines the maximum addressable audience for engagement. It is vital for our services to reach the target network of end-users as the size and quality of the end-user base determines our maximum addressable audience for engagement. We make substantial investments in end-user acquisition and retention. On the end-user acquisition front, as the online game products we market are distributed on multiple devices, we deploy our campaigns across a wide mix of social and mobile channels. Leveraging the variety of data generated from cross-platform distribution, we believe we can deliver high returns for the online game products in long run as compared to our competitors on a single platform. Our data scale and channel diversification contribute to the economy of scale. We operate thousands of campaigns targeting hundreds of discrete clusters through a mix of channels and formats across multiple platforms, subject to the tailored product-specific target return parameters. We regularly monitor the results of our digital marketing campaigns. On the end-user retention front, our deep insights powered by machine learning and our sophisticated business relationship management tools enable our clients to create, optimize and deliver personalized experiences for their end-users, increasing customer retention and engagement rates and resulting in higher end-user lifetime value. Notably, our technology system allows us to optimize end-user retention based on a combination of game designs, such as game progression speed, in-game purchase bundles and difficulty settings.

We believe these capabilities set us apart from our competitors, ensuring a significant growth in proceeds enjoyed by our clients and the predicted lifetime value of an end-user. As of April 30, 2023, we established business partnerships with more than 220 collaborating online media platforms. This enables us to further strengthen our end-user acquisition and precision digital marketing capabilities. Notably, as of April 30, 2023, the game products we marketed and operated had accumulated 418.0 million registered users. For the four months ended April 30, 2023, we achieved an average monthly active user (MAU) of 9.4 million for the game products we marketed and operated. During the Track Record Period, the average monthly revenue per paying user (ARPPU) of all the game products we marketed and operated was RMB411.1. In addition to game products, we also export our core capabilities to enabling marketing of online literature products. Our persistent focus and continuous success in end-user traffic acquisition and management has enabled us to gradually build up a loyal end-user base, which forms the foundation for scalability and sustainability of our business.

Our ability to continually enhance our full lifecycle online game publishing business and other marketing business offerings to realize long-lasting effects of the products we market and operate and enable more consumer product business opportunities

Our full life cycle online game publishing business and other marketing business enables our clients to focus on their core competencies while relying on us for their online game products' precision marketing, in-depth operation and brand development needs. Our ability to grow our business depends in part on our ability to continually develop and improve our full life cycle business offerings for clients in the mobile game industry. We focus on serving industries with large and untapped monetization potential, from the front-end digital marketing to the mid-to-back-end operation enhancement. We continue to help our clients acquire and retain end-users throughout the entire lifecycle of the product through post-launching operation enhancement. Provision of full lifecycle services enables us to gain deeper user and industry insights than our competitors, which, in turn, strengthen our capabilities to enhance our ability to devise and execute precision marketing, in-depth operation, and brand development strategies for our clients. Such full lifecycle approach helps our clients strengthen user stickiness and increase the willingness to pay. Since our inception, we have provided in-depth operation for 11 game products for more than five years and 28 game products for more than three years as of April 30, 2023.

In addition, we also endeavor to develop the IP matrix surrounding online games and provide creative branding development services as part of our business to break through the plateau stage of marketing through precise marketing and targeted acquisition of traffic. In particular, we extend the application of the game product IPs and derive numerous innovative brands and content based on such IPs and brands in accordance with prevailing end-user preferences and trend to achieve scalability and cross-sector monetization. The creation of "Zha Zha Hui" is a solid proof evidencing our success on this front. Benefiting from the end-user insights we accumulate, we continuously capture and analyze valuable end-user behavior and performance data. Based on our judgments on market trends of e-commerce business and social media platforms, we made a strategic decision to penetrate into the instant food industry. As exemplified by the launch of our instant food brand "Zha Zha Hui" in 2020, we continuously capture and analyze valuable end-user behavior and performance data in connection with the popular RPG game products we market and operate. Through our market research on consumer demographics, buying habits and purchase power, including data analysis based on in-app purchases, we have learned that the end-users of this game product share desirable characteristics with lovers of instant food among the younger generation. We also believe that the brand recognition we have achieved with the end-users of the game products we market and operate will help drive the advancement and penetration of our business in the instant food sector. "Zha Zha Hui" is designed as an instant food brand with emphasis on instant prepared rice noodles and primarily targets the instant food-centered pop culture among the younger generation. "Zha Zha Hui" has become one of the fastest growing brands in the instant food sector in terms of GMV, according to Frost & Sullivan. "Zha Zha Hui" leverages multi-channel strategies to market private-label and local-flavor rice noodle products and other fast consumer foods. Additionally, we launched Bro Kooli, a self-developed trendy pop toy with a broccoli-like head, to capture the growth in the pop toy market. We have created and attributed characteristic backgrounds for Bro Kooli to establish emotional connections with individual consumers. We will continually seek to enhance our business offerings and explore more consumer product business opportunities through investment in our technology and service capabilities. Our consumer product business have diversified our revenue composition and have facilitated our expansion into offline channels, enabling us to generate larger end-user base and accumulate more end-user insights, which in turn allows us to further optimize our marketing and operation capabilities.

Our ability to effectively manage our costs and expenses and enhance operating efficiency

Our ability to improve profitability is dependent in part on our ability to control our costs and expenses through enhancing our operating leverage and efficiency. Our cost of sales, which primarily consists of commissions to collaborating distribution and payment channels, are subject to various factors, such as our bargaining power with such channels. Our operating efficiency is also affected by our ability to (i) increase the utilization of our existing technologies, services and workforce; and (ii) apply new technologies to improve efficiencies across our business, and drive optimization in our online game publishing business and other marketing business with our data insights.

During the Track Record Period, we incurred a significant amount of selling and distribution expenses of RMB1,916.7 million, RMB3,851.2 million, RMB5,622.4 million, RMB1,919.1 million and RMB1,391.6 million in 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively, accounting for 66.7%, 67.1%, 63.8%, 67.4% and 56.8% of our total revenue for the respective periods. The selling and distribution expenses reflect our marketing efforts to promote our full lifecycle online game publishing business and other marketing business and end-user engagement and retention. Such marketing efforts has resulted in a significant growth of our average MAU, MPU and ARPPU during the Track Record Period. Notably, our average MAU for the game products we marketed and operated increased from approximately 5.1 million in 2020 to over 10.0 million in 2022 and our average MPU increased from approximately 661 thousand in 2020 to approximately 1.8 million in 2022.

The table below sets forth a sensitivity analysis of the impact of hypothetical fluctuations of ARPPU on our revenue and profit/(loss) before tax, assuming that all other variables remain constant during the Track Record Period.

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	Change in revenue	Chang in profit/(loss) before tax	Change in revenue	Chang in profit/(loss) before tax	Change in revenue	Chang in profit/(loss) before tax	Change in revenue	Change in profit/(loss) before tax	Change in revenue	Change in profit/(loss) before tax
	(RMB in thousands)									
Change in ARPPU										
+ 10%	287,239	287,239	570,539	570,539	860,146	860,146	281,111	281,111	236,653	236,653
+ 8%	229,791	229,791	456,431	456,431	688,117	688,117	224,889	224,889	189,322	189,322
+ 5%	143,620	143,620	285,270	285,270	430,073	430,073	140,556	140,556	118,326	118,326
- 5%	(143,620)	(143,620)	(285,270)	(285,270)	(430,073)	(430,073)	(140,556)	(140,556)	(118,326)	(118,326)
- 8%	(229,791)	(229,791)	(456,431)	(456,431)	(688,117)	(688,117)	(224,889)	(281,111)	(189,322)	(236,653)
- 10%	(287,239)	(287,239)	(570,539)	(570,539)	(860,146)	(860,146)	(281,111)	(281,111)	(236,653)	(236,653)

The table below sets forth a sensitivity analysis of the impact of hypothetical fluctuations of commissions to third-party distribution channels on our cost of sales and profit/(loss) before tax, assuming that all other variables remain constant during the Track Record Period.

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	Change in cost of sales	Chang in profit/(loss) before tax	Change in cost of sales	Chang in profit/(loss) before tax	Change in cost of sales	Chang in profit/(loss) before tax	Change in cost of sales	Change in profit/(loss) before tax	Change in cost of sales	Change in profit/(loss) before tax
	(RMB in thousands)									
Change in commissions to third-party distribution channels										
+ 10%	32,102	(32,102)	72,381	(72,381)	193,786	(193,786)	59,221	(59,221)	63,412	(63,412)
+ 8%	25,681	(25,681)	57,905	(57,905)	155,028	(155,028)	47,377	(47,377)	50,729	(50,729)
+ 5%	16,051	(16,051)	36,190	(36,190)	96,893	(96,893)	29,610	(29,610)	31,706	(31,706)
- 5%	(16,051)	16,051	(36,190)	36,190	(96,893)	96,893	(29,610)	29,610	(31,706)	31,706
- 8%	(25,681)	25,681	(57,905)	57,905	(155,028)	155,028	(47,377)	47,377	(50,729)	50,729
- 10%	(32,102)	32,102	(72,381)	72,381	(193,786)	193,786	(59,221)	59,221	(63,412)	63,412

The table below sets forth a sensitivity analysis of the impact of hypothetical fluctuations of marketing and promotion expenses on our selling and distribution expenses and profit/(loss) before tax, assuming that all other variables remain constant during the Track Record Period.

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	Change in selling and distribution expenses	Change in profit/ (loss) before tax	Change in selling and distribution expenses	Change in profit/ (loss) before tax	Change in selling and distribution expenses	Change in profit/ (loss) before tax	Change in selling and distribution expenses	Change in profit/ (loss) before tax	Change in selling and distribution expenses	Change in profit/ (loss) before tax
	(RMB in thousands)									
Change in marketing and promotion expenses										
+ 10%	164,343	(164,343)	373,929	(373,929)	544,028	(544,028)	186,617	(186,617)	132,230	(132,230)
+ 8%	131,474	(131,474)	299,143	(299,143)	435,222	(435,222)	149,293	(149,293)	105,784	(105,784)
+ 5%	82,171	(82,171)	186,965	(186,965)	272,014	(272,014)	93,308	(93,308)	66,115	(66,115)
- 5%	(82,171)	82,171	(186,965)	186,965	(272,014)	272,014	(93,308)	93,308	(66,115)	66,115
- 8%	(131,474)	131,474	(299,143)	299,143	(435,222)	435,222	(149,293)	149,293	(105,784)	105,784
- 10%	(164,343)	164,343	(373,929)	373,929	(544,028)	544,028	(186,617)	186,617	(132,230)	132,230

We continue to dedicate ourselves to streamlining our operations and improving our project management. Controlling operating expenses to achieve optimal operating efficiency is important to our success. As our business grows in scale, we continue to have significant operating leverage and realize structural cost savings. We believe the continued growth of our business and expansion of our market share can benefit us from economies of scale, resulting from higher utilization of our services and technologies and stronger bargaining power with the collaborating distribution channels and media platforms. In addition, we believe our services have network effects that can promote our brand effectively and enhance our marketing efficiency. An increase in the number of online games marketed and operated by us increases the acceptance among existing and prospective clients and end-users, which further contributes to the potential success of our services and the actionable insights we generate, forming a virtuous cycle. The self-reinforcing network effects of our services and associated operating leverage allow us to promote our brand and compete effectively by enjoying lower acquisition cost and growing product lifetime value.

Our ability to continually innovate our technology capabilities

Our business growth depends in part on our ability to develop proprietary technologies and apply technologies to enhance our capabilities in the online game publishing business and other marketing business thus to improve our end-user experience. Our ability to engage end-users and empower clients is affected by the breadth and depth of our ability to generate actionable insights, such as our technology capabilities to develop our business intelligence analytics system and our continued ability to timely adapt to the rapidly evolving industry trends and client and end-user preferences.

We have made, and will continue to make, significant investments in developing our technology capabilities to attract clients, enhance clients experience and expand our service offerings. In 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, our research and development costs amounted to RMB472.4 million, RMB136.9 million, RMB157.7 million, RMB47.3 million and RMB57.7 million, respectively. We plan to invest in our research and development and continue to significantly invest in developing and upgrading our technology with a focus on optimizing the precision marketing, in-depth operation and brand development provide to the online game products and delivering a superior and differential user experience. We also intend to continue to invest heavily in attracting and retaining key talent, in particular talent recruitment in the fields of marketing automation, digitalization and intelligentization to strengthen our technological advantage and to support our business growth and drive our overall long-term growth.

IMPACT OF COVID-19 ON OUR OPERATIONS

Our revenue is primarily derived from our online game publishing business and other marketing business leveraging our digital marketing, in-depth user operation and brand development capabilities. Our results of operations and financial condition have been and may continue to be affected by the recurrence of COVID-19. Although China had substantially controlled the nationwide spread of COVID-19 as of the Latest Practicable Date, the extent to which COVID-19 may impact our results of operations will depend on the future developments of the outbreak which are uncertain. For more details, see "Risk Factors — Risks Relating to Our Business and Industry — We face risks related to natural disasters, health epidemics and other outbreaks beyond our control, such as the COVID-19 pandemic, which presents challenges to our business, and the effects of the COVID-19 pandemic could adversely affect our business, financial condition and results of operations."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and results of operations. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Set forth below are discussions of the accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Other significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in note 2.4 and note 3 to the Accountants' Report in Appendix I in this document.

Significant Accounting Policies

Revenue Recognition

Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when or as the control of goods or services is transferred to customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the accounting policy for our principal goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue streams reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

(a) Online Game Publishing Business and Other Marketing Business

Revenues from online game publishing business and other marketing businesses are primarily derived from marketing and operating services provided to (i) online game products authorized by third-party game developers and publishers or self-owned game, and (ii) online literature products authorized by third-party content providers.

Online game publishing

Most of the online games that we market or operate are under free-to-play basis whereby the players can play the game free of charge or are charged for purchase of virtual items in the game. Such payments are generally non-refundable and non-cancellable. The game products are either (i) authorized by third-party game developers and publishers ("**Authorized Games**") or (ii) self-owned ("**Self-owned Game**").

For Authorized Games, while we market and operate an online game product pursuant to a business arrangement under which a third-party game developer or publisher authorizes us to conduct precision marketing and payment channel operation and/or brand development services, we consider the game developer as the customer and regard ourselves as the agent of the game developer in dealing with the end-users of the game product because (i) the game developer is responsible for providing game products, and embracing the right to authorize us to provide services; (ii) the game developer is responsible for the development, upgrade, update and maintenance of the game; (iii) the game developer independently sets the prices of virtual items in the game, and is responsible for the generation, transfer, operation and destruction of virtual items; and (iv) the game developer is responsible for hosting and maintaining the game server.

Pursuant to service agreement between us and the third-party game developer, we charge the game developer a service fee based on a certain percentage of the gross amounts that the end-players pay for the purchase of the virtual items in the game. We recognize the service revenue on a net basis which equals to the gross amounts collected from the end-players less the amounts shared by the game developer when the end-users pay for purchase of the in-game virtual items and when such amounts are determinable.

In certain agreements with the third-party game developer, we are entitled to additional bonus based on the actual marketing performance. Revenue from such additional bonus is recognized when the amount is determined and confirmed by the customers.

In certain agreements where we provide marketing and operation support services to third-party publishers who have obtained the game authorization from game developers, the publishers are responsible for precision marketing and payment channel operation and/or brand development services and we only charge the publishers a service fee based on certain percentage of the gross amounts that the end-users pay for the purchase of the virtual items in the games. We consider the publishers as the customers and regard ourselves as the agent of the publishers in providing marketing and operation services to the game developers. We recognize revenue on a net basis which equals to the amount charged to the publishers.

For Self-owned Game, starting from January 2022, we market and operate self-owned game product. Under such circumstance, as we are solely responsible for the game product development, maintenance, price setting and game server, we consider ourselves as the principal of the game product and the end-users as the customers. We are obligated to provide on-going services to the end-players who make payments to gain an enhanced game-playing experience over the playing period, and accordingly we recognized the revenue ratably over the estimated average playing period of these paying end-users ("**Player Relation Period**"), starting from the point in time when the purchase of in-game virtual items is made, and all the other revenue recognition criteria are met. We estimate the Player Relation Period of a game based on historical data statistics of the paying players and re-assess such period semi-annually.

We may market or operate the online game products (including both Authorized Games and Self-owned Game) through self-run model and joint-run model.

Under the self-run model, we conduct marketing and payment channel operation and/or brand development services on our own. We are responsible for identifying, contracting with the payment channels and the collaborating media platforms. Commissions paid to the payment channels are included in cost of sales and the marketing costs paid to the media platforms are included in selling expenses except for the marketing fees calculated based on pay-to-sale which are included in cost of sales.

Under the joint-run model, we involve collaborating distribution channels to serve as both an end-user acquisition channel and our strategic partner to joint-run the authorized game products. A portion of the gross amounts paid by the end-users are withheld directly by the collaborating distribution channels (primarily mobile application stores) pursuant to the business arrangement with such collaborating distribution channels. We record the amount withheld by the collaborating distribution channels under the joint-run model as part of the cost of sales.

Other marketing services

We also provide marketing services for the developer of non-gaming applications (mainly literature products). Therefore, we consider the third-party literature content providers as our customer and ourselves as an agent in the arrangement with both the third-party content providers and the online literature readers. We recognize the service revenue on a net basis which equals to the gross amounts collected from the online literature readers less the amounts shared by the literature content providers when the readers subscribe pay-to-read services and when such amounts are determinable.

(b) Consumer Product Business

We sell consumer products, mainly containing rice noodle products and other fast consumer foods under the self-own brand "Zha Zha Hui," to the end customers over third-party online retail platforms such as Douyin (抖音) and to the distributors.

Revenue from the sale of products is recognized at the point in time when control of the asset is transferred to the customer, generally on the receipt and acceptance of products.

(c) Other Income

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(d) Dividend income

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to us and the amount of the dividend can be measured reliably.

Fair Value Measurement

We measure our financial assets at FVTPL at fair value at the end of each period of the Track Record Period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by us. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each period of the Track Record Period.

Contract liabilities

A contract liability is recognized when a payment is received or a payment is due (whichever is earlier) from a customer before we transfer the related goods or services. Contract liabilities are recognized as revenue when we perform under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

Costs incurred to obtain a contract that are not incremental costs are required to be expensed as incurred, unless they are explicitly chargeable to the customer (regardless of whether the contract is obtained). Any capitalized contract costs are amortized, with the expense recognized on a systematic basis that is consistent with the entity's transfer control of the related goods or services to the customer.

Share-based Payments

We operate a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations. Employees (including our Directors) receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a discounted cash flow method, further details of which are given in note 30 to the Accountants' Report in Appendix I in this document.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and our best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of our best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is canceled, it is treated as if it had vested on the date of cancelation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either we or the employee are not met. However, if a new award is substituted for the canceled award, and is designated as a replacement award on the date that it is granted, the canceled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

The following table sets forth our consolidated statements of profit or loss with line items in absolute amounts and as percentages of our revenue for the years/periods indicated.

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Revenue	**2,872,393**	**100.0%**	**5,735,718**	**100.0%**	**8,817,221**	**100.0%**	**2,846,654**	**100.0%**	**2,448,345**	**100.0%**
Cost of sales	(433,029)	(15.1)%	(997,359)	(17.4)%	(2,407,531)	(27.3)%	(738,374)	(25.9)%	(799,741)	(32.7)%
Gross profit	**2,439,364**	**84.9%**	**4,738,359**	**82.6%**	**6,409,690**	**72.7%**	**2,108,280**	**74.1%**	**1,648,604**	**67.3%**
Other income and gains	130,479	4.5%	120,056	2.1%	292,600	3.3%	87,379	3.1%	396,629	16.2%
Selling and distribution expenses	(1,916,710)	(66.7)%	(3,851,197)	(67.1)%	(5,622,406)	(63.8)%	(1,919,143)	(67.4)%	(1,391,649)	(56.8)%
Administrative expenses	(1,349,545)	(47.0)%	(106,779)	(1.9)%	(175,696)	(2.0)%	(44,127)	(1.6)%	(85,796)	(3.5)%
Research and development costs	(472,383)	(16.4)%	(136,948)	(2.4)%	(157,738)	(1.8)%	(47,289)	(1.7)%	(57,686)	(2.4)%
Impairment losses on financial assets. net	5,373	0.2%	864	0.0%	(2,219)	(0.0)%	(911)	0.0%	(1,889)	(0.1)%
Other expenses	(2,237)	(0.1)%	(16,463)	(0.3)%	(8,330)	(0.1)%	(10,255)	(0.4)%	(102,951)	(4.2)%
Finance costs	(51,643)	(1.8)%	(56,032)	(1.0)%	(107,878)	(1.2)%	(28,909)	(1.0)%	(36,503)	(1.5)%
Share of profits and losses of:										
Joint Ventures	(2,359)	(0.1)%	4,217	0.1%	7,430	0.1%	882	0.0%	(484)	0.0%
Associates	(4,184)	(0.1)%	(15,946)	(0.3)%	(33,878)	(0.4)%	(6,806)	(0.2)%	(11,516)	(0.5)%
Profit/(Loss) before tax	**(1,223,845)**	**(42.6)%**	**680,131**	**11.9%**	**601,575**	**6.8%**	**139,101**	**4.9%**	**356,759**	**14.5%**
Income tax expense	(77,258)	(2.7)%	(63,690)	(1.1)%	(110,053)	(1.2)%	(14,518)	(0.5)%	(114,655)	(4.6)%
Profit/(Loss) for the year/ periods	**(1,301,103)**	**(45.3)%**	**616,441**	**10.7%**	**491,522**	**5.6%**	**124,583**	**4.4%**	**242,104**	**9.9%**
Attributable to:										
Owners of the parent	(1,301,103)	(45.3)%	615,911	10.7%	514,067	5.8%	124,732	4.4%	219,959	9.0%
Non-controlling interests	—	—	530	0.0%	(22,545)	(0.2)%	(149)	0.0%	22,145	0.9%

ADJUSTED PROFIT (NON-HKFRS MEASURE)

To supplement our consolidated financial statements, which are presented in accordance with HKFRSs, we also use the adjusted profit (Non-HKFRS measure) as an additional financial measure, which is not required by, or presented in accordance with, HKFRSs. We believe that the presentation of non-HKFRS measure facilitates comparisons of operating performance from period to period and provides useful information to investors and others to understand and evaluate our consolidated results of operations in the same manner as our management by eliminating potential impacts of items.

We also believe that the non-HKFRS measure are appropriate for evaluating our operating performance. The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under HKFRS. In addition, this non-HKFRS measure may not be comparable to similar measures presented by other companies.

We define the adjusted profit (Non-HKFRS measure) as the profit/(loss) for the year/period, excluding share-based compensation and **[REDACTED]** expenses. Share-based compensations are non-cash in nature and do not result in cash outflow, and the adjustment has been consistently made during the Track Record Period. In addition, we exclude **[REDACTED]** expenses, as this item, which arises from activities relating to the **[REDACTED]**.

The following table sets forth the reconciliations of our non-HKFRS measures for the years/periods indicated with the nearest measured prepared in accordance with HKFRS:

	For the Year Ended December 31,			For the Four Months Ended April 30,	
	2020	**2021**	**2022**	**2022**	**2023**
	(RMB in thousands)				
Reconciliation of profit/(loss) to adjusted profit (Non-HKFRS measure)					
Profit/(Loss) for the year/period	(1,301,103)	616,441	491,522	124,583	242,104
Add:					
Share-based compensation	1,816,114	—	42,883	—	70,599
[REDACTED] expenses	—	11,148	25,679	6,799	17,486
Adjusted profit (Non-HKFRS measure)	**515,011**	**627,589**	**560,084**	**131,382**	**330,189**

Revenue

Our revenue is generated primarily from (i) marketing and operating online games developed by game developers and marketing online literature products developed by content creators; and (ii) our consumer product business, primarily including sales of our private-label and local-flavor rice noodle products and other fast consumer foods under the brand "Zha Zha Hui."

For the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, our revenue amounted to RMB2,872.4 million, RMB5,735.7 million, RMB8,817.2 million, RMB2,846.7 million and RMB2,448.3 million, respectively. The following table sets forth a breakdown of our revenue both in absolute amount and as a percentage of our total revenue for the years/periods indicated:

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	(RMB in thousands, except for percentages)									
Online Game Publishing Business and Other Marketing Business										
Game products operated under the self-run model	2,418,164	84.2%	4,695,963	81.9%	6,179,622	70.1%	2,040,680	71.7%	1,517,627	62.0%
— Collaboration with game developers	2,162,567	75.3%	4,597,273	80.2%	5,563,803	63.1%	1,831,877	64.4%	1,362,975	55.7%
— Collaboration with game publishers(1)	255,597	8.9%	98,690	1.7%	85,586	1.0%	29,001	1.0%	28,011	1.1%
— Self-owned game	—	—	—	—	530,233	6.0%	179,802	6.3%	126,641	5.2%
Game products operated under the joint-run model(2)	453,343	15.8%	977,156	17.0%	2,383,819	27.0%	753,932	26.5%	814,826	33.3%
— Collaboration with game developers	453,343	15.8%	977,156	17.0%	1,768,457	20.1%	494,826	17.4%	674,377	27.5%
— Self-owned game	—	—	—	—	615,362	7.0%	259,106	9.1%	140,449	5.7%
Others(3)	886	0.0%	32,271	0.6%	38,022	0.4%	16,502	0.6%	34,074	1.4%
Subtotal	2,872,393	100.0%	5,705,390	99.5%	8,601,463	97.6%	2,811,114	98.8%	2,366,527	96.7%
Consumer Product Business(4)	—	—	30,328	0.5%	215,758	2.4%	35,540	1.2%	81,818	3.3%
Total	**2,872,393**	**100.0%**	**5,735,718**	**100.0%**	**8,817,221**	**100.0%**	**2,846,654**	**100.0%**	**2,448,345**	**100.0%**

Notes:

(1) We provided marketing and operation support services to third-party game publishers for which we charge a service fee. Such marketing and operation support services were provided in connection with Heroes of Mafa (瑪法英雄), Legend of Guyun (古雲傳奇), Prosperous World (盛世遮天), Legend of Lanyue (藍月傳奇), Huaxia Journey (華夏征途) and Battle Hymn of Dragon City (龍城戰歌), among other game products. Some of these game products were licensed to multiple game publishers on a non-exclusive basis. For example, with respect to Legend of Guyun (古雲傳奇), Prosperous World (盛世遮天), Legend of Lanyue (藍月傳奇) and Huaxia Journey (華夏征途), we were both (i) a game publisher authorized directly by the respective game developers to market and operate these games, and (ii) a provider of marketing and operation support services to Zhejiang Zhengyou, who was also a publisher of the games. See also "Business — Our Business Model — How Our Business Generates Revenue."

(2) During the Track Record Period, all third-party game products operated under the joint-run model were licensed from game developers.

(3) Primarily including revenue generated from marketing online literature products.

(4) Consumer product business primarily including sales of our private-label and local-flavor rice noodle products and other fast consumer foods under the brand "Zha Zha Hui."

Online Game Publishing Business and Other Marketing Business

Revenue from online game publishing business under the self-run model and joint-run model

Substantially all of our revenue from the online game publishing business and other marketing business during the Track Record Period was generated from marketing and operating game products. We run our online game publishing business primarily through two operation models, namely the self-run model and joint-run model, where such categorization depends on whether the end-user acquisition for the game product we market and operate is solely performed by us through utilizing the marketing strategies formulated by our Hetu (河圖) and Luoshu (洛書) technology platforms. See "Business — Our Online Game Publishing Business and Other Marketing Business — Our Operation Models of Our Online Game Publishing Business" for more details of these two models. During the Track Record Period, the substantial majority of our revenue from marketing and operating online game products was attributable to the self-run model, accounting for 84.2%, 82.8%, 72.2%, 73.0% and 65.1% of our revenue from our online game publishing business in 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively.

In addition, the table below sets forth the revenue contributed by the five signature game products and its percentage of our total revenue during the Track Record Period.

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	(RMB in thousands, except for percentages)									
Game B	387,506	13.5%	1,047,619	18.3%	1,108,299	12.6%	365,161.2	12.8%	386,313.3	15.8%
Game A	1,480,019	51.5%	1,370,291	23.9%	1,145,595	13.0%	438,908.2	15.4%	267,090.4	10.9%
Game F	—	—	1,243,747	21.7%	640,526	7.3%	292,688.1	10.3%	148,436.3	6.1%
Game J	—	—	37,570	0.7%	1,309,111	14.8%	685,613.5	24.1%	59,836.1	2.4%
Game I	—	—	—	—	1,547,626	17.6%	12,213.6	0.4%	343,110.8	14.0%

The table below sets forth the revenue contributed by the new games launched and new clients acquired in each period, both in absolute amounts and as percentages of the revenue generated from our online game publishing business for the respective period, during the Track Record Period.

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	(RMB in thousands, except for percentages)									
New games launched in the year/ period	579,011	20.2%	1,679,189	29.6%	2,146,433	25.1%	123,181	4.4%	89,069	3.8%
New clients acquired in the year/ period	176,795	6.2%	169,843	3.0%	1,687,587	19.7%	471,771	16.9%	232,649	10.0%

In 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, revenue contributed by new games launched in the respective period was RMB579.0 million, RMB1,679.2 million, RMB2,146.4 million, RMB123.2 million and RMB89.1 million, respectively. The increase from 2020 to 2021 was primarily due to the launch of Blooded Attack (熱血合擊). The increase from 2021 to 2022 was primarily due to the launch of Blade of Freedom (自由之刃).

In 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, revenue contributed by new clients acquired in the respective period was RMB176.8 million, RMB169.8 million, RMB1,687.6 million, RMB471.8 million and RMB232.6 million, respectively. The significant amount in 2022 was primarily because we obtained licenses to operate Blade of Freedom (自由之刃) in 2022.

Revenue from other marketing business

During the Track Record Period, revenue from other marketing business primarily came from marketing online literature products.

We recorded revenue from other marketing business of RMB0.9 million, RMB32.3 million, RMB38.0 million, RMB16.5 million and RMB34.1 million in 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively.

Consumer Product Business

During the Track Record Period, revenue from our consumer product business was primarily generated from sales of our private-label and local-flavor rice noodle products and other fast consumer foods under the brand "Zha Zha Hui." Revenue from sales of pop toys under Bro Kooli accounted for an insignificant portion of the revenue from consumer product business during the Track Record Period.

We recorded revenue from consumer product business of nil, RMB30.3 million, RMB215.8 million, RMB35.5 million and RMB81.8 million in 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively.

Cost of Sales

The table below sets forth a breakdown of our cost of sales by nature for the years/periods indicated:

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Commissions to third-party distribution channels	321,017	74.1%	723,808	72.6%	1,937,855	80.5%	592,208	80.2%	634,117	79.3%
Commissions to third-party payment channels	43,991	10.2%	128,915	12.9%	150,259	6.2%	51,033	6.9%	44,721	5.6%
Employee salaries	31,631	7.3%	63,413	6.4%	77,334	3.2%	24,159	3.3%	22,542	2.8%
Share-based compensation	—	—	—	—	3,834	0.2%	0	0.0%	6,312	0.8%
Traffic acquisition fees	28,292	6.5%	20,939	2.1%	22,457	0.9%	6,164	0.8%	14,849	1.9%
Costs of goods in connection with consumer product business	—	—	16,670	1.7%	124,804	5.2%	18,942	2.6%	49,409	6.2%
Others	8,098	1.9%	43,614	4.4%	90,988	3.8%	45,868	6.2%	27,791	3.4%
Total	**433,029**	**100.0%**	**997,359**	**100.0%**	**2,407,531**	**100.0%**	**738,374**	**100.0%**	**799,741**	**100.0%**

Our cost of sales primarily consists of (i) commissions to collaborating distribution channels under the joint-run model, primarily including third-party application stores and game co-publishers; (ii) commissions to third-party payment channels; (iii) employee salaries associated with our system maintenance and customer service personnel that are directly involved in revenue generation; (iv) share-based compensation; (v) traffic acquisition fees to collaborating online media platforms directly associated with revenue generation; (vi) cost of goods, representing the cost of procuring rice noodle products under the brand "Zha Zha Hui"; and (vii) others, primarily including bandwidth and servers custody fees, depreciation and amortization expenses.

Our third-party distribution channels primarily include third-party application stores and game co-publishers. The third-party application stores obtain the traffic easily once the game products are launched on these stores, resulting in the portion of the gross billings withheld by these mobile application stores being relatively low. In addition to launching our game products on the mobile application stores, we also commission certain game co-publishers to market and promote our game products. These game co-publishers need to carry out more marketing and promotion activities to attain end-user acquisition, resulting in the portion of the gross amounts paid by the end-users withheld directly by the game co-publishers being relatively high.

The following table summarizes the breakdown of commissions by third-party distribution channels for the years/periods indicated.

	For the Year Ended December 31,						For the Four Months Ended April 30,				Portion of gross billings (%)
	2020		2021		2022		2022		2023		
	(RMB in thousands, except for percentage)						(Unaudited)				
Types of third-party distribution channels	**Commissions**	**%**	**Commission**	**%**	**Commission**	**%**	**Commission**	**%**	**Commission**	**%**	
Third-party application stores	210,250	65.5%	511,781	70.7%	667,171	34.4%	221,596	37.4%	231,458	36.5%	50-55%
Game co-publisher	110,768	34.5%	212,027	29.3%	1,270,684	65.6%	370,612	62.6%	402,659	63.5%	70-92%
Total	**321,017**	**100.0%**	**723,808**	**100.0%**	**1,937,855**	**100.0%**	**592,207**	**100%**	**634,117**	**100%**	**—**

Our commissions to third-party distribution channels increased by RMB402.8 million from 2020 to 2021, primarily because (i) the gross billings from end users under the joint-run model increased significantly in 2021; and (ii) certain game co-publisher generated large amounts of gross billings for Legend of Origin, while the portion of gross billings directly withheld by such game co-publisher was relatively high.

Our commissions to third-party distribution channels increased by RMB1,214.0 million from 2021 to 2022, primarily because (i) the gross billings from end users under the joint-run model increased significantly in 2022; (ii) both the gross billings of the Legend of Guyun generated through the third-party distribution channels and the rate of commissions they charged are relatively high, as we have become the developer of Legend of Guyun since 2022 and the game has entered into the maturity stage, resulting in a relatively higher commission; and (iii) we cooperated with more game co-publishers in 2022 to utilize their own user bases, marketing resources and technology platforms for expanding the end-users base, which usually charges a higher portion of gross billings since they need to carry out more marketing and promotion activities to attain end-user acquisition.

Our commissions to third-party distribution channels increased by RMB41.9 million from the four months ended April 30, 2022 to the four months ended April 30, 2023, primarily because the gross billings from end users under the joint-run model increased significantly for the four months ended April 30, 2023 compared to the same period in 2022.

In addition, the table below sets forth a breakdown of our cost of sales by business line for the years/periods indicated:

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Online Game Publishing Business and Other Marketing Business										
Game products operated under the self-run model	105,730	24.4%	237,480	23.9%	283,102	11.7%	99,288	13.5%	92,734	11.4%
Game products operated under the joint-run model	327,287	75.6%	742,041	74.4%	1,995,912	82.9%	619,384	83.9%	655,604	82.0%
Others	12	0.0%	602	0.0%	556	0.1%	241	0.0%	586	0.2%
Subtotal	433,029	100.0%	980,123	98.3%	2,279,570	94.7%	718,913	97.4%	748,924	93.6%
Consumer Product Business	—	—	17,236	1.7%	127,961	5.3%	19,461	2.6%	50,817	6.4%
Total	**433,029**	**100.0%**	**997,359**	**100.0%**	**2,407,531**	**100.0%**	**738,374**	**100%**	**799,741**	**100%**

The cost of sales for game products operated under the self-run model primarily consists of (i) commissions to third-party payment channels; (ii) traffic acquisition fees; and (iii) others, primarily representing the bandwidth and servers custody fees in connection with our technology platforms, and employee salaries and share-based compensation incurred under this model. The cost of sales for game products operated under the joint-run model primarily consists of (i) commissions to collaborating distribution channels; and (ii) others, primarily representing the bandwidth and servers custody fees in connection with our technology platforms, and employee salaries and share-based compensation incurred under this model. The cost of sales for our consumer product business primarily consists of cost of goods, representing the cost of producing rice noodle products under the brand "Zha Zha Hui."

Gross Profit and Gross Profit Margin

The following table sets forth our gross profit and gross profit margin by business line for the years/periods indicated:

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	(RMB in thousands, except for percentages)									
							(Unaudited)			
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
Online Game Publishing Business and Other Marketing Business										
Game products operated under the self-run model	2,312,434	95.6%	4,458,483	94.9%	5,896,520	95.4%	1,941,392	95.1%	1,424,893	93.9%
Game products operated under the joint-run model	126,056	27.8%	235,115	24.1%	387,907	16.3%	134,548	17.8%	159,222	19.5%
Others	874	98.6%	31,669	98.1%	37,466	98.5%	16,261	98.5%	33,488	98.3%
Subtotal	2,439,364	84.9%	4,725,267	82.8%	6,321,893	73.5%	2,092,201	74.4%	1,617,603	68.4%
Consumer Product Business	**—**	**—**	**13,092**	**43.2%**	**87,797**	**40.7%**	**16,079**	45.2%	31,001	37.9%
Total	**2,439,364**	**84.9%**	**4,738,359**	**82.6%**	**6,409,690**	**72.7%**	**2,108,280**	**74.1%**	**1,648,604**	**67.3%**

In 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, our gross profit was RMB2,439.4 million, RMB4,738.4 million, RMB6,409.7 million, RMB2,108.3 million and RMB1,648.6 million, respectively. The increase of our gross profit from 2020 to 2022 was primarily due to the continuous operation of game products. The decrease of our gross profit from RMB2,108.3 million for the four months ended April 30, 2022 to RMB1,648.6 million for the four months ended April 30, 2023 primarily reflected a decrease in revenue we generated from the online game publishing business and other marketing business under the self-run model, mainly because certain game products entered into a later stage of their lifecycle. For our online game publishing business and other marketing business, the gross profit for game products operated under the self-run model was RMB2,312.4 million, RMB4,458.5 million, RMB5,896.5 million, RMB1,941.4 million and RMB1,424.9 million in 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively; and the gross profit for game products operated under the joint-run model was RMB126.1 million, RMB235.1 million, RMB387.9 million, RMB134.5 million and RMB159.2 million in 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively. The gross profit for our consumer product business was RMB13.1 million, RMB87.8 million, RMB16.1 million and RMB31.0 million in 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively.

In 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, our gross profit margin was 84.9%, 82.6%, 72.7%, 74.1% and 67.3%, respectively. The decrease of our overall gross profit margin during the Track Record Period was primarily due to the increase in our revenue generated from game products operated under the joint-run model (which generally have a lower gross profit margin) as a percentage of our total revenue. For our online game publishing business and other marketing business, the gross profit margin for game products operated under the self-run model remained relatively stable at 95.6%, 94.9%, 95.4%, 95.1%and 93.9% in 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively; and the gross profit margin for game products operated under the joint-run model was 27.8%, 24.1%, 16.3%, 17.8% and 19.5% in 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively. The decrease of the gross profit margin for game products operated under the joint-run model during the Track Record Period was primarily attributable to an increase in the portion of gross billings withheld by collaborating distribution channels. The decrease in gross profit margins for game products operated under the joint-run model from 2020 to 2021 was primarily because certain co-publisher successfully generated large amounts of gross billings for Legend of Origin, while the portion of gross billings withheld by certain game co-publisher of Legend of Origin was relatively high. The decrease in gross profit margins for game products operated under the joint-run model from 2021 to 2022 was primarily because (i) as we have become the developer of Legend of Guyun since 2022 and the game has entered the maturity stage, both the gross billings of the Legend of Guyun generated through the third party distribution channels and the rate of commissions they charged are relatively high, resulting in a higher commission; and (ii) we cooperated with more game co-publishers to utilize their own user bases, marketing resources and technology platforms for expanding the end-users base, which usually charges a higher portion of gross billings since they need to carry out more marketing and promotion activities to attain end-user acquisition. The gross profit margins for game products operated under the joint-run model remained relatively stable for the four months ended April 30, 2023 compared to that for the four months ended April 30, 2022. The gross profit margin for our consumer product business was 43.2%, 40.7%, 45.2% and 37.9% in 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively. The decrease of the gross profit margin for our consumer product business from 45.2% for the four months ended April 30, 2022 to 37.9% for the four months ended April 30, 2023 was primarily a result of the increase of procurement costs for our rice noodle products in the first four months of 2023.

The following table summarizes the five largest third-party distribution channels for each year/period of the Track Record Period.

Third-party distribution channels	Commissions to third-party distribution channels (RMB'000)	Percentage of total cost of sales under joint-run model (%)	Typical portion of gross billings (%)	Game products involved	Nature of third-party distribution channels
For the year ended December 31, 2020					
Channel A	116,637	36.3%	50%	Legend of Origin, Dragon World	Third-party application stores
Channel B	31,531	9.8%	55%	Legend of King, Legend of Origin	Third-party application stores
Channel C	25,462	7.9%	50%	Legend of Origin, Dragon World	Third-party application stores
Channel D	25,171	7.8%	50%	Dragon World, Legend of Origin	Third-party application stores
Channel E	18,172	5.7%	70%	Legend of Origin	Game co-publisher
For the year ended December 31, 2021					
Channel A	306,387	42.3%	50%	Legend of Origin, Blooded Attack, Dragon World	Third-party application stores
Channel E	79,930	11.0%	70%	Legend of Origin	Game co-publisher
Channel B	71,868	9.9%	55%	Legendary Overlord, Legend of Origin, Blooded Attack, Legend of King	Third-party application stores
Channel C	58,205	8.0%	50%	Legend of Origin, Blooded Attack, Dragon World	Third-party application stores
Channel D	36,554	5.1%	50%	Legend of Origin, Blooded Attack, Dragon World	Third-party application stores

Third-party distribution channels	Commissions to third-party distribution channels (RMB'000)	Percentage of total cost of sales under joint-run model (%)	Typical portion of gross billings (%)	Game products involved	Nature of third-party distribution channels
For the year ended December 31, 2022					
Channel A	304,869	15.7%	50%	Legend of Origin, Blooded Attack, Dragon World, Demon Slayer	Third-party application stores
Channel B	193,071	10.0%	55%	Legend of Origin, Legendary Overlord, King City Brawl, Blooded Attack	Third-party application stores
Channel F	154,913	8.0%	78%	Blade of Freedom, Legend of National War, Legend of Guyun	Game co-publisher
Channel G	154,234	8.0%	79%	Blade of Freedom, Blooded Attack	Game co-publisher
Channel H	146,082	7.5%	92%	Legend of National War	Game co-publisher
For the four months ended April 30, 2023					
Channel B	131,510	20.7%	55%	Legend of Origin, Blade of Freedom	Third-party application stores
Channel G	70,782	11.2%	83%	Blade of Freedom Blooded Attack	Game co-publisher
Channel A	67,772	10.7%	50%	Legend of Origin, Blooded Attack, Dragon World	Third-party application stores
Channel F	56,761	9.0%	83%	Blade of Freedom, Legend of Guyun	Game co-publisher
Channel H	40,649	6.4%	81%	Legend of National War, Blade of Freedom	Game co-publisher

During the Track Record Period, revenue from other marketing business primarily came from marketing online literature products. The gross profit for marketing online literature products was 98.6%, 98.1%, 98.5%, 98.5% and 98.3% in 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively. The revenue model of other marketing business line contributed to high gross profit margin during the Track Record Period. Under this business model for marketing online literature products, we recognize the service revenue on a net basis which equals to the gross amounts collected from the online literature readers less the amounts shared by the literature content providers when the readers subscribe pay-to-read services and when such amounts are determinable. Moreover, the cost of sales for marketing online literature products was relatively low, which primarily consisted of employee salaries, and marketing and promotion expenses was included in selling and distribution expenses.

Other Income and Gains

Our other income and gains primarily consist of (i) fair value gain on financial assets at FVTPL, primarily including our investments in wealth management products, listed equity investments and fund investments; (ii) investment income from financial assets at FVTPL; (iii) VAT additional deduction and refunds, and government grants; (iv) bank interest income from bank deposits; (v) gain on disposal of property and equipment; (vi) foreign exchange gain; (vii) gain on disposal of subsidiaries; and (viii) others. For the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, we recorded other income and gains of RMB130.5 million, RMB120.1 million, RMB292.6 million, RMB87.4 million and RMB396.6 million, respectively.

Our investments in wealth management products amounted to RMB680.3 million as of April 30, 2023, with maturity typically less than one year. Wealth management products are issued or sold by major commercial banks with comparatively low risks. The underlying assets of the wealth management products primarily include monetary instruments, bonds, and other fixed income products and short-term financial instruments with low risks and good liquidity. All principles and interests of the wealth management products we purchased were recoverable in time during the Track Record Period. As of the Latest Practicable Date, all outstanding balance of the wealth management products we purchased as of April 30, 2023 has been recovered or can be redeemed on or shortly after the maturity date during the business hours of the issuing banks with the expected investment income. The terms of our wealth management products generally do not exceed one year. As part of our investment strategy, we will continue to use our cash surplus to purchase low-risk wealth management products.

Our investments in listed equity amounted to RMB597.6 million as of April 30, 2023, mainly including our investments in various companies listed on the Stock Exchange. We also invested in certain private equity funds and monetary funds during the Track Record Period, which had been fully redeemed as of April 30, 2023. We do not intend to make new investments in funds in the foreseeable future. See also "Risk Factors — Risks Relating to Our Financial Performance — Our financial assets at fair value through profit or loss are subject to uncertainties in accounting estimates. Fluctuations in the changes in fair value of these assets and liabilities would affect our financial results."

To monitor and control the investment risks associated with our financial assets at FVTPL portfolio, we have adopted a comprehensive set of internal policies and guidelines to manage our investment in financial assets at FVTPL. Our finance department is responsible for proposing, analyzing and evaluating potential investment in wealth management products and other financial assets based on recommendations of our account managers at reputable banks in China, and the General Manager's Office is responsible for the approval of such proposals. Senior members of our General Manager office has over five years of experience in asset management. Our finance department is responsible for formulating annual investment guidelines, which are approved by our Board of Directors and set out specific criteria with respect to issuing banks, underlying assets, maturity and interest rate for the investment in wealth management products. We conduct bi-weekly internal forecasts to estimate our cash flows in the four weeks that immediately follow, which we take into account when determining the appropriate amount of investment we make. Investment proposals meeting the annual investment guidelines are subject to approval. For example, for wealth management products over RMB5.0 million, the proposal shall be approved by our acting finance head and the General Manager's office. Investment proposals beyond the scope of the annual investment guidelines shall be further approved by the Board of Directors. Our investment strategy related to financial products focuses on minimizing the financial risks by reasonably and conservatively matching the maturities or disposals of the portfolio to anticipated operating cash needs, while generating desirable investment returns for the benefits of our shareholders. We make investment decisions related to wealth management products and other financial assets on a case-by-case basis after thoroughly considering a number of factors, including but not limited to macro-economic environment, general market conditions, risk control and credit of issuing banks, listed companies or other relevant financial institutions, our own working capital conditions, and the expected profit or potential loss of the investment. See also "Business – Risk Management and Internal Control – Investment policies and risk management" for details.

After **[REDACTED]**, we intend to continue our investments in the financial assets at FVTPL strictly in accordance with our internal policies and measures and the requirements under Chapter 14 of the Listing Rules.

The fair values of wealth management products and fund investments were recognized based on the observable inputs of valuation models from the private equity funds and were within level 2 of the fair value hierarchy. The fair values of investment in listed companies were recognized at quoted price in active markets.

There were no unfulfilled conditions or contingencies relating to these government grants at the end of each period during the Track Record Period.

The following table sets forth a breakdown of our other income and gains for the years/periods indicated:

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Fair value gain on financial assets at FVTPL	6,294	4.8%	971	0.8%	12,467	4.3%	27,803	31.8%	—	—
Investment income from financial assets at FVTPL	59,175	45.4%	—	—	29,796	10.2%	—	—	327,004	82.5%
VAT additional deduction and refunds	22,978	17.6%	22,714	18.9%	52,294	17.9%	18,630	21.3%	9,540	2.4%
Government grants	6,554	5.0%	1,132	0.9%	2,759	0.9%	175	0.2%	914	0.2%
Bank interest income	34,108	26.1%	94,394	78.6%	189,125	64.6%	38,276	43.8%	54,728	13.8%
Gain on disposal of property and equipment	8	0.0%	—	—	2,708	0.9%	199	0.2%	3,908	1.0%
Foreign exchange differences, net	511	0.4%	219	0.2%	1,224	0.4%	1,562	1.8%	—	—
Gain on disposal of a subsidiary	—	—	4	0.0%	621	0.2%	—	—	—	—
Others	851	0.7%	622	0.5%	1,606	0.6%	734	0.8%	535	0.1%
Total	**130,479**	**100.0%**	**120,056**	**100.0%**	**292,600**	**100.0%**	**87,379**	**100.0%**	**396,629**	**100.0%**

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) marketing and promotion expenses, which mainly represent online traffic acquisition fees to collaborating online media platforms, offline marketing expenses and celebrity endorsement fees. Our collaborating media platforms typically charge us under a cost per mille (CPM) pricing model, where we pay a price for every 1,000 impressions of an advertisement ; (ii) employee salaries associated with our sales and marketing personnel; (iii) share-based compensation associated with our sales and marketing personnel; and (iv) others, primarily including office expenses, property and utility expenses, and depreciation and amortization expenses in connection with our selling and distribution activities.

For the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, we incurred selling and distribution expenses of RMB1,916.7 million, RMB3,851.2 million, RMB5,622.4 million, RMB1,919.1 million and RMB1,391.6 million, representing 66.7%, 67.1%, 63.8%, 67.4% and 56.8% of our revenue for the same periods, respectively. Our selling and distribution expenses increased from 2020 to 2022, primarily due to an increase in marketing and promotion expenses as a result of our increased efforts to market online games, online literature and consumer products through collaborating media platforms. Our selling and distribution expenses decreased from RMB1,919.1 million for the four months ended April 30, 2022 to RMB1,391.6 million for the four months ended April 30, 2023, primarily due to the decrease of marketing and promotion expenses as certain game products entered into a later stage of their lifecycle, and therefore did not require significant marketing and promotion resources.

The following table sets forth a breakdown of our selling and distribution expenses for the years/periods indicated:

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Marketing and promotion expenses	1,643,426	85.7%	3,739,292	97.1%	5,440,279	96.8%	1,866,254	97.2%	1,322,299	95.0%
Employee salaries	36,279	1.9%	99,293	2.6%	148,035	2.6%	46,763	2.4%	39,429	2.8%
Share-based compensation	232,767	12.1%	—	—	14,100	0.3%	—	—	23,975	1.7%
Others	4,238	0.3%	12,612	0.3%	19,992	0.4%	6,126	0.3%	5,946	0.4%
Total	**1,916,710**	**100.0%**	**3,851,197**	**100.0%**	**5,622,406**	**100.0%**	**1,919,143**	**100.0%**	**1,391,649**	**100.0%**

Administrative Expenses

Our administrative expenses primarily consist of (i) employee salaries associated with our administrative personnel, including legal and finance personnel, human resource specialists and employees for general corporate functions; (ii) share-based compensation associated with our administrative personnel; (iii) travel and business development expenses with our administrative personnel; (iv) depreciation and amortization expenses in relation to the leased offices and office equipment; (v) **[REDACTED]** expenses; (vi) office and utility expenses to support our general administrative functions; (vii) tax; (viii) professional service expenses; (ix) bank transaction charges and (x) others.

For the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, we incurred administrative expenses of RMB1,349.5 million, RMB106.8 million, RMB175.7 million, RMB44.1 million and RMB85.8 million, representing 47.0%, 1.9%, 2.0%, 1.6% and 3.5% of our revenue for the same periods, respectively. Our administrative expenses decreased from 2020 to 2021, primarily due to a significant increase in share-based compensation we incurred in 2020 associated with our administrative personnel, which was one-off in nature. We did not record any share-based compensation in 2021. Our administrative expenses increased from 2021 to 2022, primarily due to (i) an increase in share-based compensation we incurred in 2022 associated with our administrative personnel; (ii) an increase in **[REDACTED]** expenses; and (iii) an increase in employee salaries as we increased the headcount of our administrative personnel, which was in line with our business growth. Our administrative expenses increased from the four months ended April 30, 2022 to the four months ended April 30, 2023, primarily due to (i) an increase in share-based compensation resulting from the new options granted pursuant to the Pre-**[REDACTED]** Share Option Plan; and (ii) an increase in **[REDACTED]** expenses incurred in relation to the **[REDACTED]**.

The following table sets forth a breakdown of our administrative expenses for the years/periods indicated:

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Employee salaries	27,103	2.0%	51,969	48.7%	64,295	36.6%	20,730	47.0%	16,463	19.2%
Share-based compensation	1,295,848	96.0%	—	—	16,810	9.6%	—	—	27,675	32.3%
Travel and business development expense	8,974	0.7%	13,531	12.7%	21,215	12.1%	4,277	9.7%	9,332	10.9%
Depreciation and amortization	5,649	0.4%	6,868	6.4%	13,334	7.6%	4,309	9.8%	6,910	8.0%
[REDACTED] expenses	—	—	11,148	10.4%	25,679	14.6%	6,799	15.4%	17,486	20.4%
Office and utility expenses	4,376	0.3%	8,912	8.3%	11,251	6.4%	3,101	6.9%	2,712	3.1%
Tax	2,114	0.2%	2,972	2.8%	6,083	3.5%	1,172	2.7%	1,443	1.7%
Professional service expenses	4,434	0.3%	7,790	7.3%	8,341	4.7%	2,195	5.0%	2,139	2.5%
Bank transaction charges	833	0.1%	2,467	2.3%	7,257	4.1%	1,260	2.9%	1,160	1.4%
Others	214	0.0%	1,122	1.1%	1,431	0.8%	284	0.6%	476	0.5%
Total	**1,349,545**	**100.0%**	**106,779**	**100.0%**	**175,696**	**100.0%**	**44,127**	**100.0%**	**85,796**	**100.0%**

Research and Development Costs

Our research and development costs primarily consist of (i) employee salaries associated with our research and development personnel; (ii) share-based compensation associated with our research and development personnel; (iii) technology development fees, primarily related to the commissioned development of software and other technology systems to support the online game and online literature products we market and operate for our clients, and server custody fees; (iv) depreciation and amortization expenses, mainly in relation to depreciation of certain right-of-use assets; and (v) others, primarily including office and utility expenses in connection with our research and development activities. For the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, we incurred research and development costs of RMB472.4 million, RMB136.9 million, RMB157.7 million, RMB47.3 million and RMB57.7 million, respectively. The following table sets forth a breakdown of our research and development costs for the years/periods indicated:

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Employee salaries	23,995	5.1%	89,218	65.1%	105,893	67.1%	31,799	67.2%	30,833	53.4%
Share-based compensation	287,499	60.9%	—	—	8,140	5.2%	—	—	13,400	23.2%
Technology development expenses	154,316	32.7%	39,232	28.6%	32,814	20.8%	11,502	24.3%	10,370	18.0%
Depreciation and amortization	5,388	1.1%	5,826	4.3%	7,455	4.7%	2,668	5.6%	2,277	3.9%
Others	1,185	0.2%	2,672	2.0%	3,436	2.2%	1,320	2.9%	806	1.5%
Total	**472,383**	**100.0%**	**136,948**	**100.0%**	**157,738**	**100.0%**	**47,289**	**100.0%**	**57,686**	**100.0%**

Impairment Losses on Financial Assets

In 2020 and 2021, we recorded a reversal of impairment losses on financial assets of RMB5.4 million and RMB0.9 million. In 2022, and the four months ended April 30, 2022 and 2023, we recorded net impairment losses on financial assets of RMB2.2 million, RMB0.9 million and RMB1.9 million, respectively. The fluctuations in connection with this item are mainly due to changes in the allowance for impairment we recorded based on the expected credit loss over our trade receivables and other receivables.

Other Expenses

Our other expenses primarily consist of (i) impairment losses on assets, primarily representing write-off of investments in joint ventures and associates; (ii) investment loss on financial assets at FVTPL; (iii) donation expense; (iv) provisions made for litigations; (v) foreign exchange losses; and (vi) others, such as loss on disposal of property and equipment. In 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, our other expenses were

RMB2.2 million, RMB16.5 million, RMB8.3 million, RMB10.3 million and RMB103.0 million, respectively. The following table sets forth a breakdown of our other expenses for the years/periods indicated:

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Impairment loss on assets	—	—	—	—	5,479	65.8%	8,923	87.0%	—	—
Investment loss on financial assets at FVTPL	—	—	2,628	16.0%	—	—	—	—	99,209	96.4%
Donation expenses	1,841	82.3%	2,145	13.0%	2,766	33.2%	1,322	12.9%	2,344	2.3%
Provisions made for litigations	395	17.6%	11,559	70.2%	30	0.4%	1	0.0%	29	0.0%
Foreign exchange losses	—	—	—	—	—	—	—	—	701	0.7%
Others	1	0.1%	131	0.8%	55	0.6%	9	0.1%	668	0.6%
Total	**2,237**	**100.00%**	**16,463**	**100.00%**	**8,330**	**100.0%**	**10,255**	**100.0%**	**102,951**	**100.0%**

Provisions made for litigations are primarily related to pending litigations with regards to game products operated by us. We accrued provisions according to the verdict of the instance. Provisions made for litigations increased significantly in 2021 primarily due to the trial courts' decisions made in 2021 on certain litigations involving several game products operated by us, including Legend of Guyun (古雲傳奇), Prosperous World (盛世遮天) and Legend of Lanyue (藍月傳奇). See "Business — Legal Proceedings and Compliance — Legal Proceedings" for details.

Finance Costs

Our finance costs primarily consist of (i) finance costs on bills payables, (ii) interest on bank borrowings and (iii) interest expenses on lease liabilities. In 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, we recorded finance costs of RMB51.6 million, RMB56.0 million, RMB107.9 million, RMB28.9 million and RMB36.5 million, respectively. The following table sets forth a breakdown of our finance costs for the years/periods indicated:

	For the Year Ended December 31,						For the Four Months Ended April 30,			
	2020		2021		2022		2022		2023	
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Finance costs on bills payables	45,430	88.0%	47,946	85.6%	89,893	83.3%	24,869	86.0%	31,628	86.6%
Interest on bank borrowings	—	—	9	0.0%	7,969	7.4%	717	2.5%	1,828	5.0%
Interest on lease liabilities	6,213	12.0%	8,077	14.4%	10,016	9.3%	3,323	11.5%	3,047	8.3%
Total interest expense on financial liabilities not at fair value	**51,643**	**100.0%**	**56,032**	**100.0%**	**107,878**	**100.0%**	**28,909**	**100.0%**	**36,503**	**100.0%**

Share of Profits and Losses of Joint Ventures

We recorded a loss of RMB2.4 million in 2020, a gain of RMB4.2 million in 2021, a gain of RMB7.4 million in 2022 and a gain of RMB0.9 million and a loss of RMB0.5 million for the four months ended April 30, 2022 and 2023, respectively, as our share of profits and losses of joint ventures. Our share of profits and losses of joint ventures primarily relate to our beneficial interest in Zhejiang Xuwan Technology Co., Ltd. ("**Zhejiang Xuwan**") (浙江旭玩科技有限公司), a PRC company primarily engaged in the business of online game development, Guangzhou Zeda New Cultural and Creative Industry Development Co., Ltd. ("**Guangzhou Zeda**") (廣州市澤達新文創產業發展有限公司), a PRC company primarily engaged in interactive entertainment product marketing business, and Guangzhou Ziyun Cloud Computing Co., Ltd. ("**Guangzhou Ziyun**") (廣州紫云云計算有限公司), a PRC company primarily engaged in cloud computing technology development business. We own 40%, 26% and 20% of the beneficial interest in Zhejiang Xuwan, Guangzhou Zeda and Guangzhou Ziyun, respectively. We use the equity method to account for our interest in each of these joint ventures based on their respective financial information.

Share of Profits and Losses of Associates

We recorded a loss of RMB4.2 million in 2020, a loss of RMB15.9 million in 2021, a loss of RMB33.9 million in 2022 and a loss of RMB6.8 million and a loss of RMB11.5 million for the four months ended April 30, 2022 and 2023, respectively, as our share of profits and losses of associates. Our share of profits and losses of associates primarily relate to our beneficial interest in Fuzhou Zizai Interactive Entertainment Network Technology Co., Ltd. ("**Fuzhou Zizai**") (福州自在互娛網絡科技有限公司), a PRC company primarily engaged in the business of digital technology development, and Hangzhou Shengxu Miracle Network Technology Co., Ltd. ("**Hangzhou Shengxu**") (杭州盛旭奇蹟網絡科技有限公司), a PRC company primarily engaged in the business of digital technology development. We own 28% and 49% of the beneficial interest in Fuzhou Zizai and Hangzhou Shengxu, respectively. As we are able to exercise significant influence on Fuzhou Zizai and Hangzhou Shengxu, we treat each of Fuzhou Zizai and Hangzhou Shengxu as an associate. We use the equity method to account for our beneficial interest in Fuzhou Zizai and Hangzhou Shengxu based on their respective financial information.

Income Tax Expense

Our income tax expense primarily represent our total current and deferred tax expense under the relevant income tax rules and regulations in the jurisdictions where we operate. We recorded income tax expenses of RMB77.3 million, RMB63.7 million, RMB110.1 million, RMB14.5 million and RMB114.7 million in 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively. Our effective income tax rate, which is calculated by dividing income tax expenses by profit before tax for the same year/period, was a negative of 6.3%, a positive of 9.4%, a positive of 18.3%, a positive of 10.4% and a positive of 32.1%, respectively. During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all of our tax obligations and did not have any material unresolved tax disputes.

Profit/(Loss) for the Year/Period

As a result of the foregoing, our net profit in 2021, 2022 and the four months ended April 30, 2022 and 2023 was RMB616.4 million, RMB491.5 million, RMB124.6 million and RMB242.1 million, respectively. Our net loss in 2020 was RMB1,301.1 million. Our other income and gains accounted for 19.5%, 59.5%, 70.1% and 163.8% of our net profit in 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively.

We recorded loss attributable to non-controlling interests of RMB22.5 million in 2022 due to losses incurred in our non-wholly owned subsidiaries, which mainly included Guangzhou Bajiuyou, HK 9 Ring and Guangzhou Tanwan Mobile Game. These subsidiaries incurred loss in 2022 mainly due to the significant marketing expenses in connection with certain newly launched game products. The game operated by Guangzhou Bajiuyou is mainly Blade of Freedom (自由之刃), which was launched in April 2022 and incurred significant marketing expenses in 2022. The games operated by HK 9 Ring are Legend of Ancient Times (上古傳奇) and War of Angels (天使之戰) which were launched in 2022 and incurred significant marketing expenses as the games are under the early stage of the lifecycle. Guangzhou Tanwan Mobile Game was newly incorporated in 2022 and engaged in game development, and incurred R&D and pre-operating expenses in 2022.

We recorded profit attributable to non-controlling interests of RMB22.1 million in the four months ended April 30, 2023, due to profit generated from our non-wholly owned subsidiaries, which mainly included Hainan Zhangwan and Guangzhou Bajiuyou. These subsidiaries generated profit in the first four months of 2023 mainly due to the marketing and operation of certain game products, such as Blade of Freedom (自由之刃).

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Four Months Ended April 30, 2023 Compared to Four Months Ended April 30, 2022

Revenue

Our revenue decreased by 14.0% from RMB2,846.7 million for the four months ended April 30, 2022 to RMB2,448.3 million for the four months ended April 30, 2023. The decrease in our revenue was primarily due to a decrease of RMB523.1 million in revenue generated from the online game publishing business and other marketing business for the game products we market and operate under the self-run model, as certain existing game products, including Blood of Fury (怒火一刀) and Legend of National War (國戰傳奇), entered into a later stage of their lifecycle, partially offset by (i) an increase of RMB46.3 million in revenue generated from our consumer products business, primarily including sales of our private-label and local-flavor rice noodle products and other fast consumer foods under the brand "Zha Zha Hui" as a result of our continuous efforts to promote and enhance this consumer product business; and (ii) an increase of RMB17.6 million in revenue generated from other marketing business, primarily revenue from provision of marketing online literature products, in line with our efforts to export our core capabilities to sectors beyond game products.

Our revenue generated from the game products we market and operate under the self-run model decreased by 25.6% from RMB2,040.7 million for the four months ended April 30, 2022 to RMB1,517.6 million for the four months ended April 30, 2023, primarily due to the decrease of revenue generated from certain existing game products, including Blood of Fury (怒火一刀) and Legend of National War (國戰傳奇), which entered into a later stage of their lifecycle, partially offset by the increase of revenue generated from the launch, marketing and operation of new game products under this model.

Our revenue generated from the game products we market and operate under the joint-run model increased by 8.1% from RMB753.9 million for the four months ended April 30, 2022 to RMB814.8 million for the four months ended April 30, 2023, primarily due to the increase of revenue generated from the launch, marketing and operation of new game products under this model, including Blade of Freedom (自由之刃), partially offset by the decrease of revenue generated from certain existing game products under this model, including Blooded Attack (熱血合擊).

Cost of Sales

Our cost of sales increased by 8.3% from RMB738.4 million for the four months ended April 30, 2022 to RMB799.7 million for the four months ended April 30, 2023.

Our cost of sales for the game products operated under the self-run model decreased by 6.6% from RMB99.3 million for the four months ended April 30, 2022 to RMB92.7 million for the four months ended April 30, 2023, primarily due to (i) a decrease of RMB6.3 million in commissions to third-party payment channels, which was associated with a reduction in our gross billings under the self-run model; and (ii) a decrease of RMB5.8 million in amortization and depreciation expenses mainly in connection with the software copyrights of our self-owned game product, partially offset by an increase of RMB8.7 million in traffic acquisition fees, as we adjusted our promotion strategies and invested more in certain promotion channels in the first four months of 2023.

Our cost of sales for the game products operated under the joint-run model increased by 5.8% from RMB619.4 million for the four months ended April 30, 2022 to RMB655.6 million for the four months ended April 30, 2023, primarily driven by an increase of RMB41.9 million in commissions to collaborating distribution channels under the joint-run model, as we collaborated with more distribution channels entitled to a higher portion of gross billings.

Our cost of sales for the consumer product business increased significantly from RMB19.5 million for the four months ended April 30, 2022 to RMB50.8 million for the four months ended April 30, 2023, mainly due to the increase of procurement costs for our rice noodle products under the brand "Zha Zha Hui," which was in line with our efforts to promote and enhance this consumer product business.

Gross Profit and Gross Profit Margin

Our total gross profit decreased by 21.8% from RMB2,108.3 million for the four months ended April 30, 2022 to RMB1,648.6 million for the four months ended April 30, 2023.

Our gross profit for the game products operated under the self-run model decreased by 26.6% from RMB1,941.4 million for the four months ended April 30, 2022 to RMB1,424.9 million for the four months ended April 30, 2023, primarily as a result of the revenue decline under the self-run model, which was in turn attributable to the operation of game products such as Blood of Fury (怒火一刀) and Legend of National War (國戰傳奇) which entered into a later stage of their lifecycle.

Our gross profit for the game products operated under the joint-run model increased by 18.4% from RMB134.5 million for the four months ended April 30, 2022 to RMB159.2 million for the four months ended April 30, 2023, primarily as a result of the revenue growth under the joint-run model partially offset by the growth of cost of sales under the same model, which was in turn attributable to the launch, marketing and operation of new game products such as Blood of Freedom (自由之刃).

Our gross profit from the consumer product business increased by 92.8% from RMB16.1 million for the four months ended April 30, 2022 to RMB31.0 million for the four months ended April 30, 2023, primarily due to the sales growth of our private-label and local-flavor rice noodle products and other fast consumer foods under the brand "Zha Zha Hui."

Our overall gross profit margin decreased from 74.1% for the four months ended April 30, 2022 to 67.3% for the four months ended April 30, 2023, primarily due to the increase in our revenue generated from game products operated under the joint-run model (which generally have a lower gross profit margin) as a percentage of our total revenue.

Our gross profit margin for the self-run game products remained relatively stable at 95.1% and 93.9% for the four months ended April 30, 2022 and 2023, respectively. Our gross profit margin for the game products operated under the joint-run model relatively stable at 17.8% and 19.5% for the four months ended April 30, 2022 and 2023, respectively.

Our gross profit margin for the consumer product business decreased from 45.2% for the four months ended April 30, 2022 to 37.9% for the four months ended April 30, 2023, as a result of the increase of procurement costs for our rice noodle products in the first four months of 2023.

Other Income and Gains

Our other income and gains increased significantly from RMB87.4 million for the four months ended April 30, 2022 to RMB396.6 million for the four months ended April 30, 2023, primarily due to an increase of RMB327.0 million in investment income from financial assets at FVTPL, which we recognized from the sale of equity interests in a PRC-listed company.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 27.5% from RMB1,919.1 million for the four months ended April 30, 2022 to RMB1,391.6 million for the four months ended April 30, 2023, primarily due to a decrease of RMB543.9 million in marketing and promotion expenses, as certain game products entered into a later stage of their lifecycle, and therefore did not require significant marketing and promotion resources.

Administrative Expenses

Our administrative expenses increased by 94.6% from RMB44.1 million for the four months ended April 30, 2022 to RMB85.8 million for the four months ended April 30, 2023, primarily due to (i) an increase of RMB27.7 million in share-based compensation resulting from the new grant pursuant to the Pre-**[REDACTED]** Share Option Plan; and (ii) an increase of RMB10.7 million in **[REDACTED]** expenses incurred in relation to the **[REDACTED]**.

Research and Development Costs

Our research and development costs increased by 22.0% from RMB47.3 million in the four months ended April 30, 2022 to RMB57.7 million in the four months ended April 30, 2023, primarily due to an increase of RMB13.4 million in share-based compensation resulting from the new grant pursuant to the Pre-**[REDACTED]** Share Option Plan.

Other Expenses

Our other expenses increased significantly from RMB10.3 million for the four months ended April 30, 2022 to RMB103.0 million for the four months ended April 30, 2023, primarily due to an increase of RMB99.2 million in investment loss on financial asset at FVTPL, mainly associated with our equity investments.

Finance Costs

Our finance costs increased by 26.3% from RMB28.9 million for the four months ended April 30, 2022 to RMB36.5 million for the four months ended April 30, 2023, primarily due to an increase of RMB6.8 million in the interest accrued on the interest-bearing bills payables used as means of payment to our business partners in the ordinary course of our business.

Share of Profits and Losses of Joint Ventures

We recorded a loss of RMB0.5 million for the four months ended April 30, 2023, compared to a gain of RMB0.9 million for the four months ended April 30, 2022, as our share of profits and losses of joint ventures, primarily attributable to an increase in the loss recorded by our joint venture company, Zhejiang Xuwan in 2023.

Share of Profits and Losses of Associates

We recorded a loss of RMB11.5 million for the four months ended April 30, 2023, compared to a loss of RMB6.8 million for the four months ended April 30, 2022, as our share of profits and losses of associates, primarily due to an increase in the loss recorded by our associate company, Hangzhou Shengxu in 2023.

Income Tax Expense

We recorded income tax expense of RMB114.7 million for the four months ended April 30, 2023, compared to RMB14.5 million for the four months ended April 30, 2022, primarily attributable to (i) an increase of RMB75.1 million in current tax expense, mainly due to upward adjustments in our preferential tax rates pursuant to the applicable policies; and (ii) an increase of RMB25.1 million in deferred tax expense, as a result of withholding tax on the distributable profits of our Group's PRC subsidiaries and the loss-making position of certain subsidiaries turning into profit-making position in 2023.

Profit for the Period

As a result of the foregoing, our net profit increased by 94.3% from RMB124.6 million for the four months ended April 30, 2022 to RMB242.1 million for the four months ended April 30, 2023.

Year Ended December 31, 2022 Compared to the Year Ended December 31, 2021

Revenue

Our revenue increased by 53.7% from RMB5,735.7 million in 2021 to RMB8,817.2 million in 2022. The increase in our revenue was primarily driven by (i) an increase of RMB2,890.3 million in revenue generated from the online game publishing business and other marketing business for the game products we market and operate under the self-run and joint-run models, which was primarily attributable to the launch, marketing and operation of new game products including Legend of National War (國戰傳奇) and Blade of Freedom (自由之刃), and continuous operation and performance of existing game products in 2022 including Legend of Origin (原始傳奇) and Legend of Guyun (古雲傳奇); (ii) an increase of RMB185.4 million in revenue generated from our consumer product business in 2022, primarily including sales of our private-label and local-flavor rice noodle products and other fast consumer foods under the brand "Zha Zha Hui" as a result of our efforts to promote and enhance this consumer product business; and (iii) an increase of RMB5.8 million in revenue generated from others, primarily consisting of revenue from provision of marketing online literature products, in line with our efforts to export our core capabilities to sectors beyond game products.

Cost of Sales

Our cost of sales increased significantly from RMB997.4 million in 2021 to RMB2,407.5 million in 2022.

Our cost of sales for the game products operated under the self-run model increased by 19.2% from RMB237.5 million in 2021 to RMB283.1 million in 2022, primarily driven by (i) an increase of RMB21.3 million in commissions to third-party payment channels, mainly attributable to the increased collaboration with third-party payment channels, which was in line with our revenue growth under the self-run model; and (ii) an increase of RMB13.9 million in depreciation and amortization in relation to the software copyrights of our self-owned game product.

Our cost of sales for the game products operated under the joint-run model increased significantly from RMB742.0 million in 2021 to RMB1,995.9 million in 2022, primarily driven by an increase of RMB1,214.0 million in commissions to collaborating distribution channels under the joint-run model, which was in line with our efforts to enhance our collaborating distribution channels for products and an increase in the publishing activities they carried out, which was consistent with our rapid business growth under this model.

Our cost of sales for the consumer product business increased significantly from RMB17.2 million in 2021 to RMB127.9 million in 2022, mainly due to the cost of procuring rice noodle products under the brand "Zha Zha Hui," which was in line with our efforts to promote and enhance this consumer product business during this period.

Gross Profit and Gross Profit Margin

Our total gross profit increased by 35.3% from RMB4,738.4 million in 2021 to RMB6,409.7 million in 2022.

Our gross profit for the game products operated under the self-run model increased by 32.3% from RMB4,458.5 million in 2021 to RMB5,896.5 million in 2022, as a result of our rapid revenue growth under the self-run model outpacing the growth of our cost of sales for the same year, primarily attributable to the continuous operation of game products such as Blade of Freedom (自由之刃) and Legend of National War (國戰傳奇) under this model in 2022.

Our gross profit for the game products operated under the joint-run model increased by 65.0% from RMB235.1 million in 2021 to RMB387.9 million in 2022, as a result of our rapid revenue growth under the joint-run model outpacing the growth of our cost of sales for the same year. Our revenue under the joint-run model as a percentage of our total revenue increased from 17.2% in 2021 to 27.8% in 2022.

Our gross profit from the consumer product business increased significantly from RMB13.1 million in 2021 to RMB87.8 million in 2022, primarily due to the sales growth of our private-label and local-flavor rice noodle products and other fast consumer foods under the brand "Zha Zha Hui."

Our overall gross profit margin decreased from 82.6% in 2021 to 72.7% in 2022, primarily due to (i) the increase in our revenue generated from game products operated under the joint-run model (which generally have a lower gross profit margin) as a percentage of our total revenue, and (ii) the decrease in the gross profit margin for game products operated under the joint-run model.

Our gross profit margin for the self-run game products remained relatively stable at 94.9% and 95.4% in 2021 and 2022, respectively, as commissions to third-party payment channels as a percentage of revenue remained relatively stable. Our gross profit margin for the game products operated under the joint-run model decreased from 24.1% in 2021 to 16.3% in 2022, primarily because (i) as we have become the developer of Legend of Guyun since 2022 and the game has entered the maturity stage, both the gross billings of the Legend of Guyun generated through the third party distribution channels and the rate of commissions they charged are relatively high, resulting in a higher commission; and (ii) we cooperated with more game co-publishers to utilize their own user bases, marketing resources and technology platforms for expanding the end-users base, which usually charges a higher portion of gross billings since they need to carry out more marketing and promotion activities to attain end-user acquisition.

Our gross profit margin for the consumer product business remained relatively stable at 43.2% and 40.7% in 2021 and 2022, respectively.

Other Income and Gains

Our other income and gains increased significantly from RMB120.1 million in 2021 to RMB292.6 million in 2022, primarily due to (i) an increase of RMB95.7 million in interest income accrued on time deposits, which was in line the increase in our time deposits for the same year and (ii) an increase of RMB31.2 million in VAT additional deduction and refunds, which were calculated as a percentage of the deductible input tax for the relevant period. The increase was primarily due to the increase of our deductible input tax in line with our business growth.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 46.0% from RMB3,851.2 million in 2021 to RMB5,622.4 million in 2022, primarily due to (i) an increase of RMB1,701.0 million in marketing and promotion expenses, primarily due to our increased efforts to market the online game, online literature and consumer products through collaborating media platforms including the marketing of newly-launched games such as Legend of National War (國戰傳奇) and Blade of Freedom (自由之刃) in 2022, which was in line with our business growth that required more promotion to increase exposure of our online game and online literature products; and (ii) an increase of RMB48.7 million in employee salaries as a result of the increase in the headcount of our selling and distribution personnel in departments such as the marketing and design departments, which was in line with our business growth.

Administrative Expenses

Our administrative expenses increased by 64.5% from RMB106.8 million in 2021 to RMB175.7 million in 2022, primarily due to (i) an increase of RMB16.8 million in share-based compensation we made in November 2022 associated with our administrative personnel; (ii) an increase of RMB14.5 million in **[REDACTED]** fees; and (iii) an increase of RMB12.3 million in employee salaries as a result of the increase in the headcount of our administrative personnel in departments such as the general manager office, finance, legal and human resources departments, which was in line with our business growth.

Research and Development Costs

Our research and development costs increased by 15.2% from RMB136.9 million in 2021 to RMB157.7 million in 2022, primarily due to (i) an increase of RMB16.7 million in employee salaries as a result of the increase in the headcount of our system development and management team who were responsible for upgrading our AI system and algorithm platforms, which was in line with efforts to enhance our research and development team to support our business growth; and (ii) an increase of RMB8.1 million in share-based compensation we made in 2022; partially offset by a decrease of RMB6.4 million in technology development fees as a result of a decrease in commissioned software development.

Impairment Losses on Financial Assets

In 2021 and 2022, we recorded net impairment gains on financial assets of RMB0.9 million and net impairment losses on financial assets of RMB2.2 million, respectively. The fluctuation in connection with this item is mainly due to changes in the allowance for impairment we recorded based on the expected credit loss over trade receivables and other receivables.

Other Expenses

Our other expenses decreased by 49.7% from RMB16.5 million in 2021 to RMB8.3 million in 2022, primarily due to a decrease of RMB11.5 million in provisions made for litigations, which was significantly higher in 2021 primarily due to the trial courts' decisions made in 2021 on certain litigations involving several game products operated by us, including Prosperous World (盛世遮天), Legend of Guyun (古雲傳奇) and Legend of Lanyue (藍月傳奇). See "Business — Legal Proceedings and Compliance — Legal Proceedings" for details. Such decrease was partially offset by an increase of RMB5.5 million in impairment losses on assets in relation to property and equipment.

Finance Costs

Our finance costs increased significantly by 92.5% from RMB56.0 million in 2021 to RMB107.9 million in 2022, primarily due to (i) an increase of RMB41.9 million in the interest accrued on the interest-bearing bills payables used as means of payment to our business partners, which was in line with the rapid growth of our business; and (ii) an increase of RMB1.9 million in interest expenses on lease liabilities, primarily because we leased more offices as a result of our business expansion.

Share of Profits and Losses of Joint Ventures

We recorded a gain of RMB4.2 million in 2021 and a gain of RMB7.4 million in 2022 as our share of profits and losses of joint ventures, primarily attributable to a decrease in the loss recorded by our joint venture company, Guangzhou Zeda in 2022.

Share of Profits and Losses of Associates

We recorded a loss of RMB15.9 million in 2021 and a loss of RMB33.9 million in 2022 as our share of profits and losses of associates, primarily due to an increase in the loss recorded by our associate company, Hangzhou Shengxu.

Income Tax Expense

We recorded income tax expense of RMB63.7 million in 2021 and RMB110.1 million in 2022, primarily because the income tax rate of Jiangxi Tanwan increased from 15% to 25% as it did not qualify for the HNTE preferential tax rate in 2022.

Profit for the Year

As a result of the foregoing, our net profit decreased by 20.3% from RMB616.4 million in 2021 to RMB491.5 million in 2022. Such decrease was primarily due to a decrease in our gross profit margin, which is attributable to the increase in our revenue generated from game products operated under the joint-run model (which generally have a lower gross profit margin) as a percentage of our total revenue, and the decrease in the gross profit margin for game products operated under the joint-run model, and an increase in our selling and distribution expenses to promote our newly launched games, which may not contribute greatly to our revenue until a relatively later stage.

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

Revenue

Our revenue increased significantly from RMB2,872.4 million in 2020 to RMB5,735.7 million in 2021. The increase in our revenue was primarily driven by (i) an increase of RMB2,801.7 million in revenue generated from the online game publishing business and other marketing business for the game products we market and operate under the self-run and joint-run models, which was primarily attributable to the launch, marketing and operation of new game products including Blooded Attack (熱血合擊), and continuous operation and performance of existing game products in 2021, including Legend of Guyun (古雲傳奇) and Legend of Origin (原始傳奇); (ii) revenue of RMB30.3 million from our consumer product business in 2021, primarily including sales of our private-label and local-flavor rice noodle products and other fast consumer foods under the brand "Zha Zha Hui" as a result of our efforts to promote and enhance this consumer product business; and (iii) an increase of RMB31.4 million in revenue generated from others, primarily consisting of revenue from provision of marketing to online literature products, in line with our efforts to export our core capabilities to sectors beyond game products.

Cost of Sales

Our cost of sales increased significantly from RMB433.0 million in 2020 to RMB997.4 million in 2021.

Our cost of sales for the game products operated under the self-run model increased significantly from RMB105.7 million in 2020 to RMB237.5 million in 2021, primarily due to (i) an increase of RMB84.9 million in commissions to third-party payment channels, mainly attributable to the increased collaboration with third-party payment channels, which was in line with our revenue growth under the self-run model; and (ii) an increase of RMB46.8 million in others, mainly representing the increase in employee salaries in line with our business expansion under this model, and an increase in depreciation and amortization due to an increase in amortization of other intangible assets directly associated with revenue generation under this model.

Our cost of sales for the game products operated under the joint-run model increased significantly from RMB327.3 million in 2020 to RMB742.0 million in 2021, primarily due to an increase of RMB402.8 million in commissions to collaborating distribution channels under the joint-run model, which was in line with our efforts to enhance our collaborating distribution channels for products and an increase in the publishing activities they carried out, which was consistent with our rapid business growth under this model.

In 2021, we recorded RMB17.2 million of cost of sales for the consumer product business, as compared to nil in 2020, mainly due to the cost of procuring rice noodle products under the brand "Zha Zha Hui," which was in line with our efforts to promote and enhance this consumer product business in 2021.

Gross Profit and Gross Profit Margin

Our total gross profit increased by 94.2% from RMB2,439.4 million in 2020 to RMB4,738.4 million in 2021.

Our gross profit for the game products operated under the self-run model increased by 92.8% from RMB2,312.4 million in 2020 to RMB4,458.5 million in 2021, as a result of the rapid revenue growth under the self-run model outpacing the growth of our cost of sales for the same year, primarily attributable to the continuous operation of game products such as Blooded Attack (熱血合擊) under this model in 2021. Our gross profit for the game products operated under the joint-run model increased by 86.5% from RMB126.1 million in 2020 to RMB235.1 million in 2021, as a result of the rapid revenue growth under this model, primarily attributable to the continuous operation of game products such as Legend of Origin (原始傳奇).

In 2021, we recorded a gross profit of RMB13.1 million from the consumer product business, primarily due to the sales of our private-label and local-flavor rice noodle products and other fast consumer foods under the brand "Zha Zha Hui." We did not generate revenue or cost of sales from the consumer product business in 2020.

Our overall gross profit margin remained relatively stable at 84.9% and 82.6% in 2020 and 2021, respectively.

Our gross profit margin for the game products operated under the self-run model remained relatively stable at 95.6% and 94.9% in 2020 and 2021, respectively, as commissions to third-party payment channels as a percentage of revenue remained relatively stable. Our gross profit margin for the game products operated under the joint-run model remained relatively stable at 27.8% and 24.1% in 2020 and 2021, respectively.

In 2021, we recorded a gross profit margin of 43.2% for the consumer product business.

The gross profit margin for the consumer product business was not applicable in 2020.

Other Income and Gains

Our other income and gains decreased from RMB130.5 million in 2020 to RMB120.1 million in 2021, primarily due to (i) a decrease of RMB59.2 million in investment income, primarily due to the decrease in investment income as a result of the realized gain on certain financial assets at FVTPL as we recorded more bank deposits instead of FVTPL in 2021; and (ii) a decrease of RMB5.7 million government grants, partially offset by an increase of RMB60.3 million in interest income as a result of an increase in our bank deposits in 2021.

Selling and Distribution Expenses

Our selling and distribution expenses increased significantly from RMB1,916.7 million in 2020 to RMB3,851.2 million in 2021, primarily due to an increase of RMB2,095.9 million in marketing and promotion expenses, primarily due to our increased efforts to market the online game and online literature products through collaborating media platforms including the marketing of newly-launched games such as Blooded Attack (熱血合擊), and existing games such as Legend of Guyun (古雲傳奇) and Legend of Origin (原始傳奇) in 2021, which was in line with our business growth that required more promotion to increase exposure of our mobile game and online literature products. The increase was partially offset by a decrease of RMB232.8 million in share-based compensation associated with the selling and distribution personnel, which was a one-off payment we made in 2020. We did not record any share-based compensation associated with the selling and distribution personnel in 2021.

Administrative Expenses

Our administrative expenses decreased by 92.1% from RMB1,349.5 million in 2020 to RMB106.8 million in 2021, which was primarily due to a decrease of RMB1,295.8 million in share-based compensation associated with the administrative personnel, which was a one-off payment we made in 2020. We did not record any share-based compensation associated with the administrative personnel in 2021.

Research and Development Costs

Our research and development costs decreased by 71.0% from RMB472.4 million in 2020 to RMB136.9 million in 2021, which was primarily due to (i) a decrease of RMB287.5 million in share-based compensation associated with the research and development personnel, which was a one-off payment we made in 2020; and (ii) a decrease of RMB115.1 million in technology development expenses, due to a decrease in the service fees paid to third party vendors as we continued to enhance our internal research and development capabilities, partially offset by an increase of RMB65.2 million in employee salaries as a result of the increase in the headcount of our research and development personnel, particularly the expansion of our software engineering team who were responsible for the system development of our Hetu (河圖) and Luoshu (洛書) technology platforms, which was in line with efforts to enhance our research and development team to support our business growth. We did not record any share-based compensation associated with the research and development personnel in 2021.

Impairment Losses on Financial Assets

In 2020 and 2021, we recorded reversals of net impairment losses on financial assets of RMB5.4 million and RMB0.9 million, respectively. The fluctuations in connection with this item is mainly due to changes in the allowance for impairment we recorded based on the expected credit loss over trade receivables and other receivables.

Other Expenses

Our other expenses increased significantly from RMB2.2 million in 2020 to RMB16.5 million in 2021, primarily due to (i) an increase of RMB11.2 million in provisions made for litigations, primarily due to the trial courts' decisions made in 2021 on certain litigations involving several game products operated by us, including Legend of Guyun (古雲傳奇), Prosperous World (盛世遮天) and Legend of Lanyue (藍月傳奇). See "Business — Legal Proceedings and Compliance — Legal Proceedings" for details; and (ii) an increase of RMB2.6 million in loss on certain financial assets at FVTPL.

Finance Costs

Our finance costs increased by 8.5% from RMB51.6 million in 2020 to RMB56.0 million in 2021, primarily due to (i) an increase of RMB2.5 million in the interest accrued on the interest-bearing bill payables used as means of payment to our business partners, which was in line with the rapid growth of our business; and (ii) an increase of RMB1.9 million in interest on lease liabilities, primarily due to our leasing more offices as a result of our business expansion.

Share of Profits and Losses of Joint Ventures

We recorded a loss of RMB2.4 million in 2020 and a gain of RMB4.2 million in 2021 as our share of profits and losses of joint ventures, primarily attributable to the profit recorded by our joint venture company, Zhejiang Xuwan in 2021.

Share of Profits and Losses of Associates

We recorded a loss of RMB4.2 million in 2020 and a loss of RMB15.9 million in 2021 as our share of profits and losses of associates, primarily attributable to an increase in the loss recorded by our associate company, Fuzhou Zizai.

Income Tax Expense

Our income tax expense decreased by 17.6% from RMB77.3 million in 2020 to RMB63.7 million in 2021, primarily due to a decrease of RMB51.9 million of deferred tax expenses, primarily attributable to recognition of deferred tax assets as a result of the loss incurred by certain subsidiaries of our Company in 2021, partially offset by an increase of RMB38.3 million of current tax expenses, primarily attributable to an increase in our taxable income as a result of the increased profit incurred by a subsidiary of our Company in 2021.

(Loss)/Profit for the Year

As a result of the foregoing, we generated a net loss of RMB1,301.1 million in 2020 and a net profit of RMB616.4 million in 2021.

DISCUSSION OF CERTAIN KEY ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Net Current Liabilities

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

	As of December 31,			As of April 30,	As of June 30,
	2020	2021	2022	2023	2023
	(RMB in thousands)				
					(Unaudited)
CURRENT ASSETS					
Inventories	—	1,020	4,424	2,612	3,436
Trade receivables	221,996	271,086	426,817	308,273	267,119
Prepayments, other receivables and other assets	393,384	375,693	667,323	669,602	619,150
Amounts due from related parties	99,766	95,000	16,981	16,981	52,784
Financial assets at FVTPL	550,446	1,089,969	1,271,335	1,277,878	848,100
Pledged deposits	544,762	1,239,799	3,006,801	3,605,530	2,976,076
Restricted cash	84,933	25,863	10,394	39,190	164,168
Cash and cash equivalents	393,472	693,608	213,422	399,270	426,299
Total current assets	2,288,759	3,792,038	5,617,497	6,319,336	5,357,832
CURRENT LIABILITIES					
Trade payables	275,562	560,035	523,649	532,211	481,340
Bills payables	1,729,989	3,422,140	5,640,211	5,861,676	5,254,642
Other payables and accruals	961,077	943,124	901,219	840,727	691,499
Interest-bearing bank borrowings	—	89,950	555,844	442,716	350,980
Lease liabilities	2,134	27,793	21,247	19,010	19,868
Amounts due to related parties	—	64	—	—	—
Tax payable	93,691	146,872	247,796	346,807	352,006
Total current liabilities	3,062,453	5,189,978	7,889,966	8,043,147	7,150,335
Net current liabilities	(773,694)	(1,397,940)	(2,272,469)	(1,723,811)	(1,792,503)

Our net current liabilities decreased from RMB2,272.5 million as of December 31, 2022 to RMB1,723.8 million as of April 30 2023, primarily due to (i) an increase of RMB598.7 million in pledged deposits (current portion), in order to secure more bills and bills payables used as means of payment to our business partners in the ordinary course of our business; (ii) an increase of RMB185.8 million in cash and cash equivalents, primarily attributable to the investment income on our financial assets; and (iii) a decrease of RMB113.1 million in interest-bearing bank borrowings, partially offset by (i) a decrease of RMB118.5 million in trade receivables as a result of the settlement of certain trade receivables which were due; and (ii) an increase of RMB221.5 million in bills payables as means of payment to our business partners in the ordinary course of our business.

Our net current liabilities increased from RMB1,397.9 million as of December 31, 2021 to RMB2,272.5 million as of December 31, 2022, primarily due to (i) an increase of RMB2,218.1 million in bills payables, which were primarily secured by current and non-current pledged deposits; and (ii) an increase of RMB465.9 million in interest-bearing bank borrowings primarily because we use bills as one of our payment methods, which was in line with our overall business growth, partially offset by (i) an increase of RMB1,767.0 million in pledged deposits (current portion) in order to secure more discounted bills and bills payables required for our business expansion; (ii) an increase of RMB291.6 million in prepayments, other receivables and other assets (current portion), mainly attributable to prepayments for marketing and operation activities and to game developers, which was in line with our business expansion; and (iii) an increase of RMB181.4 million in financial assets at FVTPL, as a result of an increase of wealth management products we purchased and listed equity investments. As of December 31, 2022, we also recorded a decrease of RMB480.2 million in cash and cash equivalents under the current assets, which was primarily due to our purchase of financial assets to better utilize our cash on hands.

Our net current liabilities increased from RMB773.7 million as of December 31, 2020 to RMB1,397.9 million as of December 31, 2021, primarily due to an increase of RMB1,692.2 million in bills payables, which was in line with our rapid business growth, partially offset by (i) an increase of RMB695.0 million in pledged deposits (current portion), in order to secure more discounted bills and bills payables required for our business expansion; (ii) an increase of RMB539.5 million in financial assets at FVTPL, primarily attributable to an increase of wealth management products we purchased; and (iii) an increase of RMB300.1 million in cash and cash equivalents, mainly attributable to our cash flows generated from operating activities, which was in line with our overall business growth.

The increase in our net current liabilities during the Track Record Period was primarily because a significant portion of its pledged deposits used to secure our bills payables and interest-bearing bank borrowings were time deposits with a term exceeding one year and therefore recorded as non-current assets. To the extent its liquidity and working capital needs are met, we believe that time deposits, compared to demand deposits, can help us better utilize our idle cash by earning a higher interest. The noncurrent portion of our pledged deposits was RMB876.4 million, RMB2,022.2 million and RMB3,395.6 million as of December 31, 2020, 2021 and 2022, respectively, which was higher than our net current liabilities recorded as of the same dates.

As our net current liabilities are primarily due to the pledged deposits used to secure our bills payables and interest-bearing bank borrowings, which are time deposits with a term exceeding one year. We believe our net current liability position can be improved by better management of our cash. As part of our cash management policy, we monitor our pledged bank deposits regularly and prepare a bi-weekly cash flow forecast to ensure that we are able to maintain an optimal level of liquidity and meet our working capital needs. To improve our net current liabilities position, we plan to from time to time dynamically allocate our cash between time deposits and demand deposits, including adjusting the maturity terms of the time deposits we make, in the event that our liquidity and working capital needs require us to do so.

Trade Receivables

Our trade receivables primarily consist of outstanding amounts payable by collaborating distribution channels under our joint-run model in the ordinary course of our business.

	As of December 31,			As of April 30,
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Trade receivables	230,606	273,863	430,209	311,614
Impairment	(8,610)	(2,777)	(3,392)	(3,341)
Trade receivables, net	**221,996**	**271,086**	**426,817**	**308,273**

Our net trade receivables decreased by 27.8% from RMB426.8 million as of December 31, 2022 to RMB308.3 million as of April 30 2023, primarily as a result of the settlement of certain trade receivables which were due. Our net trade receivables increased by 22.1% from RMB222.0 million as of December 31, 2020 to RMB271.1 million as of December 31, 2021. Our net trade receivables increased by 57.4% from RMB271.1 million as of December 31, 2021 to RMB426.8 million as of December 31, 2022. The increases were in line with the changes in our revenue generated from game products operated under the joint-run model for the respective periods.

As of June 30, 2023, RMB194.0 million, or 62.9% of our trade receivables as of April 30, 2023 had been settled subsequently.

The following table sets forth our trade receivables turnover days during the Track Record Period:

	For the Year Ended December 31,			For the Four Months Ended April 30,
	2020	**2021**	**2022**	**2023**
Trade receivables turnover days(1)	21	16	15	18

Note:

(1) Trade receivables turnover days for a given period equals the average trade receivables balances as of the beginning and the end of the period divided by total revenues during the period and then multiplied by 365 days for the full-year period and 120 days for the four-month period.

A significant portion of our trade receivables represent receivables from gross billings made by end users and withheld by the collaborating distribution channels, which are recorded as cost of sales, instead of revenue. As such, our trade receivable turnovers are presented above for illustrative purpose only and do not reflect the credit terms we grant to them. Our trade receivables turnover days decreased from 21 days in 2020 to 16 days in 2021 and further to 15 days in 2022, primarily due to an increase in our collaboration with third-party distribution channels having shorter payment cycles and credit terms. Our trade receivable turnover days increased from 15 days in 2022 to 18 days for the four months ended April 30, 2023, primarily due to an increase in our collaboration with third-party distribution channels having longer payment cycles and credit terms.

Our trading terms with our collaborating distribution channels are mainly on credit. The credit period is generally 30 days to 90 days. Trade receivables are generally settled in accordance with the terms of the respective contracts. We seek to maintain strict control over outstanding receivables. We do not hold any collateral or other credit enhancements over our trade receivable balances. Trade receivables are non-interest-bearing.

The table below sets forth a breakdown of trade receivables (before loss allowance) by credit terms as of the dates indicated:

	As of December 31,			As of April 30,
	2020	2021	2022	2023
		(RMB in thousands)		
Within 30 days	—	11,763	17,285	11,602
30 to 90 days	228,523	260,118	411,243	298,538
Over 90 days	2,083	1,982	1,681	1,474
Total	**230,606**	**273,863**	**430,209**	**311,614**

Aging analysis of trade receivables based on transactions dates and net of loss allowance is as follows:

	As of December 31,			As of April 30,
	2020	2021	2022	2023
		(RMB in thousands)		
Within 1 year	219,754	269,951	424,403	304,068
1 to 2 years	813	1,127	2,222	4,105
Over 2 years	1,429	8	192	100
Trade receivables, net	**221,996**	**271,086**	**426,817**	**308,273**

Our Directors consider that there is no material recoverability issue with respect to the outstanding trade receivables and that our impairment allowance was adequate in light of the prevailing circumstances as of the Latest Practicable Date, based on (i) our periodic assessment to closely monitor our credit exposure and identify significant increases in credit risks and, where applicable, make timely allowance for expected credit losses, (ii) the stringent internal measures we have taken to enhance the management and collection of trade receivables, (iii) our trade receivables aged within one year accounted for 98.6% of the total trade receivables as of April 30, 2023, and (iv) the reliability and track record of settling payables by our collaborating distribution channels, which are mainly established companies well-known in the industry. See note 20 to the Accountants' Report in Appendix I to this document for details on our allowance for impairment of trade receivables.

Prepayments, Other Receivables and Other Assets (Current Portion)

The current portion of our prepayments, other receivables and other assets primarily consist of (i) prepayments we made for marketing and promotion services; (ii) deposits and other receivables, primarily including lease deposits and receivables; (iii) prepayment to game developers; (iv) undrawn deposits in third-party payment channels; (v) deductible input VAT, representing the amounts of VAT to be deducted for future VAT payments; (vi) loans due from third parties; (vii) prepaid expense; (viii) time deposits with original maturity of over three months but less than one year; (ix) contract costs for self-owned game product; and (x) deferred **[REDACTED]** expenses.

During the Track Record Period, our contract costs were in relation to the deferred commissions to collaborating distribution channels for our self-owned game, Legend of Guyun (古雲傳奇). Unlike the game products authorized by third-party game developers or publishers, for which we recognize revenue when the end users pay for the purchase of in-game virtual items, we recognized revenue for our self-owned game ratably over the estimated average playing period of paying end-users ("Player Relation Period"), commencing from point in time when the purchase of in-game virtual items is made, subject to the fulfillment of all other revenue recognition criteria. Accordingly, a portion of the gross billings withheld by our collaborating distribution platforms are initially recognized as contract cost and subsequently amortized in the same pattern consistent with our revenue recognition.

The following table sets forth the current portion of our prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,			As of April 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Prepayment for marketing and promotion services	97,926	46,012	109,282	116,886
Deposits and other receivables	149,175	108,719	187,539	110,841
Prepayment to game developers	53,797	75,559	148,171	174,507
Undrawn deposits in third party payment channels	10,520	15,550	39,733	108,425
Deductible input VAT	66,786	71,782	83,418	87,938
Loans due from third parties	27,000	—	21	14
Prepaid expenses	552	7,974	1,785	6,014
Time deposits with original maturity of over three months but less than one year	—	65,671	48,093	28,787
Contract costs for self-owned games	—	—	61,686	48,029
Deferred **[REDACTED]** expenses	—	1,613	6,386	8,892
	405,756	392,880	686,114	690,333
Less: allowance for impairment	(12,372)	(17,187)	(18,791)	(20,731)
Total	**393,384**	**375,693**	**667,323**	**669,602**

The current portion of our prepayments, other receivables and other assets remained relatively stable at RMB667.3 million as of December 31, 2022 and RMB669.6 million as of April 30 2023, primarily reflecting (i) an increase of RMB68.7 million in undrawn deposits in third-party payment channels, which primarily reflected the increase in top-up amounts by end users through such third-party payment channels; and (ii) an increase of RMB26.3 million in prepayment to game developers primarily for certain new game products we market and operate in 2023, partially offset by (i) a decrease of RMB76.7 million in deposits and other receivables; (ii) a decrease of RMB19.3 million in time deposits with original maturity of over three months but less than one year; and (iii) a decrease of RMB13.7 million in contract costs for self-owned game, which was primarily due to a decrease in deferred commission to collaborating distribution channels as our gross billings generated from this game under the joint-run model declined in the four months ended April 30, 2023.

The current portion of our prepayments, other receivables and other assets increased by 77.6% from RMB375.7 million as of December 31, 2021 to RMB667.3 million as of December 31, 2022, primarily due to (i) an increase of RMB63.3 million in prepayments for marketing and promotion activities, which was in line with the increase of our marketing and promotion expenses in 2022; (ii) an increase of RMB72.6 million in prepayment to game developers primarily for certain new game products marketed and operated by us, which was in line with our rapid business growth; (iii) an increase of RMB61.7 million in contract costs in relation to deferred commissions to collaborating distribution channels, as a result of the continuous operation of our self-owned game product; and (iv) an increase of RMB78.8 million in deposits and other receivables.

The current portion of our prepayments, other receivables and other assets decreased by 4.5% from RMB393.4 million as of December 31, 2020 to RMB375.7 million as of December 31, 2021, primarily due to (i) a decrease of RMB51.9 million in prepayment for marketing and promotion activities; and (ii) a decrease of RMB40.5 million in deposits and other receivables; partially offset by an increase of RMB65.7 million in time deposits with original maturity of over three months but less than one year.

As of June 30, 2023, RMB141.2 million or 21.1% of all current portion of prepayments, other receivables and other assets as of April 30, 2023 had been subsequently settled.

As of June 30, 2023, nil of our loans due from third parties as of April 30, 2023 had been subsequently settled. During the Track Record Period, our loans due from third parties, based on friendly negotiation and agreement with the borrowers, were furnished with our own funds and used for the respective borrowers' operational needs. For the repayment of these loans, we did not demand any interest from the borrowers, and there were no dispute arising from such loans. Therefore, our PRC Legal Adviser has advised us that such loans provided by our PRC subsidiaries to third parties did not breach mandatory provisions under applicable PRC laws. Based on the above, our Directors are of the view that our loans due from third parties during the Track Record Period were in compliance with the relevant applicable laws and regulations.

Financial Assets at FVTPL

Our financial assets at FVTPL primarily consist of (i) investments in wealth management products, with the expected rates of return for such financial products held by us as of April 30, 2023 ranging from 2.05% to 3.0%, (ii) listed equity investments, and (iii) and fund investments to improve returns on our excess liquidity. We manage and evaluate the performance of investments on a fair value basis in accordance with our risk management and investment strategy. The fair values of wealth management products and fund investments were recognized based on the observable inputs of valuation models from the private equity funds and were within level 2 of the fair value hierarchy. The fair values of investment in listed companies were recognized at quoted price in active markets.

The following table sets forth our financial assets at FVTPL as of the dates indicated:

	As of December 31,			As of April 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Wealth management products, at fair value	497,834	1,039,932	471,530	680,293
Listed equity investments, at fair value	50,611	8,441	799,805	597,585
Fund investments, at fair value	2,001	41,596	—	—
Total	**550,446**	**1,089,969**	**1,271,335**	**1,277,878**

Our financial assets at FVTPL amounted to RMB550.4 million, RMB1,090.0 million, RMB1,271.3 million and RMB1,277.9 million as of December 31, 2020, 2021 and 2022 and

April 30, 2023, respectively. During the Track Record Period, we purchased and redeemed financial products in accordance with our treasury management objective to improve returns on our available capital.

Pledged Deposits (Current Portion)

The current portion of our pledged deposits primarily consists of deposits with a maturity of less than one year held in designated bank accounts for discounted bills and bills payables.

The current portion of the pledged deposits was RMB544.8 million, RMB1,239.8 million, RMB3,006.8 million and RMB3,605.5 million as of December 31, 2020, 2021 and 2022 and April 30, 2023, respectively. We use bank acceptance bills as one of our main payment methods to pay game developers and advertising agencies for marketing and operation activities in the ordinary course of our business, and we are required to pledge a sufficient amount of deposits or other assets (such as wealth management products) in banks to facilitate the issuance of bills. The increase of pledged deposits during the Track Record Period was associated with the increase of bills issued by us.

We issue bank acceptance bills based on the amounts required for the specific transactions with our clients or suppliers after the approval by our finance team, where the amount of pledged deposits is determined in accordance with the agreement signed between banks and our Company. As part of our cash management policy, we monitor our pledged bank deposits on a daily basis and check the fluctuation and balance of our pledged bank deposits every week. We also prepare a bi-weekly cash flow forecast, which is submitted for approval by our finance team, to ensure that we are able to maintain an optimal level of liquidity and meet our working capital needs.

Cash and Cash Equivalent

Our cash and cash equivalents primarily consist of cash on hands and bank balances.

Our cash and cash equivalents increased by 87.1% from RMB213.4 million as of December 31, 2022 to RMB399.3 million as of April 30 2023, primarily attributable to the investment income on our financial assets.

Our cash and cash equivalents decreased by 69.2% from RMB693.6 million as of December 31, 2021 to RMB213.4 million as of December 31, 2022, primarily due to our purchase of financial assets to better utilize our cash on hands.

Our cash and cash equivalents increased by 76.3% from RMB393.5 million as of December 31, 2020 to RMB693.6 million as of December 31, 2021, primarily attributable to our cash flows generated from operating activities, which was in line with our overall business growth in 2021.

Trade Payables

Our trade payables primarily consist of (i) a portion of gross billing payable to our clients in connection with end-users' in-game purchases of the products developed by the clients for which we provide precision marketing, in-depth operation and brand development services; and (ii) payables to our suppliers, such as server custody service providers and suppliers for our consumer product business.

Our trade payables increased remained relatively stable at RMB523.6 million as of December 31, 2022 and RMB532.2 million as of April 30 2023, mainly due to the increase in trade payables to game developers as we reduced the use of bank acceptance bills as a payment method for our game developers, partially offset by the decrease in payables to suppliers for the procurement of noodle products for our consumer product business.

Our trade payables decreased by 6.5% from RMB560.0 million as of December 31, 2021 to RMB523.6 million as of December 31, 2022, mainly due to the decrease in the payable to game developers as we used more bills to pay the game developers.

Our trade payables increased significantly from RMB275.6 million as of December 31, 2020 to RMB560.0 million as of December 31, 2021, mainly attributable to the increase in the outstanding amounts payable to our clients as a result of our business expansion in 2021.

As of June 30, 2023, RMB224.4 million, or 42.2% of our trade payables as of April 30, 2023 had been settled subsequently.

The following table sets forth our trade payables turnover days during the Track Record Period:

	For the Year Ended December 31,			For the Four Months Ended April 30,
	2020	**2021**	**2022**	**2023**
Trade payables turnover days[(1)]	272	153	82	79

Note:

(1) Trade payables turnover days for the Track Record Period equals the average of the opening and closing trade payables balance divided by cost of sales for the Track Record Period and multiplied by 365 days for a full-year period and 120 days for a four-month period.

Our trade payables turnover days decreased from 272 days in 2020 to 153 days in 2021, then to 82 days in 2022 and further to 79 days for the four months ended April 30, 2023, primarily due to an increase in the revenue generated under the joint-run model as a percentage of our total revenue, and a higher gross billing sharing percentage with the collaborating distribution channels.

The trade payables are non-interest-bearing and are normally settled on one-year terms. The table below sets forth a breakdown of trade payables by credit terms as of the dates indicated:

	As of December 31,			As of April 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Within 90 days	190,566	176,457	150,909	122,068
90 to 180 days	721	293,140	71,802	103,779
Over 180 days	84,275	90,438	300,938	306,364
Total	**275,562**	**560,035**	**523,649**	**532,211**

The trade payables over 180 days increased significantly from RMB90.4 million as of December 31, 2021 to RMB300.9 million as of December 31, 2022, as a result of the increased bargaining power with game developers and suppliers, which enabled us to obtain longer credit terms. Our Directors confirm that, no outstanding balances of trade payables as of April 30, 2023 are in dispute with the relevant clients.

The following table sets forth the aging analysis of our trade payables based on the invoice date, as of the dates indicated:

	As of December 31,			As of April 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Within 1 year	212,759	551,834	521,280	528,985
1 to 2 years	61,100	5,044	1,464	2,178
2 to 3 years	1,522	2,148	134	203
Over 3 years	181	1,009	771	845
Total	**275,562**	**560,035**	**523,649**	**532,211**

Bills Payables

Our bills payables primarily consist of bank acceptance bills and letter of credit made in the ordinary course of our business, mainly attributable to payables to game developers and to collaborating media platforms for marketing and promotion activities.

Our bills payables increased by 3.9% from RMB5,640.2 million as of December 31, 2022 to RMB5,861.7 million as of April 30 2023, mainly because we increased the use of bank acceptance bills as one of our main payment methods to collaborating media platforms.

Our bills payables increased by 64.8% from RMB3,422.1 million as of December 31, 2021 to RMB5,640.2 million as of December 31, 2022, mainly to our game developer clients and collaborating media platforms, which was in line with our business expansion in 2022.

Our bills payables increased by 97.8% from RMB1,730.0 million as of December 31, 2020 to RMB3,422.1 million as of December 31, 2021, to our game developer clients and collaborating media platforms, which was in line with our business expansion in 2021.

Other Payables and Accruals

Our other payables and accruals primarily consist of (i) payables for marketing and promotion activities, (ii) salaries and benefits payables to employees, (iii) contract liabilities associated with deferred revenue generated from self-owned game product, (iv) prepayments received from collaborating distribution channels for certain game product; (v) payables for amounts collected on behalf of third-party publisher client, (vi) other tax payables, and (vii) other payables and accruals incurred in the ordinary course of our business.

Our payables for amounts collected on behalf of third party publishers during the Track Record Period were primarily payables for amounts collected on behalf of Zhejiang Zhengyou Internet Technology Co. Ltd. (浙江爭遊網絡科技有限公司) ("**Zhejiang Zhengyou**"). Leveraging our scalable and reliable intelligence technologies, we began to provide marketing and operation support services for Zhejiang Zhengyou's game products in 2017, and charged service fees based on a certain percentage of the gross amounts paid by the end users. Pursuant to our business arrangement with Zhejiang Zhengyou and on its behalf, we (i) collect gross billings from the end users, and (ii) advance promotional fees to advertising agencies. During the Track Record Period, we recorded payables due to Zhejiang Zhengyou because the gross billings we collected on its behalf exceeded the amount of promotional fees we advanced to advertising agencies on its behalf. As of December 31, 2020, 2021 and 2022 and April 30, 2023, our payables to Zhejiang Zhengyou were RMB511.4 million, RMB203.9 million, nil and nil, respectively.

We terminated the service agreement with Zhejiang Zhengyou in 2021, primarily because the relevant game products had gradually entered into the maturity stage of their lifecycles and no longer required a significant amount of marketing and operation support services. There were no disputes leading to or arising from the termination of our collaboration with Zhejiang Zhengyou. According to Frost & Sullivan, the business arrangement above is in line with the industry norm. As concurred by the Company, taking into account the service agreement with Zhejiang Zhengyou was freely negotiated between the parties thereto and terminated in 2021 without any dispute, and payables for amounts collected on behalf of Zhejiang Zhengyou has been all paid and settled, our PRC Legal Adviser advised that the service agreement: (i) was validly entered into between the related parties thereto, (ii) did not fall under the circumstance of invalidity as set forth in the Contract Law of the PRC or the Civil Code of the PRC as applicable, and (iii) was binding upon both of the parties thereto. Based on the above analysis, our Directors are of the view that this business arrangement with Zhejiang Zhengyou was in compliance with the applicable PRC laws and regulations.

The following table sets forth our other payables and accruals as of the dates indicated:

	As of December 31,			As of April 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Marketing and promotion services payables	239,911	411,315	472,498	441,238
Salaries and benefits payables	44,559	104,758	140,940	106,247
Contract liabilities	—	—	117,712	162,114
Prepayments from suppliers	—	—	13,319	10,273
Payables for amounts collected on behalf of third-party publishers(1)	556,325	203,874	—	—
Other tax payables	57,511	96,431	49,362	59,595
Other payables and accruals	62,771	126,746	107,388	61,260
Total	**961,077**	**943,124**	**901,219**	**840,727**

Note:

(1) Primarily including payables to Zhejiang Zhengyou Internet Technology Co. Ltd. of RMB511.4 million, RMB203.9 million, nil and nil as of the respective date.

Our other payables and accruals decreased by 6.7% from RMB901.2 million as of December 31, 2022 to RMB840.7 million as of April 30, 2023, primarily due to (i) a decrease of RMB31.3 million in payables for marketing and promotion services in line with the decrease of marketing and promotion activities in the four months ended April 30, 2023; (ii) a decrease of RMB34.7 million in salaries and benefits payables in line with the decrease of employee headcount in 2023; and (iii) a decrease of RMB46.1 million in other payables and accruals incurred in the ordinary course of our business, which was in line with the revenue decline for the same period, partially offset by an increase of RMB44.4 million in contract liabilities associated with the decreased deferred revenue generated from self-owned game product in the four months ended April 30, 2023.

Our other payables and accruals decreased by 4.4% from RMB943.1 million as of December 31, 2021 to RMB901.2 million as of December 31, 2022, primarily due to a decrease of RMB203.9 million in payables for amounts collected on behalf of third-party publishers, due to the settlement made to Zhejiang Zhengyou as we terminated our collaboration with it in 2021, partially offset by (i) an increase of RMB61.2 million in payables for marketing and promotion activities as a result of our business expansion; (ii) an increase of RMB117.7 million in contract liabilities associated with the increased deferred revenue generated from self-owned game product in 2022; and (iii) an increase of RMB36.2 million in salaries and benefits payables in line with the increase of employee headcount in 2022 as a result of our business expansion.

Our other payables and accruals decreased by 1.9% from RMB961.1 million as of December 31, 2020 to RMB943.1 million as of December 31, 2021, primarily due to a decrease of RMB352.4 million in payables for amounts collected on behalf of third-party publishers, due to the settlement made to Zhejiang Zhengyou as we terminated our collaboration with it in 2021, partially offset by (i) an increase of RMB171.4 million in payables for marketing and promotion activities, in line with our business expansion in 2021; (ii) an increase of RMB60.2 million in salaries and benefits payables in line with the increase of employee headcount in 2021 as a result of our business expansion; and (iii) an increase of RMB64.0 million in other payables and accruals incurred in the ordinary course of our business, which was in line with our revenue growth.

As of June 30, 2023, RMB643.7 million, or 76.6% of our other payables and accruals as of April 30, 2023 had been settled subsequently. As of June 30, 2023, RMB127.8 million, or 78.8% of our contract liabilities as of April 30, 2023 had been recognized as revenue.

Tax Payable

Our tax payable primarily consists of income tax payable. As of December 31, 2020, 2021 and 2022 and April 30, 2023, our tax payable amounted to RMB93.7 million, RMB146.9 million, RMB247.8 million and RMB346.8 million, respectively.

Our tax payable increased from RMB93.7 million as of December 31, 2020 to RMB146.9 million as of December 31, 2021, and further increased to RMB247.8 million as of December 31, 2022. The increases were primarily attributable to the following reasons. First, our profit before tax increased from 2020 to 2022, which was in line with our business growth. Second, the income tax rate of Jiangxi Tanwan increased from 15% to 25% as it did not qualify for the HNTE preferential tax rate in 2022. Third, we made our annual tax fillings and settled our income tax for 2020 and 2021 based on accounting profit, which has deducted the one-off share-based expense. Accordingly, additional provisions were made to reflect the adjustments of such non-deductible expenses for tax, resulting in increases in tax payable during this period. We have made our annual tax filing for the year of 2022 and expect to settle income tax payable accordingly.

Our tax payable increased from RMB247.8 million as of December 31, 2022 to RMB346.8 million as of April 30, 2023, primarily in line with the increase of income tax in the four months ended April 30, 2023.

Non-Current Assets/Liabilities

The following table sets forth our non-current assets and non-current liabilities as of the dates indicated:

	As of December 31,			As of April 30,
	2020	2021	2022	2023
	(RMB in thousands)			
NON-CURRENT ASSETS				
Property and equipment	24,571	45,231	79,169	183,802
Right-of-use assets	128,350	189,404	180,229	141,013
Goodwill	—	42,499	42,499	42,499
Other intangible assets	6,897	33,827	43,734	38,350
Investment in joint ventures	268,041	259,758	267,188	266,704
Investment in associates	5,816	4,870	5,992	4,276
Deferred tax assets	5,867	40,917	47,857	48,443
Prepayments, other receivables and other assets	239,473	117,636	119,183	161,768
Pledged deposits	876,395	2,022,247	3,395,558	3,006,106
Restricted cash	17,943	10,000	—	—
Total non-current assets	**1,573,353**	**2,766,389**	**4,181,409**	**3,892,961**
NON-CURRENT LIABILITIES				
Lease liabilities	137,177	182,508	190,754	153,061
Provision	300	11,710	9,150	3,150
Total non-current liabilities	**137,477**	**194,218**	**199,904**	**156,211**

Property and Equipment

Property and equipment consist of the following:

	As of December 31,			As of April 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Electronic devices	8,726	9,109	8,578	7,123
Furniture and fixtures	1,655	2,175	1,942	1,404
Motor vehicles	1,124	5,952	9,293	12,768
Leasehold improvements	13.066	27,995	26,400	20,515
Buildings	—	—	32,956	32,617
Construction in progress	—	—	—	109,375
Total	**24,571**	**45,231**	**79,169**	**183,802**

Our property and equipment increased significantly from RMB79.2 million as of December 31, 2022 to RMB183.8 million as of April 30, 2023, primarily due to an increase of RMB109.4 million in construction in progress in relation to an office building located in Guangzhou. Our property and equipment increased by 75.0% from RMB45.2 million as of December 31, 2021 to RMB79.2 million as of December 31, 2022, primarily due to an increase of RMB33.0 million in buildings we purchased and used as our employee dormitories. Our property and equipment increased by 84.1% from RMB24.6 million as of December 31, 2020 to RMB45.2 million as of December 31, 2021, primarily due to an increase of RMB14.9 million in leasehold improvements as a result of the new office remodeling.

Right-of-Use Assets

Our right-of-use assets represent carrying amounts of long-term leased offices for our operations. These leases have a fixed term of two to 15 years. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, we apply the definition of a contract and determine the period for which the contract is enforceable.

Right-of-use assets are depreciated on a straight-line basis over the shorter of their respective estimated useful life and the lease term. In addition, we reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the Track Record Period, there was no such triggering event. See note 14 to the Accountants' Report in Appendix I to this document for a detailed description of the change of right-of-use assets during the Track Record Period.

Our right-of-use assets increased by 47.5% from RMB128.4 million as of December 31, 2020 to RMB189.4 million as of December 31, 2021, primarily due to the new lease agreements we entered into with lease terms ranging from two to five years. Our right-of-use assets remained relatively stable at RMB189.4 million as of December 31, 2021 and RMB180.2 million as of December 31, 2022. Our right-of-use assets decreased by 21.8% from RMB180.2 million as of December 31, 2022 to RMB141.0 million as of April 30, 2023, primarily due to the termination of certain office leases in 2023.

Goodwill

We record goodwill primarily in connection with acquisitions. We did not record goodwill in 2020 and recorded a goodwill of RMB42.5 million as of December 31, 2021, due to the acquisitions of (i) a 100% interest in Guangzhou Chichi in September 2021; (ii) a 51% interest in Hainan Zhangwan in March 2021; and (iii) a 51% interest in Guangzhou Bajiuyou in June 2021. As of April 30, 2023, the goodwill remained at RMB42.5 million.

Goodwill acquired through business combinations is allocated to cash-generating unit, namely Guangzhou Chichi cash-generating unit and Hainan Zhangwan Guangzhou cash-generating unit for impairment testing. The recoverable amounts of the cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The pre-tax discount rate applied to the cash flow projections, the revenue growth rate, EBIT margin and the terminal growth rate used to extrapolate the cash flows of the cash-generating unit beyond the five-year period are as follows:

Guangzhou Chichi CGU:

	As of December 31, 2021	As of December 31, 2022	As of April 30, 2023
Compound revenue growth rate	25.54%	30.38%	30.30%
EBIT margin	(2%)~4%	(1%)~4%	(1%)~4%
Pre-tax discount rate	29.56%	30.83%	29.74%
Terminal growth rate	3%	3%	3%

Hainan Zhangwan CGU:

	As of December 31, 2021	As of December 31, 2022	As of April 30, 2023
Compound revenue growth rate	7.08%	5.37%	4.47%
EBIT margin	1%~3%	2%~3%	3%~5%
Pre-tax discount rate	31.49%	32.96%	35.44%
Terminal growth rate	3%	3%	3%

Key assumptions used in the value in use calculation

Revenue growth rate — the rate is based on the average growth achieved in the past years and the synergies from new acquisitions.

EBIT margin — EBIT margin is based on the average EBIT margin achieved in the year immediately before the budget year and is increased over the budget period for anticipated efficiency improvements.

Pre-tax discount rate — the rate reflects management's estimate of the risks specific to the unit.

Terminal growth rate — the rate is based on published industry research.

The values assigned to the key assumptions on gross profit margin, discount rates and growth rates are consistent with management's past experience and external information sources.

As of April 30, 2023, the recoverable amount of Guangzhou Chichi cash-generating unit to which goodwill was allocated exceeded its carrying amount by RMB17,765,000, and the recoverable amount of Hainan Zhangwan cash-generating unit to which goodwill was allocated exceeded its carrying amount by RMB27,157,000.

As of December 31, 2021, the recoverable amount of Guangzhou Chichi cash-generating unit to which goodwill was allocated exceeded its carrying amount by RMB22,083,000, and the recoverable amount of Hainan Zhangwan cash-generating unit to which goodwill was allocated exceeded its carrying amount by RMB60,806,000.

As of December 31, 2022, the recoverable amount of Guangzhou Chichi cash-generating unit to which goodwill was allocated exceeded its carrying amount by RMB37,939,000, and the recoverable amount of Hainan Zhangwan cash-generating unit to which goodwill was allocated exceeded its carrying amount by RMB75,678,000.

Decreases in the revenue growth rate or EBIT margin as follows (with other assumptions remaining unchanged) would result in Guangzhou Chichi cash-generating unit's recoverable amount equal to its carrying amount:

	As of December 31, 2021	As of December 31, 2022	As of April 30, 2023
	Increase/(decrease)	*Increase/(decrease)*	*Increase/(decrease)*
Compound revenue growth rates	(15.14%)	(16.27%)	(8.37%)
EBIT margin	(1.31%)	(1.53%)	(0.70%)

Decreases in the revenue growth rate or EBIT margin as follows (with other assumptions remaining unchanged) would result in Hainan Zhangwan cash-generating unit's recoverable amount equal to its carrying amount:

	As of December 31, 2021	As of December 31, 2022	As of April 30, 2023
	Increase/(decrease)	*Increase/(decrease)*	*Increase/(decrease)*
Compound revenue growth rates	(1.41%)	(7.15%)	(12.59%)
EBIT margin	(1.85%)	(2.71%)	(3.69%)

In the opinion of the Directors, except for the above, any reasonably possible change in the other key assumptions on which the recoverable amount is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount as of December 31, 2021 and 2022 and April 30, 2023.

Other Intangible Assets

Our other intangible assets primarily consist of intangible assets other than goodwill, such as computer software, domain names, copyrights and game operation agreements. Our other intangible assets decreased by 12.1% from RMB43.7 million as of December 31, 2022 to RMB38.4 million as of April 30, 2023, primarily attributable to the amortization of certain intangible assets, partially offset by an increase of RMB6.5 million in computer software we purchased in the four months ended April 30, 2023. Our other intangible assets increased by 29.3% from RMB33.8 million as of December 31, 2021 to RMB43.7 million as of December 31, 2022, primarily due to our acquisition of the copyrights and other intellectual property rights associated with a game product. Our other intangible assets increased significantly from RMB6.9 million as of December 31, 2020 to RMB33.8 million as of December 31, 2021 primarily due to the recognition of other intangible assets arising from certain acquisitions in 2021.

Long-Term Equity Investments

Long-term equity investments represent our share of interest in the associate and joint ventures we invest in. As of December 31, 2020, 2021 and 2022 and April 30, 2023, our long-term equity investments amounted to RMB273.9 million, RMB264.6 million, RMB273.2 million and RMB271.0 million, respectively. See note 17 and note 18 to the Accountants' Report in Appendix I to this document for more details.

Prepayments, Other Receivables and Other Assets (Non-Current Portion)

The non-current portion of our prepayments, other receivables and other assets consists of (i) loans to employees; (ii) prepayments for property and equipment; (iii) time deposits with original maturity of over one year; (iv) prepayments for other intangible assets; and (v) deposits and other receivables.

The following table sets forth the non-current portion of our prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,			As of April 30,
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Non-current				
Loans to employees	48,107	20,684	1,996	1,935
Prepayments for property and equipment	39,367	39,367	109,376	—
Deposits and other receivables	1,815	7,865	7,811	13,961
Time deposits with original maturity of over one year	150,184	34,720	—	101,751
Prepayments for other intangible assets	—	15,000	—	—
Prepayments for right-of-use assets	—	—	—	44,121
	239,473	117,636	119,183	161,768
Less: allowance for impairment	—	—	—	—
Total	**239,473**	**117,636**	**119,183**	**161,768**

The non-current portion of our prepayments, other receivables and other assets increased by 35.7% from RMB119.2 million as of December 31, 2022 to RMB161.8 million as of April 30, 2023, primarily due to an increase of RMB101.8 million in time deposits with original maturity of over one year in the four months ended April 30, 2023; and (ii) an increase of RMB44.1 million in prepayments for right-of-use assets as we planned to make new lease of office for our employees, partially offset by a decrease of RMB109.4 million in prepayments for property and equipment in relation to an office building located in Guangzhou.

The non-current portion of our prepayments, other receivables and other assets increased by 1.4% from RMB117.6 million as of December 31, 2021 to RMB119.2 million as of December 31, 2022, primarily due to an increase of RMB70.0 million in prepayments for property and equipment as a result of advance payments made for properties used for employee dormitories and offices in 2022, partially offset by (i) a decrease of RMB34.7 million in time deposits with a maturity of over one year in 2022; (ii) a decrease of RMB18.7 million in loans to employees, as a result of repayment; and (iii) a decrease of RMB15.0 million in prepayments for other intangible assets, mainly because we made prepayments for certain intangible assets in 2021 to support our business expansion and we did not make prepayments for purchasing intangible assets in 2022.

The non-current portion of our prepayments, other receivables and other assets decreased by 50.9% from RMB239.5 million as of December 31, 2020 to RMB117.6 million as of December 31, 2021, primarily due to a decrease of RMB115.5 million in time deposits with a maturity of over one year in 2021.

As of June 30, 2023, RMB3.8 million, or 2.3% of our non-current portion of prepayments, other receivables and other assets as of April 30, 2023 had been settled subsequently.

As of June 30, 2023, RMB0.5 million, or 26.3% of our loans to employees as of April 30, 2023 had been settled subsequently. During the Track Record Period and up to the Latest Practicable Date, our loans to employees (excluding the petty cash), based on friendly negotiation and agreement with the borrowers, were furnished with our own funds and used for the respective employees' personal needs. For the loans that had been settled, we did not demand any interest from the employees. For the loans yet to be settled, we will not require the employees to pay any interest if they repay the loans on or before the maturity date. As of the Latest Practicable Date, there had been no dispute arising from such loans. Therefore, our PRC Legal Adviser has advised us that such loans provided by our PRC subsidiaries to employees did not breach mandatory provisions under applicable PRC laws. Based on the above, our Directors are of the view that our loans to employees during the Track Record Period and up to the Latest Practicable Date were in compliance with the relevant applicable laws and regulations.

Pledged Deposits (Non-Current Portion)

Our non-current pledged deposits primarily consist of deposits with a maturity of over one year held in designated bank accounts for discounted bills and bills payables.

The non-current portion of our pledged deposits was RMB876.4 million, RMB2,022.2 million, RMB3,395.6 million and RMB3,006.1 million as of December 31, 2020, 2021 and 2022 and April 30, 2023, respectively. The increase in pledged deposits were primarily for securing the bills required for our business operations and expansion.

Lease Liabilities

Our non-current lease liabilities represent the payment obligations on our leases with a term of more than one year in relation to properties that we lease primarily for our offices. Our non-current lease liabilities increased by 33.0% from RMB137.2 million as of December 31, 2020 to RMB182.5 million as of December 31, 2021, and further increased to RMB190.8 million as of December 31, 2022. The changes were primarily due to the new leases we entered into with lease terms ranging from two to five years in 2021 and 2022. Our non-current lease liabilities decreased by 19.8% from RMB190.8 million as of December 31, 2022 to RMB153.1 million as of April 30, 2023, primarily due to the termination of certain office leases in 2023.

KEY FINANCIAL RATIOS

The following table sets forth the key financial ratios for the year/period and as of the dates indicated:

	For the Year Ended December 31,			For the Four Months Ended April 30,	
	2020	**2021**	**2022**	**2022**	**2023**
Total revenue growth (%)	(4.5)	99.7	53.7	—	(14.0)
Gross profit margin (%)[(1)]	84.9	82.6	72.7	74.1	67.3
Net profit margin (%)[(2)]	(45.3)	10.7	5.6	4.4	9.9
Adjusted profit margin (Non-HKFRS measure) (%)[(3)]	17.9	10.9	6.4	4.6	13.5

	As of December 31,			As of April 30,
	2020	**2021**	**2022**	**2023**
Current ratio[(4)]	0.7	0.7	0.7	0.8

Notes:

(1) Gross profit margin equals gross profit divided by revenues for the year/period and multiplied by 100%.

(2) Net profit margin equals (loss)/profit divided by revenues for the year/period and multiplied by 100%.

(3) Adjusted profit margin (Non-HKFRS measure) equals adjusted profit (Non-HKFRS measure) divided by revenues for the year/period and multiplied by 100%.

(4) Current ratio is calculated as total current assets divided by total current liabilities as of the dates indicated.

Total Revenue Growth

We experienced a significant revenue growth in 2021 and 2022, which was primarily attributable to the launch, marketing and operation of new game products, and continuous operation and performance of existing game products. The negative total revenue growth in 2020 was primarily due to changes in our clients' development timetable for certain game products as a result of the COVID-19 outbreak. The negative total revenue growth for the four months ended April 30, 2023 compared to the same period in 2022 was primarily because certain game products entered into a later stage of their lifecycle. For details on the fluctuations of our revenue, see "— Period to Period Comparison of Results of Operations."

Gross Profit Margin

The decrease of our overall gross profit margin from 2020 to 2022 was primarily due to the increase in our revenue generated from game products operated under the joint-run model (which generally have a lower gross profit margin) as a percentage of our total revenue, and the decrease in the gross profit margin for game products operated under the joint-run model. The decrease of our gross profit margin for the four months ended April 30, 2023 as compared to the four months ended April 30, 2022 was primarily due to the increase in our revenue generated from game products operated under the joint-run model (which generally have a lower gross profit margin) as a percentage of our total revenue. For details, see "— Period to Period Comparison of Results of Operations."

Net Profit Margin

We incurred a net loss of RMB1,301.1 million for the year ended December 31, 2020, primarily due to a one-off share-based compensation issued in 2020. The net profit margin for the year ended December 31, 2022 was 5.6%, compared to 10.7% for the year ended December 31, 2021, primarily due to the decrease in gross profit margin. The net profit margin for the four months ended April 30, 2023 was 9.9%, compared to 4.4% for the four months ended April 30, 2022, primarily due to the increase in other income and gains and the decrease in selling and distribution expenses. For details on the changes in each key components which led to fluctuations in our net profit margin during the Track Record Period, see "— Period to Period Comparison of Results of Operations."

Adjusted Profit Margin (Non-HKFRS Measure)

We define adjusted profit (Non-HKFRS measure) as the profit/(loss) for the year/period, excluding share-based compensation and **[REDACTED]** expenses. The higher adjusted profit margin (Non-HKFRS measure) in 2020 was primarily due to a decrease in marketing and promotion expenses in 2020 as we streamlined and optimized our selling and distribution activities in response to the COVID-19 outbreak in 2020 and the delay of the launch times of certain game products for slower development progresses than expected as a result of the COVID-19 outbreak in early 2020. The adjusted profit margin (Non-HKFRS measure) for the year ended December 31, 2022 was 6.4%, compared to 10.9% for the year ended December 31, 2021, which was primarily due to the decrease in gross profit margin. The adjusted profit margin (Non-HKFRS measure) for the four months ended April 30, 2023, was 13.5%, compared to 4.6% for the four months ended April 30, 2022, which was primarily due to a higher net profit margin for the four months ended April 30, 2023, further adjusted by a one-off share-based compensation issued in the four months ended April 30, 2023. For details on the reconciliations of our non-HKFRS measures, see "— Adjusted Profit (Non-HKFRS measure) for the Year/Period."

Current Ratio

Current ratio is calculated as total current assets divided by total current liabilities. Our current ratio was lower than 1 throughout the Track Record Period as a result of our net current liabilities position, which was primarily because a significant portion of our pledged deposits used to secure our bills payables and interest-bearing bank borrowings were interest-bearing time deposits with a term exceeding one year and therefore recorded as non-current assets. To the extent our liquidity and working capital needs are met, we believe that time deposits, compared to demand deposits, can help us better utilize our idle cash by earning a higher interest. During the Track Record Period, our current ratio remained stable. For details on our net current liability position, including our cash management policy with respect to pledged deposits, see "— Discussion on Certain Key Items of Consolidated Statements of Financial Position — Net Current Liabilities."

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we funded our cash requirements principally from cash generated from operating activities. Our cash and cash equivalents represent cash and bank balances, net of restricted cash. We had cash and cash equivalents of RMB393.5 million, RMB693.6 million, RMB213.4 million and RMB399.3 million as of December 31, 2020, 2021 and 2022 and April 30, 2023, respectively. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, funds raised from the capital markets from time to time and the **[REDACTED]** received from the **[REDACTED]**. We currently do not have any other plans for material additional external financing.

The following table sets forth our cash flows for the year/periods indicated:

	For the Year Ended December 31,			For the Four Months Ended April 30,	
	2020	**2021**	**2022**	**2022**	**2023**
	(RMB in thousands)				
				(Unaudited)	
Operating cash flows before movements in working capital	562,788	707,524	646,751	156,744	219,436
Changes in working capital	(813,519)	2,010,407	1,736,948	1,114,019	167,624
Cash (used in)/ generated from operations	(250,731)	2,717,931	2,383,699	1,270,763	387,060
Interest received	3,014	6,953	6,065	1,954	1,256
Interest paid	(45,430)	(47,946)	(89,893)	(24,869)	(31,628)
Income tax paid	(8,380)	(42,107)	(17,350)	(85)	(16,230)
Net cash (used in)/generated from operating activities	(301,527)	2,634,831	2,282,521	1,247,763	340,458
Net cash generated from /(used in) investing activities	689,727	(2,302,397)	(3,205,834)	(1,984,148)	56,497
Net cash (used in)/generated from financing activities	(25,462)	(32,298)	443,127	404,108	(211,107)
Net increase/(decrease) in cash and cash equivalents	**362,738**	**300,136**	**(480,186)**	**(332,277)**	**185,848**
Cash and cash equivalents at the beginning of the year/period	30,734	393,472	693,608	693,608	213,422
Cash and cash equivalents at the end of year/period	**393,472**	**693,608**	**213,422**	**361,331**	**399,270**

Net Cash (Used in)/Generated from Operating Activities

For the four months ended April 30, 2023, our net cash generated from operating activities was RMB340.5 million. Our net profit before tax was RMB356.8 million for the same period. The difference between our net profit before tax and our net cash generated from operating activities was primarily attributable to certain non-operating or non-cash items, including (i) gain on disposal of financial assets at FVTPL of RMB327.0 million; (ii) fair value loss on financial assets at FVTPL of RMB99.2 million; and (iii) equity-settled share-based expenses of RMB70.6 million, and changes in certain working capital items, including (i) increase in bills payables of RMB221.5 million; (ii) decrease in trade receivables of RMB118.6 million; and (iii) increase in prepayments, other receivables and other assets of RMB113.4 million.

In 2022, our net cash generated from operating activities was RMB2,282.5 million. Our net profit before tax was RMB601.6 million for the same year. The difference between our net profit before tax and our net cash generated from operating activities was primarily attributable to certain non-cash expenses and income, including (i) bank interest income of RMB189.1 million;

(ii) finance costs of RMB107.9 million; (iii) amortization of other intangible assets of RMB50.8 million; (iv) equity-settled share-based expense of RMB42.9 million; and (v) depreciation of right-of-use assets of RMB31.1 million, and changes in certain working capital items, including (i) increase in bills payables of RMB2,218.1 million; (ii) increase in prepayments, other receivables and other assets of RMB235.1 million; and (iii) increase in trade and bills receivables of RMB156.3 million.

In 2021, our net cash generated from operating activities was RMB2,634.8 million. Our net profit before tax was RMB680.1 million for the same year. The difference between our net profit before tax and our net cash generated from operating activities was primarily attributable to certain non-cash expenses and income, including (i) bank interest income of RMB94.4 million; (ii) finance costs of RMB56.0 million; (iii) amortization of other intangible assets of RMB28.4 million; (iv) depreciation of right-of-use assets of RMB18.6 million; and (v) share of profits and losses of a joint venture and associates of RMB11.7 million, and changes in certain working capital items, including (i) increase in bills payables of RMB1,692.2 million; (ii) decrease in prepayments, other receivables and other assets of RMB199.5 million; (iii) increase in trade payables of RMB83.8 million; (iv) decrease in restricted cash of RMB70.9 million; and (v) decrease in other payables and accruals of RMB49.9 million.

In 2020, our net cash used in operating activities was RMB301.5 million. Our net loss before tax was RMB1,223.8 million for the same year. The difference between our net loss before tax and our net cash generated from operating activities was primarily attributable to certain non-cash expenses and income, including (i) equity-settled share-based expense of RMB1,816.1 million; (ii) gain on disposal of financial assets at FVTPL of RMB59.2 million; (iii) finance costs of RMB51.6 million; and (iv) bank interest income of RMB34.1 million, and changes in certain working capital items, including (i) decrease in bills payables of RMB996.9 million; (ii) increase in other payables and accruals of RMB352.2 million; and (iii) increase in trade receivables of RMB132.1 million.

Net Cash Generated from/(Used in) Investing Activities

For the four months ended April 30, 2023, net cash generated from investing activities was RMB56.5 million, primarily due to (i) disposal of financial assets at FVTPL of RMB1,688.6 million; and (ii) interest received of RMB53.5 million, partially offset by (i) purchase of financial assets at FVTPL of RMB1,467.4 million; and (ii) increase in pledged time deposits of RMB209.3 million.

In 2022, net cash used in investing activities was RMB3,205.8 million, primarily due to (i) purchase of financial assets at FVTPL of RMB7,053.1 million; and (ii) an increase in pledged time deposits of RMB3,140.3 million, partially offset by disposal of financial assets at FVTPL of RMB6,914.0 million.

In 2021, net cash used in investing activities was RMB2,302.4 million, primarily due to (i) purchase of investment in joint ventures of RMB3,880.6 million; (ii) an increase in pledged time deposits of RMB1,840.9 million, partially offset by disposal of financial assets at FVTPL of RMB3,351.4 million.

In 2020, net cash generated from investing activities was RMB689.7 million, primarily due disposal of financial assets at FVTPL of RMB4,738.8 million, partially offset by (i) purchase of financial assets at FVTPL of RMB2,645.1 million; (ii) an increase in pledged time deposits of RMB1,019.2 million; and (iii) purchase of an investment in joint ventures of RMB263.8 million.

Net Cash (Used in)/Generated from Financing Activities

For the four months ended April 30, 2023, net cash used in financing activities was RMB211.1 million, primarily due to (i) repayment of bank loans of RMB166.2 million; (ii) prepayment for right-of-use assets of RMB44.1 million; (iii) increase in restricted cash of RMB27.4 million, partially offset by new bank loans of RMB53.0 million.

In 2022, net cash generated from financing activities was RMB443.1 million, primarily due to new bank loans of RMB856.1 million, partially offset by repayment of bank loans of RMB385.6 million.

In 2021, net cash used in financing activities was RMB32.3 million, primarily due to (i) dividends paid to then shareholders of RMB100.0 million; (ii) principal portion of lease payments of RMB8.7 million; and (iii) interest portion of lease payments of RMB8.1 million, partially offset by new bank loans of RMB91.2 million.

In 2020, net cash used in financing activities was RMB25.5 million, primarily due to (i) an increase in restricted cash of RMB12.9 million; (ii) principal portion of lease payments of RMB6.4 million; and (iii) interest portion of lease payments of RMB6.2 million.

INDEBTEDNESS AND CONTINGENT LIABILITIES

	As of December 31,			As of April 30,	As of June 30,
	2020	2021	2022	2023	2023
	(RMB in thousands)				*(Unaudited)*
Current liabilities					
Interest-bearing bank borrowings	—	89,950	555,844	442,716	350,980
Amounts due to related parties	—	64	—	—	—
Lease liabilities	2,134	27,793	21,247	19,010	19,868
	2,134	117,807	577,091	461,726	370,848
Non-current liabilities					
Lease liabilities	137,177	182,508	190,754	153,061	150,448
Total indebtedness[1]	**139,311**	**300,315**	**767,845**	**614,787**	**521,296**

Note:

(1) For a discussion on our contingent liabilities, see "— Indebtedness and Contingent Liabilities — Contingent Liabilities."

Indebtedness

Interest-bearing Bank Borrowings

As of December 31, 2020, 2021 and 2022, April 30, 2023 and June 30, 2023, we had interest-bearing bank and other borrowings of nil, RMB90.0 million, RMB555.8 million, RMB550.9 million, RMB442.7 million and RMB351.0 million, respectively. During the Track Record Period, we did not borrow any bank loans. Our interest-bearing bank borrowings are with respect to bill discounting provided by commercial banks to the Company, which was fully secured by pledges, during the ordinary course of business. As of the Latest Practicable Date, we did not have unutilized banking facilities.

Amount due to Related Parties

As of December 31, 2020, 2021 and 2022, April 30, 2023 and June 30, 2023, we had amounts due to related parties of nil, RMB64 thousand, nil, nil, nil and nil, respectively. These amounts due to related parties were trade in nature and repayable within 180 days. For details on our related party transactions, see "— Material Related Party Transactions" and note 36 to the Accountants' Report in Appendix I to this document.

Lease Liabilities

Our lease liabilities are in relation to properties that we lease for our offices. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,			As of April 30,	As of June 30,
	2020	2021	2022	2023	2023
	(RMB in thousands)				
					(Unaudited)
Current	2,134	27,793	21,247	19,010	19,868
Non-current	137,177	182,508	190,754	153,061	150,448
Total	**139,311**	**210,301**	**212,001**	**172,071**	**170,316**

During the Track Record Period and as of the Latest Practicable Date, none of our creditors of the indebtedness described above have claimed default against us to the best of our knowledge. Our Directors also confirm that we did not experience difficulty in obtaining borrowings, material default in payment on borrowings, bonds payable, payables to related parties, lessors, financial institutions or investors during the Track Record Period and up to the Latest Practicable Date.

Save as discussed above, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of June 30, 2023.

Contingent Liabilities

As of December 31, 2020, 2021 and 2022, April 30, 2023 and June 30, 2023, except for the civil litigation explicated below which is still ongoing and our PRC litigation expert had advised that it is highly likely we will not undertake monetary damages and therefore no provision was made, we did not have any material contingent liabilities, guarantees of any litigations or claims of material importance, pending or threatened against any member of our Company. Our Directors have confirmed that there has not been any material change in the contingent liabilities of our Company subsequent to June 30, 2023 and up to the Latest Practicable Date.

In March 2021, ChuanQi IP Co., Ltd., as the plaintiff, filed a lawsuit in the High People's Court of Fujian Province alleging that (i) the collaboration agreement and other ancillary documents allegedly entered into among one of our joint ventures and two other co-defendants to market and operate the PC version of The Legend of Mir II (熱血傳奇), a game developed by the plaintiff, infringe copyrights of the plaintiff; and (ii) the website allegedly co-established by one of our joint ventures, another co-defendant and us to promote the PC version of The Legend of Mir II (熱血傳奇) involves misleading information and commercial defamation of the plaintiff. The plaintiff sought (i) an injunction against the future operation of the marketing website; and (ii) RMB100.5 million in monetary damages from us and the other co-defendants. This lawsuit was still at its early stage and it remains unclear whether the court had subject matter jurisdiction as of the Latest Practicable Date. With respect to this lawsuit, the PRC litigation expert we engaged advises our Company that, (i) we are not a party to the collaboration agreement or any other ancillary documents at issue; and (ii) we are not involved in the establishment or operation of the website at issue or other allegedly infringing conducts of our joint ventures at issue; and (iii) it is highly likely that the court will rule in our favor and we will not undertake monetary damages.

CAPITAL EXPENDITURES

The following table sets forth our capital expenditures for the years/periods indicated:

	For the Year Ended December 31,			For the Four Months Ended April 30,	
	2020	2021	2022	2022	2023
	(RMB in thousands)			*(Unaudited)*	
Payments for property and equipment	45,065	26,312	124,132	5,442	5,368
Payments for other intangible assets	—	23,127	45,684	45,235	6,546
Total	**45,065**	**49,439**	**169,816**	**50,677**	**11,914**

Our capital expenditure in 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023 was RMB45.1 million, RMB49.4 million, RMB169.8 million, RMB50.7 million and RMB11.9 million, respectively, primarily due to payments for purchase of property and equipment and other intangible assets.

We expect that our capital expenditures for the year ending December 31, 2023 will primarily consist of purchase of equipment and intangible assets. We intend to fund our future capital expenditures and long-term investments with our existing cash balance, cash generated from operating activities, and **[REDACTED]** from the **[REDACTED]**. See "Future Plans and Use of **[REDACTED]**" for more details. We may reallocate the fund to be utilized on capital expenditure and long-term investments based on our ongoing business needs.

CONTRACTUAL OBLIGATIONS

Capital Commitments

Other than the items disclosed below, we had no material capital commitments as of December 31, 2020, 2021 and 2022 and April 30, 2023.

	As of December 31,			As of April 30,
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Contracted, but not provided for:				
Capital contributions payable to joint ventures	90,000	—	—	—
Capital contributions payable to associates	7,000	15,000	29,000	19,200
Intangible assets	—	35,000	—	—
Total	**97,000**	**50,000**	**29,000**	**19,200**

Lease Contracts

We have various lease contracts that had not yet commenced as of April 30, 2023. See note 14 in Appendix I to this document for details.

OFF-BALANCE SHEET ARRANGEMENTS

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

MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors are of the view that each of the related party transactions set out in note 36 to the Accountants' Report in Appendix I to this document was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors believe that our transactions with related parties in 2020, 2021, 2022 and the four months ended April 30, 2023, did not distort our results of operations or make our historical results not reflective of our future performance.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of market risks including credit risk and liquidity risk in the normal course of our business. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. For details of the risks to which we are exposed, see note 39 to the Accountants' Report set out in Appendix I in this document.

[REDACTED] EXPENSES

Based on the mid-point **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]**, the total estimated **[REDACTED]** expenses in relation to the **[REDACTED]** is approximately RMB**[REDACTED]**, representing **[REDACTED]**% of the total **[REDACTED]** from the **[REDACTED]** of approximately HK$**[REDACTED]** (RMB**[REDACTED]**). We had incurred **[REDACTED]** expenses of RMB63.2 million as of April 30, 2023, of which RMB54.3 million has been charged to our consolidated statements of profit or loss and other comprehensive income and RMB8.9 million will be deducted from equity. A total of RMB**[REDACTED]** of our **[REDACTED]** expenses are expected to be accounted for as a deduction from equity upon the completion of the **[REDACTED]**. We expect to incur additional **[REDACTED]** expenses of approximately RMB**[REDACTED]**, of which RMB**[REDACTED]** is expected to be charged to our consolidated statements of profit or loss and other comprehensive income and RMB**[REDACTED]** will be deducted from equity. The balance of the **[REDACTED]**-related expenses of approximately RMB**[REDACTED]**, which mainly includes **[REDACTED]**, is expected to be accounted for as a deduction from equity upon the completion of the **[REDACTED]**. The balance of the non-**[REDACTED]**-related expenses of approximately RMB**[REDACTED]** primarily include fees and expenses of legal advisers and accountants of RMB**[REDACTED]** and other fees and expenses of RMB**[REDACTED]**.

DIVIDEND POLICY

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividends will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends shall be paid only out of the profit for the year/period determined according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRSs. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends.

We paid a total of dividends of RMB100.0 million in respect of the year ended December 31, 2020. Other than that, no dividends had been paid or declared by us since our incorporation, or by any of the subsidiaries of our Group during the Track Record Period. Any dividends declared in the past is not indicative of our future dividend policy. The amount of dividend actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our shareholders. Our Board has the absolute discretion to recommend any dividend. We do not have any pre-determined dividend pay-out ratio and dividend policy.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us, including our cash and cash equivalents on hand, internally generated funds, available facilities and the estimated **[REDACTED]** from the **[REDACTED]**, our Directors are of the view that we have sufficient working capital to meet our present needs and for the next twelve months from the date of this document. Our net cash generated from operating activities were RMB2,634.8 million and RMB2,282.5 million, RMB1,247.8 million and RMB340.5 million, respectively, in 2021, 2022 and the four months ended April 30, 2022 and 2023. Our net cash used in operating activities was RMB301.5 million in 2020. Our Directors confirm that we had no material defaults in payment of trade and non-trade payables during the Track Record Period.

DISTRIBUTABLE RESERVES

As of April 30, 2023, we did not have any distributable reserves.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out below to illustrate the effect of the **[REDACTED]** on the consolidated tangible assets as of April 30, 2023, as if the **[REDACTED]** had taken place on that date.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of our financial position had the **[REDACTED]** been completed as of April 30, 2023 or at any future dates.

The following unaudited pro forma statement of adjusted consolidated net tangible assets is prepared based on our consolidated net tangible assets as of April 30, 2023 as derived from the Accountants' Report as set out in Appendix I to this document, and adjusted as follows:

	Consolidated net tangible assets attributable to owners of the Company as at April 30, 2023(1)	Estimated [REDACTED] from the [REDACTED](2)	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share(3)	
	RMB'000	RMB'000	RMB'000	RMB	HK$(4)
Based on an [REDACTED] of HK$[REDACTED] per Share	1,941,976	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Based on an [REDACTED] of HK$[REDACTED] per Share	1,941,976	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Based on an [REDACTED] of HK$[REDACTED] per Share	1,941,976	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Notes:

(1) Our consolidated net tangible assets attributable to owners of our Company as of April 30, 2023 is extracted from the Accountants' Report in Appendix I to this document, which is based on the consolidated net assets attributable to owners of our Company as of April 30, 2023 of approximately RMB2,022,825 thousand with an adjustment for the goodwill of RMB42,499 thousand and the other intangible assets of RMB38,350 thousand as of April 30, 2023.

(2) The estimated **[REDACTED]** from the **[REDACTED]** are based the indicative **[REDACTED]** of HK$**[REDACTED]** and HK$**[REDACTED]** and HK$**[REDACTED]** per **[REDACTED]**, being the low-end to the mid-point end to the high-end of the stated **[REDACTED]** range after deduction of the **[REDACTED]** fees and other estimated **[REDACTED]** expenses payable by us and does not take into account of any Shares which may be issued upon the exercise of the **[REDACTED]**. The estimated **[REDACTED]** from the **[REDACTED]** are converted from Hong Kong dollars into RMB at an exchange rate of HK$1.0 to RMB[0.91613] prevailing on [August 9], 2023.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per Share is arrived after adjustments referred to in the preceding paragraphs and on the basis that **[REDACTED]** Shares were in issue immediately upon completion of the **[REDACTED]** (without taking into account of any Shares which may be allotted and issued upon exercise of the **[REDACTED]**), which is assumed to be on April 30, 2023 for the purpose of the pro forma financial information.

(4) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per Share is converted into Hong Kong dollars at an exchange rate of HK$1.0 to RMB[0.91613] prevailing on [August 9], 2023.

(5) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company have not taken into account the special dividend of RMB50,000 thousand. Had the special dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share would be HK$**[REDACTED]** (equivalent to RMB**[REDACTED]**) per Share (based on an **[REDACTED]** of HK$**[REDACTED]**) or HK$**[REDACTED]** (equivalent to RMB**[REDACTED]**) per Share (based on an **[REDACTED]** of HK$**[REDACTED]** per Share) or HK$**[REDACTED]** (equivalent to RMB**[REDACTED]**) per Share (based on an **[REDACTED]** of HK$**[REDACTED]** per Share).

(6) No adjustment has been made to reflect any trading results or other transactions entered into subsequent to April 30, 2023.

Our Reporting Accountants have expressed an opinion as required by paragraph 4.29(7) of the Listing Rules on the Pro Forma Financial Information, details of which is included in Appendix II to this document.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since April 30, 2023, which is the end date of the periods reported on in the Accountants' Report included in Appendix I to this document, and there is no event since April 30, 2023 that would materially affect the information as set out in the and the Accountants' Report included in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.