



花房集团
HUAFANG GROUP

花房集团公司 Huafang Group Inc.

(Incorporated in the Cayman Islands with limited liability)
Stock code: 3611



GLOBAL OFFERING

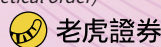
Joint Sponsors
(In no particular order)



Overall Coordinators, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers
(In no particular order)



Other Joint Bookrunners and Joint Lead Managers
(In alphabetical order)



Other Joint Lead Manager



IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



花房集团
HUAFANG GROUP

Huafang Group Inc.
花房集团公司

(Incorporated in the Cayman Islands with limited liability)

Global Offering

Total number of Offer Shares under the Global Offering	: 46,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 4,600,000 Shares (subject to adjustment)
Number of International Offer Shares	: 41,400,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$3.60 per Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and AFRC transaction levy of 0.00015% (payable in full on application and subject to refund)
Nominal value	: US\$0.0001 per Share
Stock code	: 3611

Joint Sponsors

(In no particular order)



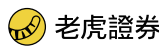
Overall Coordinators, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

(In no particular order)



Other Joint Bookrunners and Joint Lead Managers

(In alphabetical order)



Other Joint Lead Manager



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss whatsoever arising from or in reliance upon the whole or any part of the contents of this prospectus. A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies and Available on Display" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on or before Monday, December 5, 2022 or such later time as may be agreed between the parties, but in any event, no later than Friday, December 9, 2022. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$3.60 for each Hong Kong Offer Share together with brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and AFRC transaction levy of 0.00015%, subject to refund if the Offer Price is lower than HK\$3.60. If, for any reason, the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by Friday, December 9, 2022, the Global Offering will not become unconditional and will lapse immediately. The Offer Price will be not more than HK\$3.60 per Share and is expected to be not less than HK\$2.80 per Share although the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company may agree to a lower price. The Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (being HK\$2.80 per Share to HK\$3.60 per Share) at any time on or prior to the morning of the last date for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.huafang.com as soon as practicable but in any event not later than the morning of the day which is the latest day for lodging applications under the Hong Kong Public Offering. For further information, see the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, and in particular, the risk factors set out in the section headed "Risk Factors." The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Offer Shares, are subject to termination by the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Further details of such grounds are set out in the section headed "Underwriting — Underwriting Agreement and Expenses — Hong Kong Public Offering — Grounds for Termination." It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of US persons (as defined in Regulation S), except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside of the United States in offshore transactions in reliance on Regulation S.

November 30, 2022

IMPORTANT

Your application must be for a minimum of 1,000 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
	<i>HK\$</i>		<i>HK\$</i>		<i>HK\$</i>		<i>HK\$</i>
1,000	3,636.29	9,000	32,726.54	80,000	290,902.61	700,000	2,545,397.82
2,000	7,272.56	10,000	36,362.82	90,000	327,265.44	800,000	2,909,026.08
3,000	10,908.85	20,000	72,725.65	100,000	363,628.26	900,000	3,272,654.34
4,000	14,545.13	30,000	109,088.48	200,000	727,256.52	1,000,000	3,636,282.60
5,000	18,181.42	40,000	145,451.31	300,000	1,090,884.78	2,000,000	7,272,565.20
6,000	21,817.69	50,000	181,814.13	400,000	1,454,513.04	2,300,000*	8,363,449.98
7,000	25,453.98	60,000	218,176.95	500,000	1,818,141.30		
8,000	29,090.26	70,000	254,539.78	600,000	2,181,769.56		

* Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published on our website at www.huafang.com and the website of the Stock Exchange at www.hkexnews.hk.

Hong Kong Public Offering commences 9:00 a.m. on Wednesday,
November 30, 2022

Latest time for completing electronic applications
under the **HK eIPO White Form** service through
one of the below ways:⁽²⁾

(1) the **IPO App**, which can be downloaded by
searching “**IPO App**” in App Store or
Google Play or downloaded at
www.hkeipo.hk/IPOApp or
www.tricorglobal.com/IPOApp

(2) the designated website www.hkeipo.hk 11:30 a.m. on Monday,
December 5, 2022

Application lists open⁽³⁾ 11:45 a.m. on Monday,
December 5, 2022

Latest time for (a) completing payment for
HK eIPO White Form applications by
effecting Internet banking transfer(s) or PPS
payment transfer(s) and (b) giving **electronic**
application instructions to HKSCC⁽⁴⁾ 12:00 noon on Monday,
December 5, 2022

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close⁽³⁾ 12:00 noon on Monday,
December 5, 2022

Expected Price Determination Date⁽⁵⁾ Monday,
December 5, 2022

Announcement of the Offer Price on our website
at www.huafang.com and the website of the
Stock Exchange at www.hkexnews.hk
on or around⁽⁶⁾⁽¹⁰⁾ Friday,
December 9, 2022

EXPECTED TIMETABLE⁽¹⁾

Announcement of the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on our website at www.huafang.com and the website of the Stock Exchange at www.hkexnews.hk on or before⁽¹⁰⁾Friday, December 9, 2022

The results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including:

- in the announcement to be posted on our website and the website of the Stock Exchange at www.huafang.com and www.hkexnews.hk, respectively⁽¹⁰⁾Friday, December 9, 2022
- from “IPO Results” function in the **IPO App** or the designated results of allocations website at www.tricor.com.hk/ipo/result or www.hkeipo.hk/IPOResult with a “search by ID” function from⁽¹⁰⁾Friday, December 9, 2022

Share certificates in respect of wholly or partially successful applications to be despatched or deposited into CCASS on or before⁽⁷⁾⁽⁹⁾⁽¹⁰⁾Friday, December 9, 2022

HK eIPO White Form e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications to be despatched on or around⁽⁸⁾⁽⁹⁾⁽¹⁰⁾Friday, December 9, 2022

Dealings in the Shares on the Stock Exchange expected to commence at 9:00 a.m. on⁽¹⁰⁾Monday, December 12, 2022

(1) All dates and times refer to Hong Kong local dates and time, except as otherwise stated.

(2) You will not be permitted to submit your application under the **HK eIPO White Form** service through the **IPO App** or the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the **IPO App** or the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, December 5, 2022, the application lists will not open or close on that day. See “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening and Closing of the Application Lists” of this prospectus.

EXPECTED TIMETABLE⁽¹⁾

- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS or instructing your **broker** or **custodian** to apply on your behalf via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying Through CCASS EIPO Service” of this prospectus.
- (5) The Price Determination Date is expected to be on or around Monday, December 5, 2022 and, in any event, not later than Friday, December 9, 2022. If, for any reason, we do not agree with the the Overall Coordinators and Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Friday, December 9, 2022, the Global Offering will not proceed and will lapse.
- (6) None of the websites set out in this section or any of the information contained on the websites forms part of this prospectus.
- (7) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” has not been exercised. Investors who trade the Shares on the basis of publicly available allocation details or prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.
- (8) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application.
- (9) Applicants who have applied for Hong Kong Offer Shares through CCASS EIPO service should refer to the section headed “How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies — Personal Collection — If you apply through CCASS EIPO service” of this prospectus for details.

Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through single bank accounts may have refund monies (if any) despatched to the bank account in the form of e-Auto Refund payment instructions. Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Further information is set out in “How to Apply for Hong Kong Offer Shares — 13. Refund of Application Monies” and “How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies.”

- (10) In case a typhoon warning signal no. 8 or above, a black rainstorm warning signal and/or Extreme Conditions is/are in force in any days between Wednesday, November 30, 2022 and Monday, December 12, 2022, then the day of (i) announcement of results of allocations in the Hong Kong Public Offering; (ii) despatch of Share certificates and refund cheques/**HK eIPO White Form** e-Auto Refund payment instructions; and (iii) dealings in the Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

The above expected timetable is a summary only. For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, please refer to “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” of this prospectus respectively.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, we will publish an announcement as soon as practicable thereafter.

CONTENTS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by our Company, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and the Capital Market Intermediaries, any of our or their respective directors, officers, representatives, or affiliates, or any other person or party involved in the Global Offering. Information contained in our website, located at www.huafang.com, does not form part of this prospectus.

	<i>Page</i>
Contents	iv
Summary	1
Definitions	28
Glossary	40
Forward-looking Statements	43
Risk Factors	45
Waivers from Strict Compliance with the Listing Rules	110
Information about this Prospectus and the Global Offering	114
Directors and Parties Involved in the Global Offering	118
Corporate Information	125
Regulation	127

CONTENTS

Industry Overview	163
History, Reorganization and Corporate Structure	179
Business	222
Relationship with Our Controlling Shareholders	320
Contractual Arrangements	325
Connected Transactions	350
Directors and Senior Management	360
Share Capital	375
Substantial Shareholders	377
Financial Information	380
Future Plans and Use of Proceeds	455
Underwriting	463
Structure of the Global Offering	476
How to Apply for Hong Kong Offer Shares	490
Appendix I – Accountants’ Report	I-1
Appendix II – Unaudited Pro Forma Financial Information	II-1
Appendix III – Summary of the Articles of Association and Cayman Islands Company Law	III-1
Appendix IV – Statutory and General Information	IV-1
Appendix V – Documents Delivered to the Registrar of Companies and Available on Display	V-1

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares.

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

OVERVIEW

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

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

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

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

SUMMARY

The viability of our content ecosystem is critical to our success. We provide opportunities that transform beginner hosts into influencers, enabling them to gain proficiency and popularity and to develop with us professionally. On the supply side, we collaborate with talent agencies to facilitate a smooth supply of hosts to stream and perform on our platform. We have developed a talent fostering system to identify, develop and train hosts, with execution plans on host training and promotion, content production and monitoring. We have also aggregated a large number of viable hosts, leveraging our brand, career advancement opportunities and favorable collaboration policies. On the demand side, supported by our technology capability, we connect users with relevant content, creating a cycle evolving around the positive interaction between our content production and user base.

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

OUR PLATFORM

Huajiao

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

Naitang

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

SUMMARY

covering a broad range of topics, including lifestyle, music radio and virtual idol performance. In 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, we generated revenue of nil, RMB16.4 million, RMB217.3 million, RMB47.8 million and RMB113.9 million from *Naitang*, respectively, representing nil, 0.6%, 6.3%, 3.5% and 7.6% of the revenue generated from *Huajiao* during the same period, respectively.

6.cn

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

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

Overseas Social Networking Products

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

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

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

SUMMARY

KEY OPERATING METRICS

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

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

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

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

SUMMARY

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

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

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

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

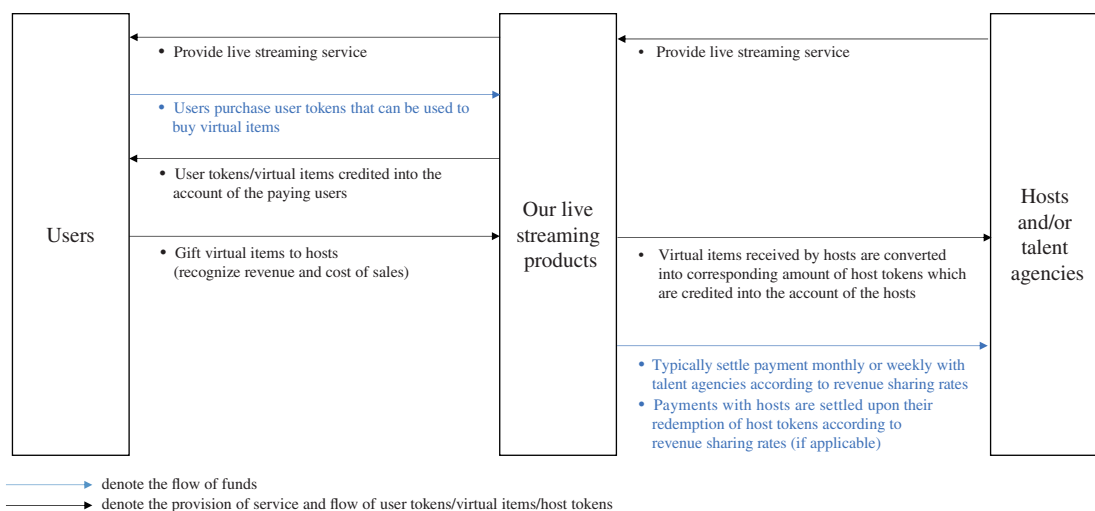
SUMMARY

MONETIZATION CHANNELS AND REVENUE GENERATION

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

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

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



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

SUMMARY

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

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

COMPETITIVE STRENGTHS

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

GROWTH STRATEGIES

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

RISKS AND CHALLENGES

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

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

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

SUMMARY

Selected Consolidated Statements of Results of Operations

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

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

Non-IFRS Measure

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

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

	Year ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	(Unaudited)				
	(RMB in thousands except for percentages)				
Profit/(loss) for the year/period	191,298	(1,524,671)	325,023	136,184	177,891
Add:					
Share-based compensation expenses ⁽¹⁾	19,307	18,796	83,993	20,035	13,857
Listing expenses	–	–	21,601	–	2,289
Adjusted net profit/(loss) (non-IFRS measure)	210,605	(1,505,875)	430,617	156,219	194,037

SUMMARY

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

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

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

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

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

SUMMARY

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

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

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

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

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

SUMMARY

Selected Consolidated Balance Sheet

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

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

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

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

SUMMARY

Selected Consolidated Statements of Cash Flow

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

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

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

KEY FINANCIAL RATIOS

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

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

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

OUR MARKET OPPORTUNITIES

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

SUMMARY

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

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

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

COMPETITIVE LANDSCAPE OF CHINA'S ENTERTAINMENT LIVE STREAMING MARKET

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

SUMMARY

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

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

SUMMARY

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

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

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

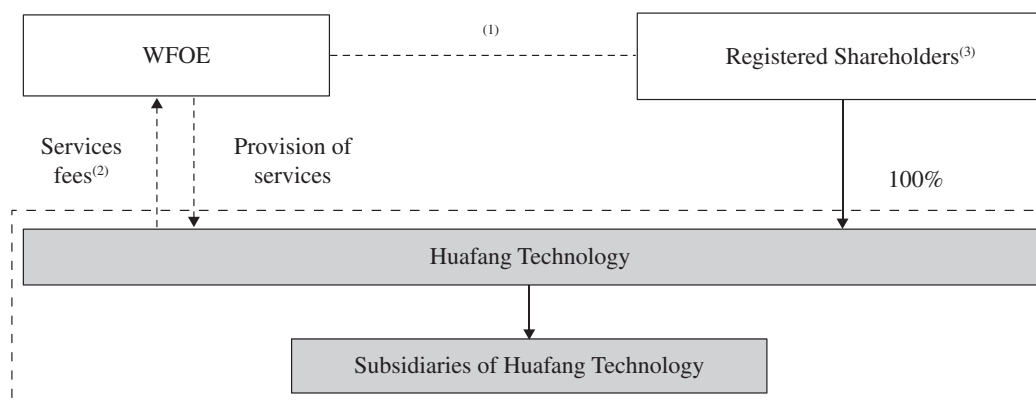
SUMMARY

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

CONTRACTUAL ARRANGEMENTS

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

SUMMARY



— denotes direct legal and beneficial ownership in the equity

- - - - denotes contractual relationships under the Contractual Arrangements

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

■ denotes our Consolidated Affiliated Entities

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

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

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

SUMMARY

OUR CONTROLLING SHAREHOLDERS

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

Immediately after the completion of the Capitalization Issue and the Global Offering (assuming no exercise of the Over-allotment Option and without taking into account any option granted under the Pre-IPO Share Option Scheme), Mr. Zhou Group will be entitled to exercise approximately 36.46% of voting rights at general meetings of our Company, and Songcheng Performance, through control of Global Bacchus Limited, will be entitled to exercise approximately 35.35% of voting rights at general meetings of our Company.

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

PRE-IPO INVESTMENTS

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

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

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

SUMMARY

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalization Issue and the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any shares which may be issued upon the exercise of any option granted under the Pre-IPO Share Option Scheme, on the basis that, among other things, we satisfy the market capitalization/revenue/cash flow test under Rule 8.05(2) of the Listing Rules with reference to (1) our revenue of RMB4,599.7 million in 2021, which is over HK\$500 million, (2) our expected market capitalization at the time of the Listing, which, based on the low end of the indicative Offer Price range, which exceeds HK\$2.0 billion, and (3) aggregate net cash generated from operating activities of RMB981.7 million during the three years ended December 31, 2021, which exceeds HK\$100.0 million.

LISTING EXPENSES

Our listing expenses in connection with the Global Offering consist primarily of underwriting commission and professional fees, and are estimated to be approximately RMB51.0 million, representing approximately 38.3% of our gross proceeds from the Global Offering (assuming that the Global Offering is conducted at the mid-point of the Offer Price range and the Over-allotment Option is not exercised). We recognized listing expenses of RMB23.9 million in the consolidated income statements during the Track Record Period. We estimate that approximately RMB19.9 million of the remaining listing expense will be charged to the consolidated income statements and RMB7.2 million will be charged to equity upon completion of the Capitalization Issue and the Global Offering.

The listing expenses we incurred during the Track Record Period and expect to incur for this Offering would consist of (1) approximately RMB5.3 million in underwriting-related expenses, and (2) approximately RMB45.7 million in non-underwriting-related expenses, which include (i) approximately RMB36.4 million in fees and expenses of legal advisors and accountants, and (ii) approximately RMB9.3 million in other fees and expenses.

OFFERING STATISTICS

All statistics in the following table are based on the fact that (1) the Capitalization Issue and the Global Offering have been completed and 46,000,000 Offer Shares are issued pursuant to the Global Offering; and (2) the Over-allotment Option is not exercised.

	Based on an Offering Price of HK\$2.80 per Offer Share	Based on an Offering Price of HK\$3.60 per Offer Share
Market Capitalization of our Shares ⁽¹⁾	HK\$2,800.0 million	HK\$3,600.0 million
Unaudited pro forma adjusted net tangible asset per Share ⁽²⁾	HK\$2.11	HK\$2.14

(1) The calculation of market capitalization is based on 1,000,000,000 total issued Shares immediately upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised).

(2) The unaudited pro forma adjusted net tangible asset per Share as of May 31, 2022 is calculated after making the adjustments referred to in Appendix II and on the basis of 1,000,000,000 total issued Shares immediately upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised).

SUMMARY

FUTURE PLANS AND USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$3.20 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$90.8 million, after deduction of underwriting commissions and other estimated expenses in connection with the Global Offering assuming the Over-allotment Option is not exercised. We intend to use the net proceeds of the Global Offering for the following purposes.

<u>Amount of estimated net proceeds</u>	<u>Intended use of net proceeds</u>
Approximately 25.0%, or HK\$22.7 million	Further diversify and enrich our products, content and services
Approximately 35.0%, or HK\$31.8 million	Implement our marketing initiatives to expand our user base and promote our brand
Approximately 20.0%, or HK\$18.1 million	Selective acquisitions of or investment in products, services and businesses
Approximately 10.0%, or HK\$9.1 million	Strengthen our research and development and technology capability
Approximately 10.0%, or HK\$9.1 million	Working capital and general corporate purposes

Please see the section headed “Future Plans and Uses of Proceeds” in this prospectus, for further information relating to our future plans and use of proceeds from the Global Offering, including the adjustment on the allocation of the proceeds in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated Offer Price range.

DIVIDEND

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

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

NON-COMPLIANCE INCIDENTS AND ALLEDGED VIOLATIONS OF TERMS OF SERVICES

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

SUMMARY

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

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

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

SUMMARY

RECENT DEVELOPMENTS

Business Development

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

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

Impact of COVID-19 on Our Business Operations

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

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

SUMMARY

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

Regulatory Development

Cybersecurity review and data security

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

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

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

SUMMARY

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

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

Cross-border data transfer

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

Overseas listing

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

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

SUMMARY

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

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

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

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

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

SUMMARY

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

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

Foreign investment negative list

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

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

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

Live streaming business

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

SUMMARY

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

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

On June 1, 2021, the Law of the PRC on the Protection of Minors (2020 Revision) (《中華人民共和國未成年人保護法(2020年修訂)》) took effect, which provides that, among others, live streaming service providers are not allowed to provide online live streaming publisher account registration service to minors under 16 of age with, and must obtain the consent from parents or guardians and verify the identity of the minors before allowing minors aged 16 or above to register online live streaming publisher accounts on live streaming platform. On May 7, 2022, the Office of Central Guidance Commission on Building Spiritual Civilization, the MCT, NRTA and the CAC promulgated the Opinions on Regulating Virtual Gifting to Strengthen the Protection of Minors (《關於規範網絡直播打賞加強未成年人保護的意見》) (the “May 7 Opinions”). According to the May 7 Opinions, live streaming platforms shall, among others, prohibit minors from virtual gifting, and implement the requirements on real-name registration; not provide online live streaming publisher account registration service to minors under age of 16 and obtain the consent from guardians before allowing minors between the ages of 16 and 18 to register online live streaming publisher accounts on their platforms. We have implemented a series of measures to ensure compliance with the May 7 Opinions and other minor protection related rules and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any penalties in connection with violating laws related to protection of minors. See “Business — Risk Management and Internal Control — Minor Protection and Virtual Gifting Management.”

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

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

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

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this prospectus. Certain other terms are explained in the section headed “Glossary” in this prospectus.

“Accountants’ Report”	the accountants’ report from the Reporting Accountants, the text of which is set out in Appendix I to this prospectus
“affiliate”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“AFRC”	the Accounting and Financial Reporting Council
“Articles of Association” or “Articles” or “Memorandum of Association and Articles of Association”	our articles of association, as adopted by special resolution passed on November 21, 2022 and to become effective on the Listing Date, a summary of which is contained in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“BMRTB”	Beijing Municipal Radio and Television Bureau (北京市廣播電視局)
“Board” or “Board of Directors”	the board of directors of our Company
“Board Special Majority”	the approval of at least three-fourths of all of the Directors in office
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	British Virgin Islands
“Capital Market Intermediaries” <i>(in no particular order)</i>	Haitong International Securities Company Limited, CCB International Capital Limited, ABCI Capital Limited, ABCI Securities Company Limited, Daiwa Capital Markets Hong Kong Limited, Eddid Securities and Futures Limited, Huatai Financial Holdings (Hong Kong) Limited, Tiger Brokers (HK) Global Limited, Valuable Capital Limited and Zhongtai International Securities Limited

DEFINITIONS

“Capitalization Issue”	the issue of Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of our Company as referred to in “Statutory and General Information — A. Further Information about our Company — 3. Resolutions of the Shareholders of our Company passed on November 21, 2022” in Appendix IV to this prospectus
“Cayman Companies Act”	the Companies Act, Cap 22 (Law 3 of 1961, as consolidated and revised) of the laws of Cayman Islands as amended, supplemented, or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS EIPO”	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC’s Customer Service Center by completing an input request
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company,” “our Company” or “the Company”	Huafang Group Inc., an exempted company incorporated under the laws of Cayman Islands with limited liability on June 1, 2021
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, i.e., Huafang Technology and its subsidiaries including Mijing Hefeng, Hainan Kailin, Beijing Huafang Canlan Technology Co., Ltd. (北京花房燦爛科技有限公司), Holla Technology, Chengdu Huayang Technology Co., Ltd. (成都花漾科技有限公司), Tianjin Maijike Network Technology Co., Ltd. (天津邁即刻網絡科技有限公司), Sichuan Huayin, Ruzuo Technology, Beijing Huafang Hongfa Technology Co., Ltd. (北京花房鴻發科技有限公司) and Chengdu Yuanjin Culture Media Co., Ltd. (成都元錦文化傳媒有限公司), the financial accounts of which have been consolidated and accounted for as if they were subsidiaries of our Company by virtue of the Contractual Arrangements
“Contractual Arrangements”	a series of contractual arrangements we entered into to allow our Company to exercise control over the business operation of the Consolidated Affiliated Entities and enjoy all the economic interests derived therefrom, as more particularly described in the section headed “Contractual Arrangements” in this prospectus
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of the Company or any one of them

DEFINITIONS

“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
“Global Offering”	the Hong Kong Public Offering and the International Offering
“ GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group,” “our Group,” “we” or “us”	our Company and its subsidiaries or Consolidated Affiliated Entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“Hainan Kailin”	Hainan Kailin Technology Co., Ltd. (海南凱林科技有限公司), a limited liability company incorporated under the laws of PRC on May 22, 2020, one of our Consolidated Affiliated Entities
“ HK eIPO White Form ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name, submitted online through the IPO App or the designated website at www.hkeipo.hk
“ HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company as specified in the IPO App or on the designated website at www.hkeipo.hk
“HK\$” and “Hong Kong cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HOLLA Group”	a group of companies operated under EXU INC., including EXU (HK) LIMITED, Monkey, Inc., Chatwith, Inc., Oviedo Interactives Limited and Mitu Inc Limited, each of which is our subsidiary

DEFINITIONS

“Holla Technology” or “Mizhi Technology”	Beijing Holla Technology Co., Ltd. (北京猴啦科技有限公司), formerly known as Beijing Mizhi Technology Co., Ltd. (北京蜜枝科技有限公司), a limited liability company incorporated under the laws of PRC on July 22, 2016 and one of our Consolidated Affiliated Entities
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 4,600,000 Shares initially being offered for subscription in the Hong Kong Public Offering (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to reallocation as described in the section headed “Structure of the Global Offering”), on the terms and subject to conditions set out in this prospectus
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriters”	the underwriter(s) of the Hong Kong Public Offering as listed in the section headed “Underwriting – Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated November 29, 2022, relating to the Hong Kong Public Offering, entered into by, among others, our Company and the Hong Kong Underwriters, as further described in the section headed “Underwriting” in this prospectus
“Huafang Technology”	Beijing Huafang Technology Co., Ltd. (北京花房科技有限公司) (formerly known as Beijing 6.cn Technology Co., Ltd. (北京六間房科技有限公司)), a limited liability company incorporated under the laws of PRC on March 17, 2006, one of our Consolidated Affiliated Entities
“Huajiao No. 1”	Tianjin Huajiao No. 1 Technology Limited Partnership (天津花椒壹號科技合夥企業(有限合夥)), a limited partnership incorporated in the PRC on September 13, 2016, which is ultimately controlled by Mr. Zhou, our controlling shareholder

DEFINITIONS

“Huajiao No. 2”	Tianjin Huajiao No. 2 Technology Limited Partnership (天津花椒貳號科技合夥企業(有限合夥)), a limited partnership incorporated in the PRC on September 13, 2016, which is ultimately controlled by Mr. Zhou, our controlling shareholder
“Huajiao-6.cn Merger”	has the meaning given to it in the section headed “History, Reorganization and Corporate Structure” in this prospectus
“IFRSs”	International Financial Reporting Standards
“Independent Third Party(ies)”	an individual or a company which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is not a connected person of the Company within the meaning of the Listing Rules
“International Offer Shares”	the 41,400,000 new Shares initially offered by our Company for subscription at the Offer Price under the International Offering (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus) together with (unless the context otherwise requires) any Shares issued pursuant to any exercise of the Over-allotment Option
“International Offering”	the conditional offering of the International Offer Shares at the Offer Price outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act or any other available exemption from the registration requirement under the U.S. Securities Act, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Sanctions”	all applicable laws, regulations, and executive orders that impose economic sanctions, export controls, trade embargoes, or other prohibitions or restrictions on international trade and investment related activities, including the prohibitions and restrictions adopted, administered and enforced by a Relevant Jurisdiction
“International Sanctions Legal Adviser”	Dorsey & Whitney LLP, Dorsey & Whitney (Europe) LLP and Clayton Utz
“International Underwriters”	the underwriters of the International Offering

DEFINITIONS

“International Underwriting Agreement”	the international purchase agreement relating to the International Offering and expected to be entered into by, among others, our Company and the International Underwriters
“IPO App”	the mobile application for the HK eIPO White Form service which can be downloaded by searching “ IPO App ” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp
“Joint Bookrunners”	the joint bookrunners as named in the section headed “Directors and Parties Involved in the Global Offering” in this prospectus
“Joint Global Coordinators”	the joint global coordinators as named in the section headed “Directors and Parties Involved in the Global Offering” in this prospectus
“Joint Lead Managers”	the joint lead managers as named in the section headed “Directors and Parties Involved in the Global Offering” in this prospectus
“Joint Sponsors” (<i>in no particular order</i>)	Haitong International Capital Limited and CCB International Capital Limited
“Latest Practicable Date”	November 21, 2022, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date expected to be on or about December 12, 2022 on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“MCT”	Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅遊部)

DEFINITIONS

“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“Mijing Hefeng”	Beijing Mijing Hefeng Technology Co., Ltd. (北京密境和風科技有限公司), a limited liability company incorporated under the laws of PRC on December 24, 2014, one of our Consolidated Affiliated Entities
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Zhou”	Mr. Zhou Hongyi (周鴻禕), our chairman of the Board, non-executive Director and our controlling shareholder
“NASDAQ”	the Nasdaq Stock Market in the United States
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NRTA”	The National Radio and Television Administration (國家廣播電視總局)
“Offer Price”	the final price per Offer Share (exclusive of brokerage, SFC transaction levy, Stock Exchange trading fee and the AFRC transaction levy), expressed in Hong Kong dollars, of not more than HK\$3.60 and expected to be not less than HK\$2.80, such price, to be agreed upon by our Company and the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) on or around the Price Determination Date
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional Shares to be sold by our Company pursuant to the exercise of the Over-allotment Option
“Overall Coordinators” (<i>in no particular order</i>)	Haitong International Securities Company Limited and CCB International Capital Limited

DEFINITIONS

“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) for up to 30 days from the day following the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to 6,900,000 additional new Shares (representing an aggregate of 15.0% of the initial Offer Shares) to cover over-allocations in the International Offering, if any, details of which are described in the section headed “Structure of the Global Offering – Over-allotment Option” in this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Legal Advisor”	King & Wood Mallesons, being the legal advisor to the Company as to the PRC laws
“PRC Data Compliance Advisor”	Commerce & Finance Law Offices, being the data compliance advisor to the Company as to the PRC cyber security and data privacy protection laws
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme conditionally approved and adopted by us on November 21, 2022, a summary of whose principal terms is set out in “Statutory and General Information — D. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus
“Price Determination Date”	the date on which the Offer Price is to be determined
“Qihoo 360”	Qihoo 360 Software (Beijing) Co., Ltd. (奇虎三六零軟件(北京)有限公司), a limited liability company incorporated in the PRC on May 4, 2009, which is ultimately controlled by Mr. Zhou, our controlling shareholder
“Registered Shareholders”	the registered shareholders of Huafang Technology
“Regulation S”	Regulation S under the U.S. Securities Act
“related parties”	has the meaning as set out in the paragraph headed “Related parties” under Note 2 to the Accountants’ Report set out in Appendix I to this prospectus

DEFINITIONS

“Relevant Jurisdiction”	Australia, European Union, United Nations, United Kingdom, United States, and any other jurisdiction that has a nexus to the Company’s business operations
“Reorganization”	the corporate reorganization of our Group conducted in preparation for the Global Offering, details of which are described in the section headed “History, Reorganization and Corporate Structure — Our Reorganization”
“RMB”	Renminbi, the lawful currency of the PRC
“Ruzuo Technology”	Beijing Ruzuo Technology Co., Ltd. (北京入座科技有限公司), a limited liability company incorporated under the laws of PRC on October 15, 2020 and one of our Consolidated Affiliated Entities
“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局), which is the predecessor of the SAMR
“SAMR”	State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SCNPC”	Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“Sanctioned Countries”	In the case of the United States sanctions, Cuba, Iran, North Korea, Syria, the Crimean, Donetsk People’s Republic, and Luhansk People’s Republic regions of Ukraine, and any other country or territory that is subject to a general and comprehensive export, import, financial or investment embargo under International Sanctions. In the case of European Union, United Kingdom and Australian sanctions, countries in relation to which economic sanctions were adopted

DEFINITIONS

“Sanctioned Target”	any person or entity that is (1) designated on any list of targeted persons or entities issued under the sanctions-related law or regulation of a Relevant Jurisdiction; (2) that is, or is owned or controlled by, a government of a Sanctioned Country (in the case of United States sanctions); or (3) that is the target of sanctions under the law or regulation of a Relevant Jurisdiction because of a relationship of ownership, control, or agency with a person or entity described in (1) or (2)
“Sanctions Compliance Policy”	Huafang Global Sanctions Compliance and Internal Control Management Measures, as adopted by the Company on August 10, 2021
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shares”	ordinary share(s) in the capital of the Company par value of US\$0.0001 each
“Shareholder(s)”	holder(s) of Shares
“Sichuan Huayin”	Sichuan Huayin Technology Co., Ltd. (四川花音科技有限公司), a limited liability company incorporated in PRC on March 30, 2019 and one of our Consolidated Affiliated Entities
“Songcheng Performance”	Songcheng Performance Development Co., Ltd. (宋城演藝發展股份有限公司), a controlling shareholder of our Company, a company incorporated in the PRC on September 21, 1994 and listed on the Shenzhen Stock Exchange since December 9, 2010 (stock code: 300144), which is principally engaged in investment, development and operation of theme parks, tourism, and cultural performances
“Stabilizing Manager”	Haitong International Securities Company Limited

DEFINITIONS

“Stock Borrowing Agreement”	the stock borrowing agreement, which may be entered into between Blossom Bliss Limited as the lender and the Stabilizing Manager as the borrower on or around the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period consisting of the three years ended December 31, 2021 and the five months ended May 31, 2022
“Underwriters”	the Hong Kong Underwriter(s) and the International Underwriter(s)
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“VIE”	variable interest entity
“WFOE”	Chengdu Huafang Online Technology Co., Ltd. (成都花房在線科技有限公司), a limited liability company incorporated under the laws of the PRC on June 28, 2021 and an indirect wholly-owned subsidiary of the Company
“%”	per centum

Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

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

GLOSSARY

This glossary contains certain technical terms used in this prospectus in connection with our Company and our operations. Such terms and their meaning may not correspond to standard industry definitions or usage.

“active host”	a host who has accessed on one of our products at least once during a given period
“active user”	a user account that has accessed one of our products at least once during a given period
“app”	an application that can be downloaded and installed on mobile devices
“ARPPU”	average revenue per paying user, calculated as revenue in a given period divided by the number of paying users during that period
“average monthly active users”	calculated by dividing the sum of active users for each month of a given period by the number of months of in such period
“AI”	artificial intelligence
“CAGR”	compound annual growth rate
“Ear Economy”	China’s online audio sector, represented by online audio books, audio live streaming, and pay-for-knowledge products
“Far East”	the geographical regions that include East Asia and Southeast Asia, excluding China for the purpose of this prospectus; East Asia primarily includes Japan and Korea; and Southeast Asia primarily includes Thailand, Malaysia, Indonesia, Philippines, Singapore and Vietnam
“fans”	followers to our hosts on social media platforms and our various platforms
“first-tier cities”	Beijing, Shanghai, Guangzhou and Shenzhen
“Generation Z”	for the purposes of this prospectus only, the demographic cohort of individuals born after 1990

GLOSSARY

“gross billings”	total value of virtual items gifted during live streaming and for other interactions on our platform
“host”	includes streamers who stream on our video-based live streaming products, broadcasters who host broadcasting and audio-based live streaming sessions for our audio channels and audio-based apps, and other performers who regularly attend and host chatrooms of our overseas social networking products
“host tokens”	tokens converted from virtual items received by hosts, and hosts can redeem host tokens for cash when we settle payments with them, and for each of our live streaming products, the conversion ratio of user token and host token is one to one
“iResearch Survey”	a commissioned user survey conducted by Shanghai iResearch Co., Ltd. to better understand, among other things, users of the entertainment live streaming industry, their behavioral preferences and feedback to our platform
“KPI”	key performance indicator
“monthly active host”	the number of active hosts during a given month
“monthly active users” or “MAUs”	the number of active users during a given month
“monthly active host retention rate”	the percentage of active host in a given month that streams or performs on our platform at least once in the month that follows
“monthly paying users” or “MPUs”	the number of paying user during a given month
“MCN”	multi-channel network, an organization that works with content platforms and content markers to offer assistance in audience retention, content production, resource management, monetization and other services
“MENA”	the Middle East and North Africa; Middle East encompasses Saudi Arabia, UAE, Kuwait, Israel, Egypt and Lebanon; North Africa encompasses Algeria, Tunisia and Morocco

GLOSSARY

“paying users”	user accounts that make payments for various user tokens and services on our platforms at least once during a given period
“PC”	personal computer
“PK”	live streaming activities through which hosts compete against each other in a rich variety of games, such as singing contests, talk shows and debates
“second-tier cities”	Tianjin, Shijiazhuang, Taiyuan, Hohhot, Shenyang, Dalian, Changchun, Harbin, Nanjing, Hangzhou, Ningbo, Hefei, Fuzhou, Xiamen, Nanchang, Jinan, Qingdao, Zhengzhou, Wuhan, Changsha, Nanning, Haikou, Chongqing, Chengdu, Guiyang, Kunming, Xi’an, Lanzhou, Xining, Yinchuan and Urumqi
“streamer association”	a live streamer association established by live streamer facilitators, talent agencies or other entertainment companies on the live streaming platform to congregate streamers and hosts to perform on that platform and institutionalize streaming activities for profit
“talent agency”	includes streamer associations and MCNs
“user retention rate”	as applied to any cohort of users who used any of our products in a given month, is the percentage of these users who use such product at least once in the next month
“user tokens”	tokens that users can use to purchase virtual items to be gifted to hosts, and for each of our live streaming products, the conversion ratio of user token and host token is one to one
“viewer”	a user who watches live streaming, videos and other content on live streaming platforms
“virtual item”	non-physical items available for purchase on live streaming platforms, which viewers can send to hosts as a gesture of friendship, support and admiration

FORWARD-LOOKING STATEMENTS

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

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this prospectus. Forward-looking statements can be identified by words such as “may,” “will,” “should,” “would,” “could,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “continue,” “seek,” “estimate” or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, statements we make regarding our projections, business strategy and development activities as well as other capital spending, financing sources, the effects of regulation, expectations concerning future operations, margins, profitability and competition. The foregoing is not an exclusive list of all forward-looking statements we make.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. We give no assurance that these expectations and assumptions will prove to have been correct. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. We caution you therefore against placing undue reliance on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- our business prospects;
- our business strategies and plans to achieve these strategies;
- future developments, trends and conditions in and competitive environment for the industries and markets in which we operate;
- general economic, political and business conditions in the markets where we operate;
- our financial condition and performance;
- our capital expenditure plans;
- changes to the regulatory environment, policies, operating conditions of and general outlook in the industries and markets in which we operate;

FORWARD-LOOKING STATEMENTS

- our expectations with respect to our ability to acquire and maintain regulatory licenses or permits;
- the amount and nature of, and potential for, future development of our business;
- the actions of and developments affecting our competitors;
- the length and severity of the recent COVID-19 outbreak and its impact on our business and industry; and
- certain statement in the sections headed “Risk Factors,” “Industry Overview,” “Regulation,” “Business,” “Financial Information,” “Relationship with Our Controlling Shareholders” and “Future Plans and Use of Proceeds” with respect to trends in interest rates, foreign exchange rates, prices, operations, margins, risk management and overall market trends.

Any forward-looking statement made by us in this prospectus speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Subject to the requirements of applicable laws, rules and regulations, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Investing in our Shares involves risks. You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares. You should pay particular attention to the fact that we are an exempted company incorporated in the Cayman Islands and that a majority of our business is located in the People's Republic of China and we are governed by a legal and regulatory environment which may differ in some respects from that which prevails in other countries. Our business, financial condition, results of operations and prospects could be materially and adversely affected by any of these risks and uncertainties, in which case the trading price of our Shares may decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business, financial condition, results of operations and prospects.

RISKS RELATED TO OUR BUSINESS

Live streaming platforms in China are subject to extensive regulations, which restrict our ability to maintain or increase our user base, or increase user traffic to our platform, which may materially and adversely affect our business and results of operations.

Internet information service providers in China, including live streaming platforms, are subject to a variety of existing and new rules, regulations, policies, and licensing requirements. For example, pursuant to the Administrative Measures on Internet Information Services, which was issued and adopted by the State Council of the PRC (the "State Council"), on September 25, 2000 and last amended on January 8, 2011, internet content providers are prohibited from distributing over the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest, or is obscene, superstitious, fraudulent, violent or defamatory. Internet content providers are also prohibited from distributing content that may be deemed by relevant government authorities as "socially destabilizing" or leaking "state secrets" of China. In connection with enforcing these rules, regulations, policies and requirements, relevant government authorities may suspend services by, or revoke licenses of, any internet information service providers that is deemed to provide illicit content online, and such activities may be intensified in connection with any ongoing government campaigns to eliminate prohibited content online. In addition, pursuant to the Internet Live Streaming Service Management Regulations promulgated by the CAC on November 4, 2016 and took effect on December 1, 2016, live streaming platforms are required to establish a content review system, verify their users' identities, enter into a service agreement with their users to specify both parties' rights and obligations, and file the identity information of the publishers of online streaming programs with local government authorities for record. Also, according to the Measures for the Administration of Cyber Performance Business Operations issued by the Ministry of Culture (the "MOC", which is the predecessor of the MCT) on December 2, 2016, which took effect on January 1, 2017, live streaming platforms shall require hosts on their platforms to make real-name registration. The Circular on Tightening the Administration of Internet Live-Streaming Services (《關於加強網絡直播服

RISK FACTORS

務管理工作的通知》) jointly issued by the MIIT, the CAC, and several other government agencies on August 1, 2018 reiterates the requirements for platforms to perform ICP registration and to obtain other applicable licenses for providing relevant online streaming services, and requires the operators to file with local public security authorities within 30 days after it commences online streaming services. According to the Law of the PRC on the Protection of Minors (2020 Revision) (《中華人民共和國未成年人保護法(2020年修訂)》), it is illegal to produce, reproduce, publish, release and disseminate books, newspapers and periodicals, films, radio and television programs, stage art works, audio-visual products, electronic publications or network information that promote obscenity, eroticism, violence, cults, superstitions, gambling, suicide seduction, terrorism, separatism and extremism and other content that are harmful to the physical and mental health of minors. Online service providers are also prohibited from providing minors with products and services that may be addictive. Live streaming service providers are not allowed to provide minors under age 16 with an online live streaming host account registration service, and must obtain the consent from their parents or other guardians and verify the identity of the minors before allowing minors aged 16 or above to register live streaming host accounts. We have adopted measures that, as advised by our PRC Legal Advisor, are in compliance with relevant laws and regulations, and according to the iResearch Report, are consistent with industry practice to prevent minors from streaming on our platform or making virtual gifts. For details, see “Business — Risk Management and Internal Control — Minor Protection and Virtual Gifting Management.” However, we cannot assure you that our existing measures can identify and prevent all instances of virtual gifting by minors on our platform. During the Track Record Period and up to the date of this prospectus, we have not been subject to any penalties in connection with protection of minors.

However, the PRC government may further tighten the account registration and identity verification requirements for minors or impose a higher standard with respect to the account registration and identity verification for all users on our platform in the future. Any such event may deter potential users from registering with our platform, which may in turn adversely affect the growth of our user base and business prospects.

According to the Notice on Promulgation of the Guiding Opinions on Strengthening the Standardized Administration of Online Live-streaming (《關於印發〈加強網絡直播規範管理工作的指導意見〉的通知》), which was promulgated on February 9, 2021, live-streaming platforms providing online audio-visual program services shall obtain the Audio-Visual Permit (or complete registration with the National Network Audio-Visual Platform Information Registration Management System) and complete the ICP record-filing. Related laws and regulations and their interpretation and enforcement involve significant uncertainties, and new laws and regulations may continue to be promulgated.

On February 7, 2021, Anti-monopoly Commission of the State Council promulgated the “the Anti-Monopoly Guidelines for the Internet Platform Economy Sector,” which provide guidance on competition and compliance for companies operating in the internet-related

RISK FACTORS

economy. Since the guidelines were issued recently, its implementation and enforcement remain uncertain. While we do not expect that the guidelines will have a material impact on our business, it may increase our compliance burden in our already highly-regulated industry.

On August 30, 2021, the MCT published the Online Performance Brokerage Agencies Measures (《網絡表演經紀機構管理辦法》). According to the Online Performance Brokerage Agencies Measures, an online performance brokerage agency shall obtain a commercial performance license, not promote their hosts by encouraging virtual gifting with rankings and fake advertisements, and not falsely induce users to consume user tokens or provide virtual gifting. For details, see “Regulations — Regulations Relating to Online Live Streaming Services.” As advised by our PRC Legal Advisor, Online Performance Brokerage Agencies Measures do not impose the specific liability on online performance business operators like us, when the cooperating talent agencies violate the Online Performance Brokerage Agencies Measures. However, we need to verify that the agencies on our platform have obtained the required licenses. The relevant regulatory authorities shall prohibit the behavior, confiscate the performing equipment and illegal proceeds of, and concurrently impose a fine within the range of eight to ten times of the illegal proceeds on the relevant talent agencies if such talent agencies engage in commercial performance activities without approval. The MCT gives a grace period of 18 months, or until February 28, 2023, for online performance talent agencies to obtain the license. On October 10, 2022, such grace period was further extended to February 29, 2024, according to the announcement of the MCT. As of the Latest Practicable Date, three talent agencies associated with our top 10 hosts during the Track Record Period obtained the commercial performance license. We may have to terminate our cooperation with our talent agencies if they are unable to obtain the license on time, which may have an adverse impact on our business and results of operations.

On June 8, 2022, the NRTA and the MCT issued the Code of Conduct for Streamers (《網絡主播行為規範》) (the “Code of Conduct”) which stipulates that: (1) for live streaming content that requires a high level of professional skills (such as medical and health care, finance, law and education), streamers should obtain the corresponding practice qualifications and report the practice qualifications to the live streaming platforms, and live streaming platforms should review and record the relevant qualifications; (2) during live streaming sessions, streamers shall not waste food, flaunt luxury goods, jewelry and other assets, or display sexually suggestive or provocative content; (3) live streaming platforms shall establish comprehensive internal policies to manage and monitor the activities of streamers on their platforms, and shall, among others, reprimand and discipline hosts who have violated the Code of Conduct, and ban the account of streamers who have repeatedly violated the Code of Conduct or applicable rules and regulations. We have adopted internal policies and community guidelines that require hosts on our platforms to adhere to principles consistent with those set forth in the Code of Conduct. However, we cannot assure you that hosts can consistently remain in compliance with the Code of Conduct or other applicable rules and regulations, and we may need to terminate cooperation with those hosts who have been found in serious violation of the Code of Conduct or other applicable rules and regulations, which may

RISK FACTORS

materially and adversely affect our results of operations. In addition, we may inadvertently fail to identify inappropriate activities of hosts on our platform, and become subject to warning or administrative penalties as a result.

During the Track Record Period, we did not have any material non-compliance incident. However, we had been subject to fines imposed by competent government authorities in connection with the inappropriate content displayed on our platform. As the live streaming industry in China is still evolving rapidly, new laws and regulations may be adopted from time to time to address new issues that come to the regulatory authorities' attention and additional licenses and permits other than those we currently have may be required. In the interpretation and implementation of existing and future laws and regulations governing our business activities, considerable uncertainties still exist. We cannot assure you that we will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities' interpretation of these laws and regulations. As there are uncertainties in the interpretation and implementation of the relevant laws and regulations such as the ones outlined above, our users may be discouraged from using our platform, and our business operations may be materially and adversely affected.

If we fail to retain our existing users, keep them engaged or acquire new users in a cost-efficient manner, our business, financial condition, results of operations and prospects may be materially and adversely affected.

The size of our user base and the level of our user engagement are critical to our success. We currently generate significantly all of our revenue from our live streaming services. The effectiveness of our monetization method depends on our ability to increase the size of our user base and user engagement. If we fail to grow our user base, either due to our failure to retain existing users or attract new users, or if our users become less active or engaged, our users may spend less on our virtual items or other value-added services, or access our platform less frequently. Reduced user engagement could drive hosts away from our platform. We may need to invest significant resources to grow our user base and increase user engagement, whether through innovations, new or improved content or services, marketing and branding activities or other means. Historically, our active user base has experienced volatility. We cannot assure you that our user base and user engagement will continue to grow, and our revenues may decline as a result, which may materially and adversely affect our business, financial condition, results of operations and prospects.

For 2019, 2020, 2021 and the five months ended May 31, 2022, our average MAUs were 45.5 million, 50.1 million, 59.4 million and 58.6 million, respectively, and the increase in users for the same periods was 88.5 million, 24.9 million, 121.7 million and 23.7 million, respectively. Growing our large user base and maintaining a high level of user engagement require us to adequately and timely respond to changes in user preferences, attract and retain popular hosts and offer new features and content. A number of factors could negatively affect user retention, growth and engagement, including if:

- we fail to keep abreast with changes in industry trends or user preferences;

RISK FACTORS

- we fail to maintain our user base, the breadth and diversity of our content and innovate products that keep our users interested and engaged on our platform;
- we fail to address user concerns related to privacy, safety, security or other factors;
- the technical or other problems prevent us from delivering our services in a timely and reliable manner or otherwise adversely affect user experience;
- the features and functions we design and develop to enhance our user experience and retention are not effective or long-lasting;
- we fail to develop and carry out new business initiatives, in particular with respect to developing our overseas businesses;
- we fail to upgrade our existing products or develop new products to adapt to new technologies such as 5G;
- we suffer from negative publicity, fail to maintain our brand image or our reputation is damaged;
- we are unable to combat spam or inappropriate or abusive use of our platform, which may lead to negative publicity;
- we make adverse changes to our products and services or become no longer able to provide products and services in response to new legislation, regulations or government policies;
- the growth in the number of internet users in China, or the penetration of live streaming or voice-centric products stalls;
- we fail to expand to new geographic markets or sectors with high growth potential; and
- we fail to compete effectively.

If we fail to attract, groom and retain hosts or maintain our relationship with talent agencies, hosts may cease to produce content, and we may experience declines in the number of users accessing our platform and in the user engagement.

The quality of the content offered on our platform and the level of our user engagement are critical to our success. In order to attract and retain users and compete effectively, we must continue to offer interesting, attractive and useful content and enhance our users' viewing experience. We largely rely on our hosts to create high-quality video and audio-based live streaming and social networking content, and we cannot guarantee that our hosts will continue to create popular content on our platform. For 2019, 2020, 2021 and the five months ended May

RISK FACTORS

31, 2022, the increase in the number of hosts on our platform was approximately 905,000, 560,000, 444,000 and 164,000, respectively, and the active daily streaming time per active host during the same period was 148 minutes, 207 minutes, 261 minutes and 293 minutes for *Huajiao*⁽¹⁾, respectively. For 2019, 2020, 2021 and the five months ended May 31, 2022, the active daily streaming time per active host was 234 minutes, 244 minutes, 256 minutes and 254 minutes for *6.cn*⁽²⁾, respectively. If our hosts cease to produce content, or their content fails to attract or retain users, we may experience declines in our user traffic and user engagement, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

We work closely with talent agencies to recruit and retain hosts. Our ability to maintain a stable supply of quality hosts and content depends on our ability to retain and improve our relationships with talent agencies and individual hosts, and attract new ones. We share with our hosts and their associated talents agencies a percentage of the revenue generated from virtual items gifted to such hosts during their live steaming sessions. If we fail to offer a stable and attractive revenue-sharing policy that is appealing to hosts and their associated talent agencies, they may turn to our competitors. In addition, certain talent agencies do not have exclusive collaboration with us. If other platforms offer better incentives, they may choose to devote more of their resources to other platforms, or encourage their content creators to stream on or enter into an exclusive agreement with other platforms. Any of such events may reduce the supply of our hosts and quality content, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Although we have adopted various measures to further strengthen the relationships between us and our hosts and their associated talent agencies, they may still choose to leave our platform, and their departure may cause a corresponding decline in the volume of quality content and consequently, our user base. As we compete with other platforms and social media networks for viable hosts, we may not be able to compete effectively for host resources. Our hosts and their associated talent agencies may leave us for competing platforms despite their extensive and in-depth collaboration with us.

We may be involved in legal disputes with competing platforms for hosts. Although we are not the primary target of these legal disputes, such hosts may be subject to fines or even injunctions, which may render our investment in recruiting them ineffective. In order to retain our hosts, we must continue to improve monetization opportunities for them, and assist them in reaching a wider audience. We cannot assure you that our endeavor to attract and retain viable hosts will be successfully, or that our hosts will not leave us for our competitors.

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

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

RISK FACTORS

Our hosts and their associated talent agencies may also choose to leave our platform because of contract disputes with us. We were involved in 60 contract disputes with our hosts and/or their associated talent agencies that were initiated during the Track Record Period, among which 19 disputes were still pending for final judgments as of the Latest Practicable Date. Among the 60 contract disputes with hosts and/or their talent agencies, 53 were related to the breach of exclusivity clause in the respective cooperation agreement by our hosts, and the remaining disputes were primarily related to the settlement amount of revenue-sharing arrangement with hosts and/or talent agencies. For the 41 disputes with final judgments, we were the plaintiff in 34 disputes and were awarded an aggregated compensation of approximately RMB11.3 million, and we paid approximately RMB1.9 million in damages and/or settlement as the defendant for remaining seven disputes, all of which were primarily related to disputes with hosts and/or talent agencies for revenue-sharing determination. As for 19 pending disputes, we were plaintiff for 18 pending disputes with an aggregate contract claims of RMB23.1 million, and we were named as the defendant for remaining one pending dispute with a maximum potential damages of approximately RMB50,000, which relates to a talent agency's failure to settle payment with its associated host, who also named us as a co-defendant along with the talent agency. If viable hosts or key talent agencies end their collaboration with us due to dispute with us, our business, financial condition and result of operation may be adversely affected.

Our revenue growth is significantly dependent on our paying users. If we fail to continue to grow or maintain our paying user base, our revenues may not grow as we anticipate, which may materially and adversely affect our business operation, financial condition and results of operations.

Our revenues and results of operation depend on our ability to effectively monetize our large user base and convert more users to paying users. For 2019, 2020, 2021 and the five months ended May 31, 2022, our average MPUs were approximately 923,000, 908,000, 1.4 million and 1.6 million, respectively. In order to sustain our revenue growth, we must continue to attract users onto our platform, ensure high level of user engagement and effectively monetize our content, product matrix, and service offerings. To effectively monetize our user base, we need to continue to develop products and services that are desirable to our users, as well as set proper pricing strategies. Although our business has experienced significant growth in recent years, we may not achieve a similar growth rate in the future, as users' demand for our products and services may decline, or we may fail to anticipate and cater to users' demand effectively.

Our ability to convert our active users to paying users and continue to grow our paying user base depends on many factors, many of which are out of our control. The amount of virtual items that users are willing to purchase and gift to our hosts can be volatile and can fluctuate from time to time. Any significant decline in virtual gifting by paying users will adversely affect our financial condition and results of operations. Although we try to optimize the merchandizing of our virtual items, if we fail to maintain attractive pricing for our virtual items and other value-added services, our users may be less likely to purchase them. We cannot guarantee that our attempts to monetize our content and products will continue to be successful,

RISK FACTORS

and therefore the future revenues and income potential of our business are difficult to evaluate. For example, our hosts may be less willing to remain on our platform as the amount of virtual items gifted from audience decreases due to the deterioration of general economic conditions or the decrease in their disposable income. Any decline in the number of paying users may materially and adversely affect our results of operations.

The markets in which we operate are highly competitive, and we face significant competition in many major aspects of our operations. If we fail to compete effectively, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We face intense competition from other internet companies in China in the video and audio social entertainment streaming industry. In addition, we also compete with other internet companies that provide video- and audio-based products to users in China. As we expand into overseas markets, we may also face intense competition from internet companies operating on a global scale. Some of our competitors may have longer operating histories and greater financial, technical and marketing resources than we do, or have advantages in attracting and retaining users and hosts. In addition, our competitors may have larger user bases or more established brand names than we do and therefore would be able to more effectively leverage their user bases and brand names to provide more popular content. Furthermore, industry consolidation through mergers and acquisitions may arise from time to time as platforms seek to grow their users, business scale and capabilities in different content formats, which may give rise to greater competition.

We compete for user time spent on our platform and viable hosts. As viewers are unlikely to view live streaming on two different platforms simultaneously, and given that many hosts may enter into exclusive contracts with other platforms, competition for user traffic and viable hosts is intense, and our competitors may poach hosts from our platform. We believe the diversity and quality of content play a key role in capturing user attention and time, which affects the revenue generated from virtual gifting during live streaming. In addition, our users face a vast array of entertainment choices. Other forms of entertainment, including other internet-based activities such as online video or gaming, as well as offline activities such as television, movies, and sports, may be perceived by our users to offer greater variety, affordability and interactivity. We also compete against other forms of entertainment for users' discretionary time and spending. If we are unable to sustain sufficient interest in our platform, we may be replaced by other forms of entertainments.

We compete in connection with various other monetization opportunities that we currently pursue or may pursue in the future, including our audio-based products and overseas social entertainment products, which generally depend on our ability to attract and retain users, hosts and talent agencies onto our ecosystem. If we are unable to compete effectively, our ability to successfully monetize our platform may be materially affected. We may have to spend additional resources in order to compete effectively, which may adversely affect our profitability. Furthermore, if we are involved in disputes with any of our competitors that result in negative publicity, such disputes, regardless of their veracity or outcome, may harm our

RISK FACTORS

reputation or brand image and in turn may lead to loss of users and business partners. Any legal proceedings or measures we take in response to competition and disputes with our competitors may be expensive, time-consuming and disruptive to our operations and may divert our management's attention from our business operations.

We may not be successful in implementing our future business plans and strategies, which may materially and adversely affect our business, results of operations, financial conditions and growth prospects.

We strive to achieve sustainable growth and further strengthen our industry leadership in the China's entertainment live streaming market by implementing our business strategies. See "Business — Growth Strategies" for details. The successful implementation of our future business plans and strategies may be affected by a number of factors including the availability of sufficient funds, government policies relevant to our industry, economic conditions, our ability to maintain our existing competitive advantages, our relationships with our major hosts and talent agencies, and the threat of substitutes and new market entrants. There is no assurance that our business plans can be implemented in a timely and successful manner. Should there be any material adverse change in our operating environment which results in our failure to implement any part of our business plans, the growth in our business will be adversely impacted. Any material adverse change in our operating environment resulting in our failure to implement any part of our business plan may also cause our revenue growth not being able to offset the increase in host costs and operating expenses, and our financial condition and prospects may be adversely affected.

In addition, the successful implementation of our business strategies and future plans as described in "Business — Our Growth Strategies" and "Future Plans and Use of Proceeds" is (i) based on circumstances currently prevailing and bases and assumptions that certain circumstances will or will not occur; and (ii) dependent on a number of factors including the availability of funds, increasing demand for our products and services, our ability to expand our business and to retain viable hosts and/or talent agencies, and recruit competent management and employees. Some of the factors are beyond our control and by nature, are subject to uncertainty, such as the general market conditions, and the change in government policies or regulatory regimes of our industry. There is no assurance that our business strategies and future plans can be implemented successfully. Any failure or delay in the implementation of any or all of these strategies and plans may have a material adverse effect on our profitability and prospects.

If we fail to maintain our unique community culture and our vibrant ecosystem, our user interactions, engagement and experience will be materially and adversely affected, which would materially and adversely affect our business, financial condition and results of operations.

We have cultivated an interactive and vibrant online social community. We also strive for providing users with a superior user experience by continuously improving our user interface and the features of our platform, and encouraging active interactions among our users and

RISK FACTORS

hosts. As a result, our platform fosters a vibrant ecosystem for our users and hosts to interact, giving rise to significant user needs which we could address by continuously developing products and services that meet the dynamic user demands, such as our recently launched audio-based products. We believe that maintaining and promoting a vibrant community culture and ecosystem is critical to the retention and expansion of our user base. We have taken multiple initiatives to preserve our community culture, values and ecosystem. Despite our efforts, we may be unable to maintain our community culture and ecosystem and cease to be the preferred platform for our users and hosts. For example, conflicts among our users or hosts and inflammatory comments posted on our platform may damage our community culture and brand image, which would be detrimental to our business operations.

We may not be able to prevent misconduct or inappropriate content from being displayed on our platform, which may not align with the regulatory standards and social morality, or against potential government’s policy and directions of the PRC, subject us to liabilities, and adversely impact our brand image, business and results of operations.

Our platform enables users and hosts to present and exchange information, interact with others and engage in various other online activities, many of which are conducted in real time. As it is difficult to control their behavior in real time, our platform may be misused by individuals or groups of individuals who engage in, among other things, immoral, inappropriate, disrespectful, fraudulent or illegal activities. Users and hosts may engage in conversations or activities on our platform that may be deemed vulgar, sexually suggestive or illegal under PRC laws and regulations. While we have developed technologies and implemented a series of measures, including user protection system and manual review team, to detect inappropriate content and activities, we may not be able to fully prevent inappropriate content from being posted on our platform or inappropriate activities from being carried out on our platform, which may not align with the regulatory standards and social morality, or against potential government’s policy and directions of the PRC. As advised by our PRC Legal Advisor, depending on the specific type of and impact caused by inappropriate content, we and our hosts face penalties such as confiscation of illegal proceeds, fines and criminal liability. In particular, according to the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) (the “Internet Culture Provisions”), relevant governmental authorities may order us to remove inappropriate content, confiscate proceeds generated from such content, and impose a fine of RMB10,000 to RMB30,000 in the event that content on our platform contains information prohibited by the Internet Culture Provisions or any laws or regulations. See “Regulation — Regulations Relating to Internet Audio-visual Program Services.” In serious cases, we may face penalties such as suspension of business, revocation of our Online Culture Operating License, and/or criminal liabilities in certain circumstances. In addition, hosts on our platform may bear liabilities under Public Security Administration Punishments Law of the PRC (《中華人民共和國治安管理處罰法》) (the “Public Security Administration Law”). For example, if a host violates the Public Security Administration Law by publicly insulting or slandering others in a live streaming session, he or she will be detained for no more than five days or be fined up to RMB500. In serious cases, he or she may be detained for five to 10 days and concurrently be fined up to RMB500. Moreover, as we have limited control over the offline

RISK FACTORS

behavior of our users and hosts, to the extent that such behavior is linked to our platform, our ability to protect our brand image and reputation may be limited. Our business and the public perception of our brand may be materially and adversely affected by misconduct conducted on or linked to our platform.

From time to time, we also receive reports or complaints about inappropriate activities by users or hosts. During the Track Record Period, we were involved in nine incidents with fines imposed by government authorities for inappropriate content displayed on our platform. These incidents were related to sexually suggestive language and/or performance with fines ranging from RMB10,000 to RMB15,247.73 individually and amounting to approximately RMB100,000 in aggregate. These fines were imposed on us after we had identified inappropriate content and reported the hosts to the relevant authorities. We cannot assure you that we will be able to promptly detect all illegal or inappropriate contents displayed on our platform, or that we will not be subject to similar regulatory penalties in the future. We may be subject to fines or other disciplinary actions, including suspension of certain services if we are deemed to not have taken actions to stop user misconduct or the display of inappropriate or illegal content posted by third parties on our platform or distributed to our users. If any of our users suffers or alleges to have suffered physical, financial or emotional harm arising from any contact initiated on our platform, we may face civil lawsuits or other proceedings initiated by the affected user, or governmental or regulatory actions. Defending such actions could be costly and involve significant time and attention of our management and other resources, which could materially and adversely affect our business, financial condition, results of operations and prospects. There can be no assurance that we can detect all illegal or inappropriate content displayed on, retrieved from or linked to our platform or website. If we are held liable for any of the aforementioned incidents in the future, our business, financial condition and results of operations may be materially and adversely affected.

Moreover, the PRC government and regulatory authorities have adopted regulations governing content contained within videos and other information over the internet. Under these regulations, internet content providers are prohibited from posting or displaying the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest, or is obscene, superstitious, fraudulent, violent or defamatory. These laws and regulations are subject to interpretation by the relevant authorities, and it may not be possible to determine in all cases whether certain content is prohibited. Failure to identify and prevent illegal or inappropriate content from being uploaded or streamed on our platform may subject us to liability. If we fail to comply with PRC laws and regulations, we may face fines or other penalties or may lose licenses we need to operate our business and suffer reputational harm, which may materially and adversely affect our business, financial condition, results of operations and prospects.

The majority of content on our platform is live streaming conducted by our hosts, who may use music, images and videos without obtaining licenses or copyrights. It may be particularly challenging for us to monitor for compliance with the relevant intellectual property laws. While we have enforced and continue to enforce a copyright protection and takedown policy consistent with standard industry practice in each of the jurisdictions in which our

RISK FACTORS

products are distributed, we cannot guarantee that we will be able to effectively prevent inappropriate or illegal content from being posted on our platform, or that we can timely identify or remove all the content that may violate relevant laws and regulations or may otherwise harm our reputation or brand image. Our inability to avoid misconducts or contents that are vulgar and sexually suggestive on our platform may not align with the regulatory standards and social morality, and against potential government's policy and directions of the PRC, and subject us to liabilities or regulatory penalties, all of which will adversely impact our brand image, business and results of operation.

We face uncertainties with respect to the enactment, interpretation and implementation of Notice 78.

The NRTA promulgated the Notice 78, which sets forth registration requirements for platforms providing online show live streaming or e-commerce live streaming as well as requirements for real-name registration, limits on user spending on virtual gifting, prohibitions of virtual gifting by minors, live streaming review personnel requirements, content tagging requirements and other requirements. For more information on Notice 78, see "Regulations — Regulations Relating to Online Live Streaming Services." As advised by our PRC Legal Advisor, there is currently no explicit provisions as to what limits on virtual gifting will be imposed by the relevant competent authorities pursuant to Notice 78, and it is unclear how and to what degree any such limits would be imposed on different platforms. Given there is no explicit provisions on how to set the limit on virtual gifting, we have not been able to set such limit on our platform and we are currently not able to assess the impact this requirement under Notice 78 will have on the virtual gifting activities on our platform. Any such limits ultimately imposed may negatively impact our revenues derived from virtual gifting and our results of operations. Notice 78 also sets forth requirements for certain live streaming businesses with respect to, among others, real-name registration and restrictions on minors on virtual gifting. We collect certain information of our hosts and users and have implemented several account registration and identity verification measures. See "Business — Data Security and Privacy." and "Business — Risk Management and Internal Control." However, the PRC government may further tighten the account registration and identity verification requirements for minors or impose a higher standard with respect to the registration and identity verification for all users on our platform in the future. Any such event may deter potential users from registering with our platform, which may in turn adversely affect the growth of our user base and business prospect. Since Notice 78 has been issued quite recently and some of the requirements in Notice 78 are unclear and have no explicit provisions or implementation standards, we are still in the process of getting further guidance from regulatory authorities and evaluating the applicability and effects of the various requirements under Notice 78 on our business. Any further rule-making under Notice 78 or other intensified regulation with respect to live streaming may increase our compliance burden in the live streaming business, and may have an adverse impact on our business and results of operations.

RISK FACTORS

If we fail to obtain requisite approvals, licenses or permits applicable to our business or to comply with applicable laws and regulations, our business, results of operations, financial condition and prospects may be materially and adversely affected.

Our business is subject to governmental supervision and regulation by the relevant PRC government authorities. As the live streaming industry in China is still at a relatively early stage of development, government authorities may from time to time issue new laws, rules and regulations governing these industries, enhance enforcement of existing laws, rules and regulations, and require us to obtain new and additional approvals, licenses or permits. Considerable uncertainties could exist with respect to the interpretation and implementation of existing and future laws and regulations governing our business activities.

As confirmed by our PRC Legal Advisor, we have obtained all material approvals, licenses and permits that are necessary to conduct our business operations from the relevant PRC government authorities, including the Online Culture Operating License (網絡文化經營許可證), the ICP License (增值電信業務經營許可證) and Audio-Visual Permit. As of the Latest Practicable Date, Mijing Hefeng was in the process of renewing its filing with the National Network Audio-Visual Platform Information Registration Management System. As required by the Notice on Promulgation of the Guiding Opinions on Strengthening the Standardized Administration of Online Live-streaming (《關於印發〈關於加強網絡直播規範管理工作的指導意見〉的通知》) and other applicable PRC laws and regulations, live streaming platforms providing online audio-visual program services shall obtain the Audio-Visual Permit or complete the requisite filing procedure. See “Business — License and Regulatory Approvals” and relevant discussion in “Regulation” for details. We may fail to renew these approvals, licenses or permits upon expiration in a timely manner.

In addition, we may be required to obtain additional licenses or permits as a result of our business expansion, change in our operations or change in laws and regulations applicable to us. If we fail to obtain or maintain any of the required licenses or approvals or make the necessary filings, we may be subject to various penalties, such as confiscation of the revenues that were generated through the unlicensed business operations, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, results of operations and financial condition.

Concerns about collection and use of personal data and other privacy-related and data security matters could damage our reputation and dissuade current and potential users from using our products and services.

We receive, store and process personal information and other user data, and utilize security features to monitor users’ interactions and safeguard user data. Despite of our efforts, concerns about collection, use or disclosure of personal information or other privacy-related and data security matters, even if unfounded, could damage our reputation and business operations. The Constitution Law of the PRC, the PRC Criminal Law, the PRC Civil Code and the PRC Cyber Security Law protect individual privacy and personal data security by requiring

RISK FACTORS

the consent of internet users prior to the collection, use or disclosure of their personal data. However, in light of the constantly evolving and potentially more stringent regulatory requirements of cybersecurity and data privacy, and the possible changes in regulations and interpretations, it remains unclear as to how and to what extent such regulatory requirements will apply to us. In particular, on June 10, 2021, the SCNPC promulgated the Data Security Law of People’s Republic of China (《中華人民共和國數據安全法》) (the “Data Security Law”), effective from September 1, 2021. The Data Security Law provides that data processing activities that may affect national security shall be subject to a data security review procedure. On July 6, 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the July Opinion, which called for the enhanced cross-border regulatory cooperation and administration and supervision of overseas-listed China-based companies, and the laws and regulations regarding data security, cross-border data flow and management of confidential information are expected to undergo further changes, which may require increased information security responsibilities and stronger cross-border information management mechanism and process. On August 20, 2021, the SCNPC promulgated the Personal Information Protection Law (《個人信息保護法》) (the “PIPL”), which became effective on November 1, 2021, setting forth detailed rules for handling sensitive personal information. Furthermore, the Ninth Amendment to the Criminal Law of the PRC prohibits the selling or otherwise illegally disclosing a citizen’s personal information, and if such information is obtained during the course of performing duties or providing services, additional penalties could be imposed.

On December 28, 2021, the Cybersecurity Review Measures was released by CAC and other regulatory authorities, which further restates and expands the applicable scope of the cybersecurity review. Pursuant to the Cybersecurity Review Measures, in addition to the procurement of network products and services by critical information infrastructure operators, any data processing activity that affects or may affect national security shall also be subject to the cybersecurity review. In accordance with the Cybersecurity Review Measures, internet platform operators holding personal information of more than one million users must apply to the Cybersecurity Review Office for cybersecurity review when they seek listing in a foreign country. Even though we are not required to proactively apply for the cybersecurity review for our listing in Hong Kong, on the basis that Hong Kong is not a “foreign country” within the meaning of the Cybersecurity Review Measures and that the cybersecurity review for the procurement of network products and services by critical information infrastructure operators shall not be applied to us, as we are not identified as a CIIO as of the date of the prospectus. However, it remains uncertain as to whether the Office of Cybersecurity Review will initiate cybersecurity review *sua sponte*. We strictly protect information provided by users and, under our privacy policy, we will not provide any of our users’ personal information to any third party without consent or otherwise requested by laws and regulations. While we strive to comply with our data and privacy policies as well as all applicable data protection laws and regulations in the PRC and overseas, we may not be able to successfully protect our users’ privacy and data for reasons beyond our control and our protective measures may not be sufficiently effective. Any failure or perceived failure to do so may result in proceedings or actions against us by government entities, users or others, which could damage our reputation and adversely affect our business, financial condition, results of operations and prospects. During the Track Record

RISK FACTORS

Period, certain of our products were deemed collecting and using user information in a non-complaint manner and we were ordered to make rectification within a designated period. We timely made rectification and passed the later review by the governmental authorities. We were not subject to any fines imposed by the regulators for such non-compliance incidents. During the Track Record Period and up to the Latest Practicable Date, other than those as disclosed in “Business — Data Security and Privacy.” there was no governmental investigation, penalty or administrative orders pending against us in relation to unlawful collection and use of user information. Concerns about the security of personal data could also lead to a decline in general internet usage, which could lead to a lower number of registered, active or paying users on our platform.

There are a number of legislative proposals in the European Union and the United States, at both the federal and state level, as well as other jurisdictions that could impose new obligations in areas affecting our business. New laws or regulations concerning data protection, or the interpretation and application of existing consumer and data protection laws or regulations, may be inconsistent with our practices. The introduction of new services or other actions that we may take may subject us to additional laws, regulations, or other government scrutiny. For example, the European Union adopted the General Data Protection Regulation (“GDPR”), which became effective on May 25, 2018. The GDPR imposes additional obligations on companies regarding the handling of personal data and provides certain individual privacy rights to persons whose data is stored. The GDPR requires submission of personal data breach notifications to designated European privacy regulator in each country our business operate in, and includes significant penalties for non-compliance with the notification obligation as well as other requirements of the regulation. Complying with new laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services.

Our business may also be adversely impacted by actions taken by governments in China and overseas in response to alleged data privacy and data security threats. Such government actions and future unfavorable restrictions on the operations of China’s technology companies may limit our opportunities to expand into overseas markets and materially and adversely affect our business.

Our historical performance may not be indicative of our future results, and we may not be able to effectively manage our growth as a result of the increased complexity and evolving nature of our business.

We experienced continuous growth in our revenue during the Track Record Period. We generated revenue of RMB2,830.9 million, RMB3,683.5 million, RMB4,599.7 million, RMB1,801.6 million and RMB2,087.4 million in 2019, 2020, 2021 and the five months ended

RISK FACTORS

May 31, 2021 and 2022, respectively. Although we strive to grow our business, we cannot assure you that our revenues will be able to grow at the same rate as in the past. In addition, as market competition intensifies and our industry matures, our user base and user engagement may not grow as we expected.

Many aspects of our business are unique and evolving. We operate in China's video and audio social entertainment industry, which is relatively new and rapidly developing, and is subject to significant challenges, including increasing government regulation over the internet industry and live streaming industry, and changes in user preferences. As such, we may not be able to predict future market trends and adjust our business accordingly. Our growth prospects should be considered in light of the risks and uncertainties that a company operating in a rapidly evolving industry may encounter, including, among others, risks and uncertainties regarding our ability to:

- retain existing users on, and attract new users to, our platform and increase user engagement;
- develop and deploy diversified and distinguishable virtual items, functions, features and services that are appealing to our users;
- maintain stable relationship with our hosts and their associated talent agencies;
- defend ourselves against litigation, regulatory investigations, and intellectual property, privacy or other claims;
- develop and implement successful monetization measures;
- maintain stable relationship with our business partners, including payment channels, mobile app distribution channels, server and bandwidth providers, and other third-party service providers;
- increase brand awareness through marketing and promotional activities;
- upgrade existing technologies and infrastructure and develop new technologies to support our increasing user traffic, improve the user experience and enhance our product functionality; and
- attract, retain and motivate talented employees.

All of these endeavors involve risks and will require substantial management efforts and significant resources, which could impede our ability to maintain reliable service levels for our users, research and develop products, improve our operations, auditing and human resources

RISK FACTORS

management, and financial and management controls, and enhance our internal data protection systems. If we fail to achieve the necessary operational efficiency as we grow, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We incurred net losses during the Track Record Period, and we may not be able to achieve or maintain profitability in the future.

In 2020, we incurred net losses of RMB1,524.7 million, primarily due to the impact of the recognition of an impairment loss of RMB1,777.7 million in 2020 for the goodwill arising from the Huajiao-6.cn Merger. We cannot assure you that we can achieve or maintain profitability in the future, which will depend on our ability to continuously grow revenues in a cost-effective way. Our ability to grow cost-effectively will primarily depend on our ability to improve our operational efficiency, which may not increase or reach a sufficient level to achieve profitability. Our ability to continue to improve operational efficiency will depend on, among other things, our ability to efficiently attract and retain users, enhance user engagement, manage our operating expenses, in particular with respect to our selling and marketing expenses and research and development expenses, optimize our operations, and achieve greater economies of scale. In particular, our selling and marketing expenses were RMB362.0 million, RMB451.4 million, RMB544.8 million, RMB227.3 million and RMB218.1 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively, representing 12.8%, 12.3%, 11.8%, 12.6% and 10.4% of our total revenue in the same periods, respectively. Our research and development expenses were RMB132.1 million, RMB156.2 million, RMB207.9 million, RMB87.9 million and RMB93.6 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively, representing 4.7%, 4.2%, 4.5%, 4.9% and 4.5% of our total revenue in the same periods, respectively. Our expenditure in marketing initiatives and research and development efforts may turn out to be inefficient and eventually fail to achieve the intended goals, and we may not be able to improve our financial condition as a result. Our ability to improve our financial condition and achieve or maintain our profitability will also depend on various external factors, many of which are beyond our control, such as the healthy development of China's video and audio social entertainment industry.

We may also incur losses in the future due to our continued investment in our marketing initiatives, products and services, and technologies. Changes in the macroeconomic and regulatory environment in China, or the competitive dynamics of our industry, and our inability to respond to these changes in a timely and effective manner may also impact our profitability. Accordingly, we cannot assure you that we will be able to become or remain profitable in the future, and our accumulated losses may adversely affect our overall ability to declare and pay dividends after the Listing.

RISK FACTORS

We incurred impairment charges to our goodwill during the Track Record Period, and we may record impairment losses of goodwill and/or other intangible assets in the future.

Our net loss in 2020 was primarily resulted from impairment loss of goodwill. Goodwill represents the excess of the purchase consideration over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed from the acquired entity as a result of our acquisitions of interests. We recorded goodwill of RMB2,459.5 million, RMB699.8 million, RMB699.8 million and RMB699.8 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. In 2020, we recorded impairment loss of goodwill of RMB1,843.2 million. Due to the business adjustments adopted by Huafang Technology, the operator of *6.cn*, including its strategic focus on attracting hosts and users to its mobile-based live streaming products, *6.cn* experienced a decline in business performance in 2020. As a result, our management made more conservative adjustments when forecasting the financial performance of *6.cn* in 2020. For details, see “Financial Information — Key Components of Our Results of Operations — Impairment Loss of Goodwill.”

We are required to test our goodwill and intangible assets for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired. We may record impairment of goodwill and intangible assets acquired in connection with our acquisitions if the carrying value of our goodwill and intangible assets acquired in connection with our past or future acquisitions are determined to be impaired. Material impairment losses could negatively affect our financial condition and results of operations.

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

We had deferred tax assets of RMB139.0 million, RMB108.2 million, RMB63.8 million and RMB41.1 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. We did not recognize deferred tax assets for cumulative tax losses of RMB10.5 million, RMB123.2 million, RMB144.0 million and RMB158.2 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively, as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entities. See Note 23(b) to the Accountants’ Report in Appendix I to this prospectus for the movements of our deferred tax assets during the Track Record Period.

Our deferred tax assets relate to deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts to the extent that the utilization of such differences and losses against future taxable profits is probable. This requires significant judgment on the tax treatments of transactions and an assessment of the probability that adequate future taxable profits will be available for the deferred tax assets to be utilized. The carrying amount of deferred tax assets is reviewed at the end of each period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. We cannot guarantee we can recover or predict the movement of our deferred tax assets. Failure to recover deferred tax assets may adversely affect our financial position in the future.

RISK FACTORS

We are exposed to risks associated with the fair value change in financial assets measured at fair value and valuation uncertainty regarding the use of unobservable inputs.

We had financial assets at fair value through profit or loss of RMB384.3 million, RMB258.1 million, RMB45.3 million and RMB533.8 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively, which represented our financial products issued by banks. We had financial assets at fair value through other comprehensive income of RMB18.7 million, RMB39.4 million, RMB66.0 million and RMB92.5 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively, which represented our equity investment in certain technology companies. See “Financial Information — Other Financial Assets.” During the Track Record Period, we measured our financial assets at fair value through profit or loss and our financial assets at fair value through other comprehensive income using observable inputs. See Note 25(d) to the Accountants’ Report in Appendix I to this prospectus.

The financial assets decreased by RMB105.5 million and RMB186.2 million in 2020 and 2021, respectively, primarily due to a decrease of RMB126.2 million and RMB212.8 million in financial products issued by banks in the same periods, respectively, as a result of a change in our investment decision from financial products issued by banks to bank deposits. The financial assets increased by RMB515.0 million in the five months ended May 31, 2022, primarily because we utilized more cash and cash equivalents by investing in financial products issued by banks in the five months ended May 31, 2022.

We cannot assure you that we will not have our financial assets at fair value measured using unobservable inputs in the future. We are subject to the risks that any of our counterparties, such as the banks that issued financial products, may not perform their contractual obligations, such as in the event that any such counterparty declares bankruptcy or becomes insolvent. Any material non-performance of our counterparties with respect to the financial products we invested in could materially and adversely affect our financial position and cash flow. Furthermore, the financial products issued by banks are subject to the overall market conditions, including the capital markets. Any volatility in the market or fluctuations in interest rates may reduce our financial position or cash flow, which, in turn, could materially and adversely impact our financial condition. In addition, general economic and market conditions affect the fair value of these financial products.

Additionally, the fair value of our financial products issued by banks and equity investments measured at fair value has been estimated by reference to their recent transaction prices or using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. A variety of factors can significantly influence and cause adverse changes to the assumptions and estimates we use and thereby affect the fair value of our financial products issued by banks and equity investments. These factors include general economic conditions, change in market interest rates and stability of the capital markets. Any of these factors could cause our estimates to vary from actual results and result in the substantial fluctuation in the fair value of our financial products issued by banks and

RISK FACTORS

equity investments. Any material declines in the fair value of our financial assets at fair value and the uncertainty due to the use of unobservable inputs for valuation may have a material adverse effect on our financial condition.

If we fail to perform our contract obligation our liquidity and financial positions may be materially and adversely affected in the future.

Our contract liabilities were RMB66.4 million, RMB79.5 million, RMB85.8 million and RMB83.9 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. Our contract liabilities primarily consisted of pre-payment of top-ups on our platform in connection with our live streaming services, and prepayment made by customers for our advertising services. Contract liabilities would be recognized as revenue upon the rendering of services. Almost all of the contract liabilities balance as of December 31, 2019, 2020 and 2021 and May 31, 2022 was recognized as revenue within one year. See “Financial Information — Contract Liabilities” and Note 19 to the Accountants’ Report in Appendix I to this prospectus. However, if we fail to fulfill our obligations with respect to our contract liabilities, we may not be able to convert such contract liabilities into revenue as expected. Furthermore, if we fail to fulfill our obligations with respect to our contract liabilities, customers or users may request not to prepay us in the future. Any of these circumstances could materially and adversely affect our business, results of operations, cash flow and liquidity condition.

We have incurred and may continue to incur substantial share-based compensation expenses.

We have adopted the employee shareholding ownership platform that permits the grant of restricted shares to our management team and employees. We believe the grant of share-based compensation is important to our ability to attract, retain and motivate our management team and qualified employees. We recognize share-based payments based on the fair value of awarded restricted shares, measured at grant date using the valuation model of Average Asian Option Pricing Model to determine the fair value of the underlying restricted shares, taking into account the terms and conditions upon which the shares were granted. We recorded share-based compensation expenses of RMB19.3 million, RMB18.8 million, RMB84.0 million, RMB20.0 million and RMB13.9 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively. As a result, any additional grant of restricted shares, restricted share units and/or options will further increase our share-based compensation expenses, which may adversely affect our financial performance, and dilute existing shareholders’ shareholding.

We may recognize impairment loss on our prepayments, deposits and other receivables.

We recorded prepayments, deposits and other receivables of approximately RMB55.5 million, RMB75.2 million, RMB138.5 million and RMB139.2 million as of December 31, 2019, 2020, 2021 and May 31, 2022, respectively. During the Track Record Period, our prepayments, deposits and other receivables primarily consisted of (1) prepayment made by us for purchase of streaming services, (2) prepayment to promotion, information technology and legal and other professional services for the Listing, and (3) prepayment to other professional

RISK FACTORS

services. The deposits represented deposits for office leases. Although these financial assets included in the above balances related to receivables had no recent history of material defaults, and as of December 31, 2019, 2020 and 2021 and May 31, 2022, the loss allowance for such balances was approximately RMB156,000, RMB474,000, RMB361,000 and RMB220,000, respectively, we cannot assure you that there would not be any impairment charges on our prepayments, deposits or other receivables in the future. If we record impairment losses on such balances in the future, our business, financial condition and results of operations may be materially and adversely affected.

Heightened tensions in international relations may adversely impact our business, financial condition and results of operations.

Recently there have been heightened tensions in international relations. These tensions have affected both diplomatic and economic ties between affected countries. Heightened tensions could reduce levels of trade, investments, technological exchanges and other economic activities between affected countries. The existing tensions and any further deterioration in the international relationship between China and other countries may have a negative impact on the general economic, political and social conditions in these countries including China, particularly, the potential negative impact of overseas regulatory changes as a result of geopolitical tension, data privacy or other risks. In light of our overseas expansion and operations of social networking business, such negative impact could adversely affect our business, financial condition, and results of operations.

Major app distribution channels may interpret or change their standard terms and conditions in a manner that is unfavorable to us, or terminate their existing relationship with us.

We rely on third-party app distribution channels to distribute our mobile-based apps to users. We expect a substantial number of downloads of our apps will continue to be derived from these distribution channels. As a result, the promotion, distribution and operation of our apps are subject to such distribution platforms' standard terms and policies for app developers, which are subject to the interpretation of, and frequent changes made by, these distribution channels.

Prior to being acquired by us, *Monkey* and *HOLLA* were removed from Apple's App Store in January 2020 for alleged violation of Apple's terms of services, although Apple did not specify the users or content that allegedly violated its terms of services. Due to the removal, from January 2020 to the Latest Practicable Date, *Monkey* and *HOLLA* apps could not be downloaded from the Apple's App Store, but the existing users were still able to access these apps if downloaded prior to the removal. Nonetheless, *HOLLA* and *Monkey* apps remained available on Google Play marketplace when the apps were removed from Apple's App Store. We also developed webpage client for *Monkey* shortly after its removal from Apple's App Store. As of the Latest Practicable Date, *Monkey* and *HOLLA* were available for download from

RISK FACTORS

other app stores and distribution channels. In 2021 and the five months ended May 31, 2022, we generated 2.6% and 3.2% of our total revenues, respectively, from HOLLA Group, which operates our overseas social networking products, including *Monkey* and *HOLLA*.

App distribution channels such as Apple typically have strong bargaining power. Their terms and policies for app developers may be impacted by geopolitics considerations and generally favor the respective app distribution channels. Major app distribution channels have broad discretion in interpreting their terms and policies, and in dealing with alleged instances of non-compliance or violations by app developers. We cannot assure you that our apps will not be removed from the app stores of major app distribution channels in the future, or that such app distribution channels will lift the ban over our apps in a timely manner or at all. In addition, changes to the credit period or the settlement cycle of these distribution channels may materially and adversely affect our cash flow. Disputes with distribution channels, such as disputes relating to intellectual property rights, distribution fee arrangements and billing issues, may also arise from time to time, and we cannot assure you that we will be able to resolve such disputes in a timely manner or at all. Any failure on our part to maintain good relationships with these major app distribution channels could cause the number of downloads and activations of our platform to decrease, which will have a material and adverse effect on our business, financial condition, results of operations and prospects.

We could be adversely affected by applicable sanction laws as a result of our payments received from users located in certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, the United Kingdom, Australia and other relevant sanctions authorities.

The United States and other jurisdictions or organizations, including the United Kingdom, the European Union, the United Nations, and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries.

During the Track Record Period, we received payments through Apple's App Store and Google Play from users of certain apps operated under HOLLA Group that are located in the Sanctioned Countries. These apps are all published and distributed through Apple's App Store and Google Play, which are U.S. platforms. During the Track Record Period, revenues generated from payments received from users located in the Sanctioned Countries accounted for less than 1.0% of our total revenue.

U.S. primary sanctions could apply to us in specific situations, including transactions with or involving a Sanctioned Country or Sanctioned Target. However, as advised by our International Sanctions Legal Adviser, the risk to us for transactions with a Sanctioned Country is small given that (1) we have now implemented internal controls to prevent transactions with a Sanctioned Country or Sanctions Target; (2) the underlying software involved in our apps contains no U.S.-origin content; (3) our apps are published and publicly available without restriction; (4) the distribution of our apps for personal communications and related services

RISK FACTORS

and payments may benefit from the general licenses published by OFAC for internet communications; and (5) the U.S. person involvement in our operations is relatively limited. As further advised by our International Sanctions Legal Adviser, our group companies incorporated in the Cayman Islands and the British Virgin Islands are directly subject to the sanctions regimes of the United Kingdom (which implement the sanctions imposed by the United Nations and by the European Union), however, our business dealings in the Relevant Jurisdictions do not appear to be unlawful under those sanctions regimes nor under those currently implemented in Australia.

While we have implemented internal control measures to minimize, and in many cases eliminate, our risk exposure to International Sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. We cannot provide any assurance that our future business will be free of sanctions risk or our business will conform to the expectations and requirements of the authorities of the United States or any other jurisdictions. Our business and reputation could be adversely affected if the authorities of the United States, the European Union, the United Nations, the United Kingdom, the United Kingdom overseas territories, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of us.

Mr. Zhou, our chairman of the Board, non-executive Director and our controlling shareholder, has been named as the defendant in a putative shareholder class action lawsuit in the United States that could have a material adverse impact on our reputation.

Mr. Zhou, our chairman of the Board, non-executive Director and our controlling shareholder, has been named as one of the defendants in an ongoing securities class action lawsuit filed by certain investors against Qihoo 360 Technology Co. Ltd., a company previously listed on New York Stock Exchange, in which Mr. Zhou held the position of chief executive officer and the chairman of board of directors (the “Qihoo Class Action”). Plaintiffs alleged that shareholders were misled by alleged false and misleading statements in connection with Qihoo 360 Technology Co. Ltd.’s going-private transaction. See “Directors and Senior Management — Board of Directors — Legal Proceedings Involving One Director.” As at the Latest Practicable Date, to the best of our knowledge, the Qihoo Class Action is in the preliminary stage and pending for further procedures, and the relevant court has not ruled on the substance of the plaintiff’s claims in respect of the Qihoo Class Action. We are currently unable to estimate the outcome of this lawsuit or any possible loss or range of loss, if any, associated with the resolution thereof. In the event that the initial defense of this case is unsuccessful, there can be no assurance that Mr. Zhou will prevail in any appeal, which may adversely affect our reputation.

We or our directors or officers may also face similar legal proceedings, claims and investigations in the future. The existence of such proceedings and any adverse outcome thereof, including any plaintiff’s appeal of a judgment, could have a material adverse effect on

RISK FACTORS

our business, reputation, financial condition and results of operations. Resolution of these matters may utilize a significant portion of our resources and divert management's attention from the day-to-day operations, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results.

The success of our business depends on our brand recognition and the market perception of our brand. If we fail to maintain and enhance our brand recognition, our business, results of operations and prospects may be materially and adversely affected.

We market our services primary under the brand of “*Huafang*.” In our overseas market, we conduct our business operations under HOLLA Group. We depend on our reputation and brand image to attract users, hosts and talent agencies and grow our business in an efficient and sustainable manner. Therefore, maintaining and enhancing our brand recognition is critical to the success of our business. From time to time, we conduct marketing activities across various media to enhance our brand, improve public perception of our brand, and promote our new products, services, and businesses. We have invested, and will continue to invest in marketing expenditures to promote our brand, improve public perception, and enhance brand royalty. However, we cannot assure you that these measures will be successfully, or that we will be able to maintain and enhance our brands and remain our leadership position in China's entertainment live streaming industry.

Negative publicity about us, our users, hosts, our business and our management could threaten the perception of our brands. For example, hosts may distribute illicit, false, offensive or controversial content through live streaming notwithstanding our terms of use and our internal policies, which could result in negative comments and complaints, or subject them or us to administrative proceeding and, in serious cases, legal proceedings. In addition, we may also receive negative publicity if users or hosts are involved in any illegal activities, scandals or rumors that are linked to our platform. During the Track Record Period, we had received negative publicity, including negative internet and blog postings, in relation to us, our users and hosts, and content on our platform. Certain of such negative publicity may come from malicious harassment or unfair competition acts by third parties. Any such negative publicity, regardless of veracity, could damage our reputation, cause relevant hosts to lose fans, subject us to government or regulatory investigations, divert our management's attention, or cause us to incur additional other resources. We may not be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Our reputation may also be damaged for many other reasons, including misconduct of our employees or any third parties we conduct business with. As a result of any aforementioned circumstance, our brand recognition may suffer, our operational and financial performance may be adversely affected, and the price of our Shares may decline.

RISK FACTORS

We may be subject to intellectual property infringement claims or other allegations by third parties for information or content displayed on, retrieved from or linked to, our platform, or distributed to our users, or for proprietary information appropriated by former employees, which could be time-consuming and costly and may result in the removal of relevant content from our platform.

We have been and may in the future be subject to intellectual property infringement claims or other allegations by third parties for services we provide or for information or content displayed on, retrieved from or linked to, recorded, stored or made accessible on, our platform, or otherwise distributed to our users, including in connection with the music, images, videos and games played, recorded, stored or made accessible on our platform, which may materially and adversely affect our business, financial condition, results of operations, prospects and reputation. We have entered into an agreement with the Music Copyright Society of China (“MCSC”), which allow us to use music content licensed by the MCSC on our platform. However, we may still be subject to potential copyright infringement claims by third parties in relation to content licensed from the MCSC. There is no guarantee that we will enter into license agreements with other major music copyright owners and operators in China on terms that are satisfactory to us or at all. Even when we are able to enter into license agreements, we cannot guarantee that such agreements will continue to be renewed timely or indefinitely. Additionally, under our agreements with content creators, we have the rights to use the intellectual properties produced by them during their live streams on our platform.

If our hosts play music using their own devices during live streaming, such use of music would not be covered under our agreements with MCSC or other music copyright owners. Under relevant PRC laws and regulations, internet information online service providers which provide storage space for users to upload works or links to content provided by third parties, could be held liable for copyright infringement under various circumstances, including situations where such service provider knows or should reasonably have known that the relevant content uploaded or linked to on its platform infringes upon the copyright of others and such service provider fails to take necessary actions to prevent such infringement. We have implemented procedures to reduce the likelihood that content might be used without proper licenses or third-party consents and to ensure prompt responses and actions to notices from copyright holders requesting removal of infringing content. However, these procedures may not be effective in preventing the unauthorized distribution of copyrighted content and we may be deemed to have failed to take necessary actions against such infringement. Therefore, we may face liability for copyright or trademark infringement, defamation, unfair competition, libel, negligence, and other claims based on the nature and content of the materials that are delivered, shared or otherwise accessed through our platform. In particular, from time to time we may face allegations of unauthorized use of music on our platform. While we have internal control procedures to ensure compliance with the relevant copyright laws and to enforce a copyright protection and takedown policy that complies with applicable laws, we may still be subject to allegations of copyright violations, whether or not such allegations are legitimate. In addition to live streaming, we allow hosts to upload text, graphics, audio, videos and other content to our platform and viewers to access and content on our platform. We have also implemented technological measures to respond to incidents or users’ complaints regarding

RISK FACTORS

intellectual property infringements on our platform, such as infringements on patents and copyrights, held by third parties. Despite our standard procedures, from time to time, we may still be involved in infringement disputes with third parties, as we cannot assure you that content posted by users or hosts do not infringe upon the intellectual property right of other parties, or that we can remove such content from our platform in a timely manner. For example, during the Track Record Period, certain third parties initiated or threatened us with lawsuits alleging copyright infringement claims. Specifically, we were named as the defendant in 16 copyright infringement lawsuits during the Track Record Period and as of the Latest Practicable Date, the total unsettled claim amount of the remaining one lawsuit of copyright infringement by Huafang Technology and Holla Technology pending for final judgment was below RMB1.0 million, calculated based on the maximum amount subject to the claims and potential legal expenses sought from us. While we intend to defend these lawsuits vigorously and believe that we have valid defenses to these claims, there can be no assurance that a favorable outcome will be obtained. During the Track Record Period, the total liability we incurred as a result of these lawsuits was immaterial.

Additionally, some of our employees were previously employed at other companies, including our current and potential competitors. To the extent that these employees were involved in the development of content or technology similar to ours at their former employers, we may become subject to claims that we or such employees have appropriated proprietary information or intellectual property of the former employers of our employees. If we fail to successfully defend such claims, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may incur additional costs in monitoring and detecting content infringement. Furthermore, defending claims is costly and can impose a significant burden on us, and there can be no assurance that favorable final outcomes will be obtained in all cases. Such claims, even if they do not result in liability, may harm our reputation and force us to remove relevant content from our platform and enter into licensing agreements, which may not be available on commercially reasonable terms or at all. Any resulting liability or expenses, or changes to our platform required to reduce the risk of future liability, may have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our business model will continue to evolve, which may not lead to expected results.

Many elements of our business are innovative, evolving and relatively unproven, and we may continue to adjust our business based on the rapidly developing market. Our new business ventures may not achieve the expected result or gain sufficient market acceptance. We may not succeed in monetizing new business ventures. Furthermore, there are few proven methods of projecting user demand or available industry standards on which we can rely. We are also constantly seeking to improve our products and business models. However, our attempts to improve our existing products and services, and develop new products and business models may not be successful and therefore it is relatively difficult to evaluate the growth potential of our business.

RISK FACTORS

Our business depends substantially on our ability to attract, train and retain qualified personnel, as well as the continuing efforts of our management and other key personnel that support our existing operations and future growth. If we lose their services, our operations and growth prospects may be materially and adversely affected.

Our future success is significantly dependent upon the continued service of our senior management and other key employees. If any of our senior management or key personnel becomes unable or unwilling to contribute their services to us, we may not be able to replace them easily or at all, and their departure may impact our existing corporate culture. In addition, they may join a competitor or form a competing company. As a result, our business may be severely disrupted, our results of operations and financial condition may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain qualified personnel with comparable industry know-how and skills. We have entered into employment and non-compete agreements with our senior management and other key personnel, which contain non-solicitation and confidentiality provisions. However, these agreements and provisions do not ensure the continued service of these senior management and key personnel, and we may not be able to enforce these agreements and provisions.

Our existing operations and future growth require a sizeable and qualified personnel. For example, we depend, in part, on our employees to develop and refine technologies utilized in our operations, such as data processing, AI automation and 3D engine technologies, or plan and execute our overseas expansion strategies. We also rely on experienced personnel to anticipate and effectively respond to the changing preferences of users and market trends. Our failure to retain and attract qualified personnel in a timely manner may materially and adversely affect our business, results of operations and financial condition.

Our industry is characterized by high demand and intense competition for talent. In order to attract and retain talent, we may need to offer higher compensation, better trainings, more attractive career trajectory and other benefits to our employees, which may be costly and burdensome. We cannot assure you that we will be able to attract or retain qualified personnel necessary to support our future growth. We may fail to manage our relationship with our employees, and any disputes between us and our employees, or any labor-related regulatory or legal proceedings may divert managerial and financial resources, negatively impact staff morale, reduce our productivity, or harm our reputation and future recruiting efforts. In addition, as our business has grown rapidly, our ability to train and integrate new employees into our operations may not meet the increasing demands of our business. Any of the above issues related to our personnel may materially and adversely affect our results of operations and future growth.

We use third-party online payment service providers to process user payments on our platform, which subject us to payment processing-related risks.

We partially rely on third-party online payment service providers, such as WeChat Pay, Alipay and Apple Pay, to support business transactions and therefore we are subject to certain restrictions by these platforms. We are susceptible to fraud, user data leakage and other illegal

RISK FACTORS

activities in connection with online payment. We do not have control over the security measure of such third-party online payment service providers, and security breaches of such online payment systems could expose us to complaints, litigation, and potential liability for failing to secure confidential customer information, which could damage our reputation.

In addition, we pay interchange and other fees for certain payment channels, which may increase our operating costs and thus reduce our profitability. We are also subject to other general rules, regulations and regulatory requirements governing electronic fund transfer, which may change or be reinterpreted by relevant governmental authorities from time to time. If we fail to comply with these rules, regulations and regulatory requirements, we may be subject to fines, have to pay higher transaction fees, or even lose our ability to process electronic fund transfers, any of which could materially and adversely affect our business, financial condition and results of operations.

Moreover, we cannot predict whether the service providers that we work with may be subject to the supervision of People's Bank of China (the "PBOC"). PBOC may publish rules, guidelines and interpretations from time to time regulating the operation of financial institutions and payment service providers, which may in turn affect how they provide payment services to us. If required by PBOC or other relevant governmental authorities in the future, we may need to adjust or suspend our cooperation model with such payment service providers, and may be subject to fees and other sanctions.

Unauthorized use of our intellectual properties by third parties may harm our brands and reputation, and the expenses incurred in protecting our intellectual property rights may materially adversely affect our business.

We regard our copyrights, trademarks and other intellectual properties as critical to our success, and rely on a combination of trademark and copyright laws, trade secrets protection, restrictions on disclosure and other agreements that restrict the use of our intellectual properties to protect these rights. We also enter into agreements containing confidentiality obligations with our employees and any third parties who may access our proprietary technology and information, and we rigorously control access to our proprietary technology and information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, third parties may independently discover trade secrets and proprietary information, limiting our ability to assert any trade secret rights against such parties.

While we actively take steps to protect our proprietary rights, such steps may not be adequate to prevent the infringement or misappropriation of our intellectual property. In addition, we cannot assure you that any of our trademark applications will ultimately proceed to registration or will result in registration with adequate scope for our business. Some of our pending applications or registrations may be successfully challenged or invalidated by others.

RISK FACTORS

If our trademark applications are not successful, we may have to use different marks for affected products or services, or seek to enter into arrangements with any third parties who may have prior registrations, applications or rights, which might not be available on commercially reasonable terms, if at all.

Implementation of intellectual property laws in worldwide has historically been lacking, primarily because of ambiguities in the laws and difficulties in enforcement. Policing unauthorized use of our proprietary technology, trademarks and other intellectual property is difficult and expensive, and litigation may be necessary to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business and materially and adversely affect our financial condition and results of operations.

Acquisitions, investments or strategic alliances may fail and have a material and adverse effect on our business, reputation and results of operations.

We may in the future enter into strategic alliances with various third parties. Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counterparty and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business. We may have little ability to control or monitor their actions and to the extent strategic third parties suffer negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with such third parties.

In addition, we may acquire additional assets, technologies or businesses that are complementary to our existing business. Future acquisitions and the subsequent integration of new assets and businesses into our own would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not generate the financial or operating results we expect. In addition, acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the incurrence of debt, the incurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business.

Our failure to address these risks or other problems encountered in connection with our future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and expenses and harm our business generally. For example, the Huajiao-6.cn Merger and the acquisitions of Holla Technology and Beijing Lingdong failed to realize the benefits we expected. In particular, we incurred significant impairment on goodwill in connection with Huajiao-6.cn Merger and the acquisition of Holla Technology, which adversely affected our financial condition during the Track Record Period. See “Risk Factors — Risks Related to Our Business — We incurred impairment charges to our goodwill during the Track Record Period, and we may record

RISK FACTORS

impairment losses of goodwill and/or other intangible assets in the future.” If we use our equity securities to pay for acquisitions or investments, we may dilute the value of our Shares. If we borrow funds to finance acquisitions or investments, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends. Such acquisitions and investments may also lead to significant amortization expenses related to intangible assets, impairment charges or write-offs. Moreover, the costs of identifying and consummating acquisitions may be significant. In addition to possible shareholders’ approval, we may also have to obtain approvals and licenses from the government authorities for the acquisitions and comply with applicable laws and regulations, which could result in increased costs and delays.

We may need additional capital, and we may be unable to obtain such capital in a timely manner or on acceptable terms, or at all. Furthermore, our future capital needs may require us to sell additional equity or debt securities that may dilute our Shareholders or result in covenants that may restrict our operations or our ability to pay dividends.

Although we currently have sufficient capital resources to support our operations, we may in the future require additional capital beyond those generated by the Global Offering from time to time to grow our business, including to increase and diversify our product offerings, attract more users and hosts, develop new monetization methods and expand to overseas market, improve our technology infrastructure, or conduct acquisition of complementary businesses and technologies. Accordingly, we may need to sell additional equity or debt securities to raise additional capital. Future issuances of equity or equity-linked securities could significantly dilute our existing Shareholders, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our ordinary shares. The incurrence of debt financing would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our Shareholders.

Our ability to obtain additional capital is subject to a variety of uncertainties, including:

- our market position and competitiveness in the online social entertainment live streaming industry;
- our future profitability, overall financial condition, results of operations and cash flows;
- general market conditions for capital raising activities; and
- economic, political and other conditions in China and internationally.

We may be unable to obtain additional capital in a timely manner or on acceptable terms or at all. If we are unable to obtain adequate financing on terms satisfactory to us when we require it, our ability to continue to support our business growth could be significantly impaired, and our business and prospect could be materially and adversely affected.

RISK FACTORS

Our limited insurance coverage could expose us to significant costs and business disruption.

As of the Latest Practicable Date, we did not maintain any business interruption insurance, litigation insurance, product liability insurance or key man life insurance, which are not mandatory under PRC laws. We do not maintain insurance policies covering damages to our technology infrastructure or our leased properties. Any business disruption, litigation or natural disasters, or any significant damages to our technology infrastructure or facilities may cause to incur substantial costs and divert our resources, and we may have no insurance to cover such losses. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Our technology and operations depend on the performance of the internet infrastructure and fixed telecommunications networks in China, any disruption of or interference with which would adversely affect our business, results of operations and financial condition.

Our technology and operations depend on the performance and reliability of the internet and fixed telecommunications infrastructure in China. Almost all access to the internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. Moreover, we primarily rely on a limited number of telecommunications service providers to provide us with communications capacity through local telecommunications lines and internet data centers to host our servers. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's internet infrastructure or the fixed telecommunications networks. In addition, the national networks in China are connected to the internet through international gateways. These international gateways are the only channels through which a domestic user can connect to the internet and may not sufficiently support the continually growing demand for internet usage. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our platform. We cannot assure you that the internet infrastructure and the fixed telecommunications networks in China can support the demands associated with the continued growth in internet usage. If we cannot increase our capacity to deliver our online services, we may not be able to accommodate the increases in traffic we anticipate from our expanding user base and the adoption of our services may be hindered, which could adversely impact our business and profitability. In the event of disruptions, failures or other problems with internet infrastructure, we or our users may not have access to alternative networks on a timely basis, if at all. Additionally, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be materially and adversely affected. Furthermore, if internet access fees or other charges to internet users increase, some users may be prevented from accessing the mobile internet and thus cause the growth of mobile internet users to decelerate. Such deceleration may adversely affect our ability to continue expanding our user base.

RISK FACTORS

Our technology infrastructure may encounter disruptions or other outages caused by problems or defects in our technologies and systems, such as malfunctions in software or network overload. Incidents of serious network overload may cause laggings for some of our users for a period of several hours each time, and may negatively affect our user experience. Our growing operations will place increasing pressure on our server and bandwidth capacities as we further expand our user base and develop more features and functions. We may encounter problems when upgrading our systems or services and there may be undetected programming errors, which could adversely affect the performance of our operating systems and user experience. Furthermore, our infrastructure is also vulnerable to damages from fires, floods, earthquakes, power loss and telecommunication failures. Any network interruption or inadequacy that causes interruptions to our platform, or failure to maintain the network and server or solve such problems in a timely manner, could reduce our user satisfaction, which in turn, could adversely affect our reputation, user base and our business, financial condition, results of operations and prospects.

Any compromise of the cybersecurity of our platform could materially and adversely affect our business, operations and reputation.

Our products and services involve the storage and transmission of users' and hosts' information, and security breaches expose us to a risk of loss of this information, litigation and potential liability. Historically, we have experienced cyber-attacks of varying degrees from time to time, and we have been able to rectify damages caused by such cyber-attacks without significant impact to our operations in the past. Our security measures may also be breached due to employee error, malfeasance or otherwise. Additionally, outside parties may attempt to fraudulently induce employees, hosts, or users to disclose sensitive information in order to gain access to our data or our users' or hosts' data or accounts, or may otherwise obtain access to such data or accounts. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose users and hosts, and may be exposed to significant legal and financial risks, including legal claims and regulatory fines and penalties. Any of these actions could have a material and adverse effect on our business, reputation and results of operations.

Some of our products and services contain open source software, which may pose a particular risk to our proprietary software products and services and may adversely affect our business.

We use open source software on our platform and will continue to use open source software in the future. There is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide or distribute our services. Additionally, we may face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we developed using such software. These claims could result in litigation and could require us to make our

RISK FACTORS

software source code freely available, purchase a costly license or cease offering the implicated services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional technology and product development resources, and we may not be able to complete it successfully.

Failure to comply with PRC property laws and relevant regulations regarding certain of our leased properties may adversely affect our business, results of operations and financial condition.

According to the PRC Land Administration Law, land in urban districts is owned by the state. The owner of a property built on state-owned land generally possesses the proper land and ownership certificate or other legal documentations to demonstrate that it is the owner of the properties and that it has the right to enter into lease agreements with the tenants or to authorize a third party to sublease the properties. As of the Latest Practicable Date, lessors of some of our leased properties had not provided us with their authorization from the legal owners of the relevant properties to sublease such properties to us. If any of the lessors is not the legal owner or had not been duly authorized by the legal owner, the relevant lease agreements may be deemed invalid and, as a result, we may be challenged by the legal owners of the properties or other third parties, and may be forced to vacate the relevant properties and relocate our offices.

Under the applicable PRC laws and regulations, the parties to a lease agreement are required to register and file such lease agreement with the relevant government authorities. As of the Latest Practicable Date, none of our leased properties had been registered or filed. While as confirmed by our PRC Legal Advisor, the lack of registration will not affect the validity of the lease agreements nor our rights to use or occupy the leased properties under PRC laws and regulations, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which may subject us to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease.

Our results of operations are subject to fluctuations due to seasonality.

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

RISK FACTORS

as a whole may develop, and current seasonal trends may become more extreme, all of which would contribute to fluctuations in our results of operations. As a result, historical patterns of our results of operations may not be indicative of our future performance, and period-to-period comparisons of our results of operations may not be meaningful. Our results of operations in future quarters or years may fluctuate and deviate from the expectations of securities analysts and investors, and any occurrence that disrupts our business during any particular quarters could have a disproportionately material adverse effect on our liquidity and results of operations.

We are subject to anti-corruption, anti-bribery and other laws and regulations, and third-party payment channels we cooperate with are subject to anti-money laundering laws.

We are subject to anti-corruption, anti-bribery and other relevant laws and regulations in China and certain overseas jurisdictions. Although we perform compliance processes and maintain internal control systems, we may be subject to investigations and proceedings by governmental authorities for alleged infringements of these laws and regulations if our processes or systems are not conducted or are not operating properly. These proceedings may result in fines or other liabilities and could have a material and adverse effect on our reputation, business, financial condition, results of operations and prospects. If any of our subsidiaries, operating entities, employees or other persons engage in fraudulent, corrupt or other unfair business practices or otherwise violate applicable laws, regulations or internal controls, we could become subject to one or more enforcement actions or otherwise be found to be in violation of such laws and regulations, which may result in penalties, fines and sanctions and in turn adversely affect our reputation, business, financial condition, results of operations and prospects.

In addition, we currently cooperate with third party payment channels such as WeChat Pay, Alipay and Apple Pay to process payments for us. These third party payment channels are subject to anti-money laundering obligations under applicable anti-money laundering laws and regulations in China, which require them to comply with certain anti-money laundering requirements, including the establishment of a customer identification procedure, the monitoring and reporting of suspicious transactions, the preservation of customer information and transaction records, and the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters. If a third-party payment channel fails to perform its anti-money laundering obligations, it may be subject to fines or other proceedings in accordance with the relevant regulations. We have also adopted internal control measures to fulfill our obligations under applicable anti-money laundering laws, which require us, among others, to cooperate with financial institutions in customer due diligence to fulfill their anti-money laundering obligations, cooperate with anti-money laundering investigations, and maintain transaction records as required by applicable anti-money laundering laws. If any of our third-party payment channel fails to comply with applicable anti-money laundering laws and regulations, or if we are unable to fulfill our obligations under applicable anti-money laundering

RISK FACTORS

requirement, our reputation could suffer and we could become subject to regulatory intervention, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

We face risks related to natural disasters, health epidemics and other outbreaks, such as the COVID-19 pandemic, which could significantly disrupt our operations.

Our business could be adversely affected by the effects of natural disasters, other health epidemics or other public safety concerns. In recent years, there have been other breakouts of epidemics in China and globally. Our operations could be disrupted if one of our employees is suspected of having COVID-19, H1N1 flu, avian flu or another epidemic, since it could require our employees to be quarantined and/or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the PRC economy in general and the video and audio social entertainment live streaming industry in particular.

The worldwide outbreak of COVID-19 pandemic has resulted in significant disruptions in the global economy. Since early 2020, China and certain other regions and countries where we operate have been affected by the COVID-19 outbreak and, in response, governments have implemented, among other measures, restrictions on mobility and travel and cancelation of public activities, to contain the spread of the virus. As a result, our operations have to a certain extent been impacted by delays in business activities, commercial transactions and general uncertainties surrounding the duration of the governments' extended business and travel restrictions. In particular, the travel restrictions resulted in the reduction in size or even cancelation of our offline events, which temporarily affected some of our marketing activities. The COVID-19 outbreak had also resulted in government-imposed lockdowns and workplace closures. Furthermore, a portion of our employees were required to work remotely and our operations in those regions were interrupted to the extent that onsite services of our employees were required. We have taken measures to reduce the impact of this epidemic outbreak, including, upgrading our telecommuting system, monitoring our employees' health on a daily basis and optimizing our technology system to support potential growth in user traffic.

We have experienced increase in the size and engagement of our active user base in 2020. However, any increase in demand for online social and entertainment activities as a result of the lockdown and various social distancing initiatives associated with the COVID-19 outbreak may be temporary and not sustainable. The general concerns and uncertainties about the pandemic and the economy and the overall weakening consumer sentiment may have negatively affected our business.

There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic. These emergency measures have been significantly relaxed by the Chinese government. However, there has been occasional outbreaks of COVID-19 in various cities in China, and the Chinese government may again take additional measures to contain the resurgence of COVID-19. The potential downturn brought by and the duration of the COVID-19 outbreak may be difficult to assess or predict as the actual effects

RISK FACTORS

will depend on many factors beyond our control. While we believe the impact on our business due to the outbreak of COVID-19 was limited, it is difficult for us to quantify the impact and estimate the extent to which the COVID-19 outbreak impacts our long-term results.

We are also vulnerable to natural disasters and other calamities. Although we have servers that are hosted in an offsite location, our backup system does not capture data on a real-time basis and we may be unable to recover certain data in the event of a server failure. We cannot assure you that any backup systems will be adequate to protect us from the effects of fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events. Any of the foregoing events may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide services on our platform. If there is a recurrence of an outbreak of certain contagious diseases or natural disasters, the offline events operated by us may be canceled or delayed. Government advices regarding, or restrictions on holding offline events and travels, in the event of an outbreak of any contagious disease or occurrence of natural disasters may have a material adverse effect on our business and operating results.

Changes in international trade or investment policies and barriers to trade or investment, and the ongoing conflict and emergence of a trade war between the United States and China may have an adverse effect on our business and expansion plans.

International market conditions and the international regulatory environment have historically been affected by competition among countries and geopolitical frictions. Changes to trade policies, treaties and tariffs, or the perception that these changes could occur, could adversely affect the financial and economic conditions in the jurisdictions in which we operate, as well as our overseas expansion, our financial condition, and results of operations. There have been political matters which resulted in increased tensions between China and the United States. In addition, China has implemented, and may further implement, measures in response to new trade policies, treaties and tariffs initiated by the U.S. government. Such measures may further escalate the tensions between the countries or even lead to a trade war. Any further escalation in trade tensions between China and the United States or a trade war, or the perception that such escalation or trade war could occur, may have negative impact on the economies of not only the two countries concerned, but the global economy as a whole. As a result, our business, financial condition, results of operations and prospects would be adversely affected.

Certain of our overseas operations, such as *Monkey*, target users in the United States. While our overseas operations have not been adversely affected by the trade war between China and the United States, if there were any further escalation of tensions between China and the United States or if any further restrictions on internet companies from China were imposed by the United States, our business may be adversely affected. In addition, our potential acquisitions and investments, as well as operations, in the United States may be affected by

RISK FACTORS

heightened regulatory requirements or scrutiny if the current China-U.S. disputes continue to escalate. Furthermore, there is no guarantee that China will not impose any additional U.S.-specific restrictions on top of its existing restrictions.

Our users may suffer from third-party fraud when purchasing our user tokens and our reputation may suffer as a result.

We offer our users multiple official payment channels to purchase our user tokens. However, from time to time, certain third parties may fraudulently claim that users can purchase our user tokens through them. If our users choose to purchase our user tokens from such third parties, they may suffer losses from such fraudulent activities by third parties. Although we are not directly responsible for such fraudulent activities conducted by third parties, are not obligated to compensate and in the past have not compensated users for any such losses, our user experience may be adversely affected and they may choose to leave our platform as a result. Such fraudulent activities by third parties may also generate negative publicity, disputes or even legal claims. The measures we take in response to such negative publicity, disputes or legal claims may be expensive, time-consuming and disruptive to our operations and divert our management's attention.

In the past, we have experienced incidents in which users may have paid for our user tokens through fraudulent methods, including the exploitation of the settlement policies of third-party online payment channels. Although we have implemented authentication mechanisms that help us detect such fraudulent paying methods, we cannot guarantee that our mechanisms will identify and prevent all fraudulent purchases in the future. These fraudulent transactions may cause harm to our financial results and business operations.

Any flaws or misuse of AI technologies, whether actual or perceived, committed by us or by other third parties, could have a material adverse effect on our regulatory compliance and corporate social responsibility record.

AI technologies are at early stages of development and will continue to evolve, and similar to many innovations, AI technologies present risks and challenges. Potential misuse for inappropriate purposes or biased applications, including assigning unequal risk scoring based on racial, cultural background, or gender by third-party service providers or inadvertently by us, may produce biased analysis and discrimination against certain search subjects on our platform, or unfairly target certain groups or group of people using our platform, which may in term breach public confidence in our platform, or violate applicable laws and regulations in China and other jurisdictions. Such misuse, whether actual or perceived, could affect user perception on public opinions on us, undermine our corporate social responsibility record, damage our reputations and materially and adversely affect our business and results of operations.

RISK FACTORS

Our controlling shareholders have substantial influence over our Company and their interests may not be aligned with the interests of our other Shareholders.

As of the Latest Practicable Date, our controlling shareholders, Mr. Zhou, through Mr. Zhou Group, controlled the exercise of approximately 38.21% of voting rights of general meetings of our Company, and Songcheng Performance, through Global Bacchus Limited, controlled the exercise of approximately 37.06% of voting rights of general meetings of our Company. Immediately after the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option or any option granted under the Pre-IPO Share Option Scheme is not exercised), our controlling shareholders will control the exercise of approximately 36.46% and 35.35% of voting rights of general meetings of our Company, respectively. Our controlling shareholders have substantial influence over our business, including matters relating to our management, policies and decisions regarding mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of directors and other significant corporate actions. See “Relationship with Our Controlling Shareholders” for details. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, our controlling shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

We have been involved, and may continue to be involved in legal proceedings or arbitration claims, and the court ruling or arbitration award may not be favorable to us.

We have been involved, and may continue to be involved, in legal proceedings or arbitration claims during the ordinary course of our business, including those in relation to contractual disputes and intellectual property disputes. We may also bring legal proceedings or arbitration claims against others. Such proceedings or claims, regardless of their outcomes, could harm our reputation, divert our management’s attention and cause us to incur a substantial amount of legal expenses. If the outcomes of these legal proceedings are unfavorable to us, we will face legal liabilities and suffer financial or reputational damages, which could materially and adversely affect our business, results of operations and financial condition.

During the Track Record Period, we had brought certain proceedings against certain relevant parties in connection with the Disposal of Beijing Lingdong. See “Business — Legal Proceedings — Lingdong-related Arbitration.” If the outcome of such arbitration proceeding is unfavorable to us, we may be unable to recover damages incurred in connection with the Disposal of Beijing Lingdong and suffer financial loss as a result.

RISK FACTORS

The discontinuation of any preferential tax treatments available to us in China could adversely affect our results of operations and financial condition.

Under PRC tax laws and regulations, certain of our PRC subsidiaries and Consolidated Affiliated Entities enjoyed, or are qualified to enjoy, certain preferential income tax benefits. The modified Enterprise Income Tax Law, effective on December 29, 2018 (the “EIT Law”), and its implementation rules generally impose a uniform income tax rate of 25% on all enterprises, but grant preferential treatment to small low-profit enterprises to enjoy a reduced enterprise income tax rate of 20%, and to high and new technology enterprise to enjoy a reduced enterprise income tax rate of 15%. During the Track Record Period, some of our Consolidated Affiliated Entities and PRC subsidiaries were subject to a preferential income tax rate of 15% and other preferential tax treatment as they were accredited as high and new technology enterprises. In the event the preferential income tax treatment for these Consolidated Affiliated Entities and PRC subsidiaries is discontinued or is not verified by the local tax authorities, and the affected entity fails to obtain preferential income tax treatment based on other qualifications, such entity will become subject to the standard PRC enterprise income tax rate of 25% or it may not be able to claim tax deductible expense, any of which could cause our income tax expenses to increase and have a material adverse effect on our results of operations.

RISKS RELATED TO OUR CORPORATE STRUCTURE

If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities.

We are a company incorporated under the laws of the Cayman Islands, and WFOE, our wholly-owned PRC subsidiary, is considered as a foreign-invested enterprise. The PRC government prohibits foreign investment in internet cultural activities and internet audio-visual program services and restricts foreign investment in value-added telecommunications services businesses. See “Regulations on Value-Added Telecommunications Services,” “Regulations relating to Internet Audio-Visual Program Services,” “Regulations relating to Online Live Streaming Services,” and “Regulations relating to Foreign Investment” in “Regulation.” Due to these restrictions, we conduct our operations in China through our Consolidated Affiliated Entities. Although we do not have any equity interest in our Consolidated Affiliated Entities, we are able to exercise effective control over them and receive substantially all of the economic benefits of their operations through the Contractual Arrangements with our Consolidated Affiliated Entities and their shareholders. For a description of the Contractual Arrangements, see “Contractual Arrangements.”

RISK FACTORS

Our PRC Legal Advisor is of the opinion that our Contractual Arrangements (1) do not violate any explicit provisions of PRC laws, rules or regulations currently in effect and (2) our agreements with the Consolidated Affiliated Entities constitute valid and binding obligations against each party to such agreements in accordance with their terms, except that the dispute resolution provisions of the Contractual Arrangements regarding the remedies that may be awarded by the arbitration tribunal and the power of courts in Hong Kong and the Cayman Islands to grant interim remedies in support of the arbitration may not be recognized or enforced by PRC courts. However, our PRC Legal Advisor also advised us that as there are substantial uncertainties regarding the interpretation and application of the PRC laws, rules and regulations, including those governing our business, or the enforcement and performance of our Contractual Arrangements, there can be no assurance that the PRC government would ultimately take a view that is consistent with the opinion of our PRC Legal Advisor. If the PRC government finds that our Contractual Arrangements do not comply with its restrictions on foreign investment in businesses, or if the PRC government otherwise finds that we, Huafang Technology or any of its subsidiaries are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, would have broad discretion in dealing with such violations or failures, including, without limitation:

- require the nullification of the Contractual Arrangements;
- revoke our business licenses and/or operating licenses or that of our Consolidated Affiliated Entities;
- require us to discontinue our business operations or that of our Consolidated Affiliated Entities, or place restrictions or onerous conditions on such business operations;
- restrict our right to collect revenues;
- shut down all or part of our websites, apps or services;
- levy fines on us and/or confiscate any of our income they deem to be generated from illegal operations;
- impose additional conditions or requirements which we may not be able to comply with;
- require us to undergo costly and disruptive restructurings; and
- take other regulatory or enforcement actions that could be harmful to our business.

RISK FACTORS

The imposition of any of the above-mentioned consequences could result in a material and adverse effect on our ability to conduct our business. In addition, if the imposition of any of these consequences causes us to lose the rights to direct the activities of our Consolidated Affiliated Entities or our right to receive economic benefits from our Consolidated Affiliated Entities, we would no longer be able to consolidate the financial results of our Consolidated Affiliated Entities.

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

On March 15, 2019, the National People’s Congress of the PRC adopted the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “Foreign Investment Law” or “FIL”), which came into force on January 1, 2020. The Foreign Investment Law defines “foreign investment” as investment activity in China conducted directly or indirectly by foreign investors in any of the following manners: (1) the foreign investor, by itself or together with other investors, establishes a foreign-invested enterprise in China; (2) the foreign investor acquires shares, equities, asset tranches, or similar rights and interests in enterprises in China; (3) the foreign investor, by itself or together with other investors, invests and establishes a new project in China; or (4) the foreign investor invests through other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council. On December 26, 2019, the State Council issued the Implementation Regulations for the Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法實施條例》) (the “Implementation Regulations”), which became effective on January 1, 2020. Pursuant to the Implementation Regulations, in the event of any discrepancy between the Foreign Investment law and the Implementation Regulations and relevant requirements for foreign investment promulgated prior to January 1, 2020, the Foreign Investment Law and the Implementation Regulations shall prevail. The Implementation Regulation on the Foreign Investment Law is silent on how to define and regulate variable interest entities, while adding a catch-all clause that “other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council” can fall within the concept of “foreign investment”, which leaves uncertainty as to whether a foreign investor’s control of PRC onshore variable interest entities via contractual arrangements will be recognized as “foreign investment”. Pursuant to the Foreign Investment Law, PRC governmental authorities will regulate foreign investment by applying the principle of pre-entry national treatment together with a “negative list”, which will be promulgated by or promulgated with approval by the State Council. Foreign investors are prohibited from making any investments in industries which are listed as “prohibited” in such negative list; and, after satisfying certain additional requirements and conditions as set out in the “negative list”, are allowed to make investments in the industries which are listed as “restricted” in such negative list. With respect to any foreign investor that fails to comply with such negative list, the competent authorities are entitled to ban its investment activities, require such investor to take measures to correct its non-compliance, and impose other penalties.

RISK FACTORS

The internet cultural activities (except for music related activities), internet audio-visual program services, and value-added telecommunications services that we conduct through our Consolidated Affiliated Entities are subject to foreign investment restrictions or prohibitions as set out in the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) issued by MOFCOM and the NDRC, which became effective on January 1, 2022. It is unclear whether any new “negative list” to be issued under the Foreign Investment Law will be different from such existing list.

However, uncertainties still exist in relation to interpretation and implementation of the Foreign Investment Law, especially in regard to the nature of consolidated affiliated entity contractual arrangements and specific rules regulating the organization form of foreign-invested enterprises within the five-year transition period. We cannot assure you that future laws and regulations will not provide for contractual arrangements as a form of foreign investment in the future. In the event that any possible implementing regulations of the Foreign Investment Law or any other future laws or regulations deem contractual arrangements as a way of foreign investment, our Contractual Arrangements may be deemed as invalid and illegal, and we may be required to unwind the Contractual Arrangements and/or dispose of any affected business. Also, if future laws or regulations mandate further actions to be taken with respect to existing Contractual Arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. If we fail to take appropriate and timely measures to comply with any of these or similar regulatory compliance requirements, our current corporate structure, corporate governance and business operations could be materially and adversely affected.

Our Contractual Arrangement may not be as effective in providing operational control as direct ownership. Huafang Technology or its Registered Shareholders may fail to perform their obligations under our Contractual Arrangement.

Due to the PRC restrictions or prohibitions on foreign ownership of internet and other related businesses in China, we operate a portion of our business in China through our Consolidated Affiliated Entities, in which we have no ownership interest. We rely on the Contractual Arrangements with Huafang Technology and its Registered Shareholders to control and operate their business. The Contractual Arrangements are intended to provide us with effective control over our Consolidated Affiliated Entities and allow us to obtain economic benefits from them. See “Contractual Arrangements” for details.

Although we have been advised by our PRC Legal Advisor that our agreements with the Consolidated Affiliated Entities constitute valid and binding obligations enforceable against each party of such agreements in accordance with their terms, these Contractual Arrangements may not be as effective in providing control over Huafang Technology as direct ownership. If Huafang Technology or its Registered Shareholders fail to perform their respective obligations under the Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. The Contractual Arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from the Contractual Arrangements will be

RISK FACTORS

resolved through arbitration or litigation in China. However, the legal system in China is not as developed as in other jurisdictions. Uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Meanwhile, there are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit our ability to enforce the Contractual Arrangements. In the event we are unable to enforce the Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing the Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate our Consolidated Affiliated Entities in our consolidated financial statements, and our ability to conduct our business may be adversely affected.

As some of our agreements under the Contractual Arrangement may not have fully detailed the parties' rights and obligations, our remedies for a breach of these agreements may not be guaranteed.

Our current relationship with our Consolidated Affiliated Entities and their ultimate shareholders is based on a number of contracts, and the Consolidated Affiliated Entities are considered to be our variable interest entities for accounting purposes. Regardless of our internal control and contract management processes, certain terms of the agreements under the Contractual Arrangement may be statements of general intent and may not have fully detailed the rights and obligations of the parties. These provisions may be subject to different interpretations, particularly in relation to the details of the services to be provided and the price and payment terms. It may be difficult for us to obtain remedies or damages from these affiliated entities or their ultimate shareholders for breaching our agreements. As we rely significantly on these companies for our business, the realization of any of these risks may disrupt our operations or cause degradation in the quality and service provided on, or a temporary or permanent shutdown of our platform.

We may lose the ability to use and enjoy assets held by our Consolidated Affiliated Entities that are material to our business operations if our Consolidated Affiliated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.

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

RISK FACTORS

The Registered Shareholders of Huafang Technology may have conflicts of interest with us, which may materially and adversely affect our business.

Our control over the Consolidated Affiliated Entities is based upon the Contractual Arrangements with Huafang Technology and its Registered Shareholders. The Registered Shareholders may potentially have conflicts of interest with us and breach their contracts or undertaking if it would further their own interest or if they otherwise act in bad faith. We cannot assure you, however, that when conflicts of interest arise, these individuals will act in the best interests of our Company or that conflicts of interest will be resolved in our favor. In the event of any such conflicts of interest, these individuals may breach or cause Huafang Technology to breach or refuse to renew the Contractual Arrangements that allow us to effectively control and receive economic benefits from our Consolidated Affiliated Entities. If we cannot resolve such conflict of interest or dispute between us and such shareholders of Huafang Technology should it arise, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings. These uncertainties may impede our ability to enforce the Contractual Arrangements with Huafang Technology and its Registered Shareholders. If we are unable to resolve any such conflicts, or if we experience significant delays or other obstacles as a result of such conflicts, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and damage our reputation.

The Contractual Arrangements between our WFOE and Huafang Technology may be subject to scrutiny by the PRC tax authorities and may subject our Group to increased income tax due to the different income tax rates applicable to WFOE and Huafang Technology. A finding that we owe additional taxes could negatively affect our financial condition and the value of your investment.

Under the Contractual Arrangements, Huafang Technology is required to pay our WFOE relevant service fees. Our WFOE may adjust the service fee payable by our Huafang Technology at its sole discretion. Such service fee payments reduce our Consolidated Affiliated Entities' taxable income and correspondingly increase the taxable income of our WFOE, which, combined with the different income tax rates applicable to our Consolidated Affiliated Entities and our WFOE, have affected and may continue to affect our results of operations, particularly, our income tax expenses and net profit on a consolidated basis.

Additionally and pursuant to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by PRC tax authorities within ten years after the taxable year when the transactions are conducted. We may be subject to adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements among our WFOE, Huafang Technology and its Registered Shareholders are not on an arm's length basis and therefore constitute favorable transfer pricing. As a result, the PRC tax authorities could require that our Consolidated Affiliated Entities adjust their taxable income upward for PRC tax purposes. Such an adjustment could increase our Consolidated Affiliated Entities' tax expenses without reducing the tax expenses of our WFOE, subject our

RISK FACTORS

Consolidated Affiliated Entities to late payment fees and other penalties for under-payment of taxes, and result in the loss of any preferential tax treatment our WFOE may have. As a result, our consolidated results of operations may be adversely affected.

If we exercise the option to acquire equity ownership and assets of our Consolidated Affiliated Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.

Pursuant to the Contractual Arrangements, our WFOE (or its designee) has the exclusive right to purchase all or any part of the equity interests and/or assets in each of our Consolidated Affiliated Entities from their shareholders at the lowest price permitted by PRC law, for the optioned interests. In the event of such transfer, the competent tax authority may require our WFOE to pay enterprise income tax for ownership transfer income with reference to the market value instead of the price as stipulated under the Contractual Arrangements, in which case our WFOE may be subject to a substantial amount of tax and our financial condition may be materially and adversely affected.

A transfer of shares in some of our Consolidated Affiliated Entities may trigger tax liability.

If we need to cause the transfer of shareholdings in our Consolidated Affiliated Entities from their current respective shareholders to any other individual, we may be required to pay individual income tax in the PRC on behalf of the transferring shareholder. Such individual income tax would be based on any gain deemed to have been realized by such shareholder on such transfer, and may be calculated based on a tax rate of 20% applied to the transferring shareholder's interest in net book value of the entity whose shares are being transferred minus the original investment cost. A significant tax obligation arising from any such transfer of shares could materially and adversely affect our business and results of operations.

RISKS RELATED TO DOING BUSINESS IN CHINA

Adverse changes in the economic, political and social conditions of China could have a material adverse effect our business, results of operations and financial condition.

We derive substantially all of our revenues from our operations in China. As a result, our revenues and net income are impacted to a significant extent by economic, political and social conditions in China and globally, as well as economic conditions specific to online and mobile internet usage and advertising. China's economic conditions are sensitive to global economic conditions. The global financial markets have experienced significant disruptions since 2008 and the United States, Europe and other economies have experienced periods of recession. The global macroeconomic environment is facing new challenges and there is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies. Recent international trade disputes, including tariff actions announced by the United States, the PRC and certain other countries, and the uncertainties created by such disputes may cause

RISK FACTORS

disruptions in the international flow of goods and services and may adversely affect the Chinese economy as well as global markets and economic conditions. There have also been concerns about the economic effect of the military conflicts and political turmoil or social instability in the Middle East, Europe, Africa and other places. The global economy, markets and levels of consumer spending are influenced by many factors beyond our control, including consumer perception of current and future economic conditions, political uncertainty, levels of employment, inflation or deflation, real disposable income, interest rates, taxation and currency exchange rates. Any severe or prolonged slowdown in the global economy may adversely affect the Chinese economy which in turn may adversely affect our business and operating results.

The rate of economic growth in the PRC has been experiencing a slowdown, primarily as a result of the COVID-19 pandemic. In addition, any future escalation of the ongoing trade war between the United States and China, regional or national instability, or ongoing impact of the COVID-19 pandemic may negatively impact the growth in both the Chinese economy and the global economy as a whole. Although the PRC government has implemented a number of measures to address the slowdown, we cannot be certain that these measures will be successful. Any continuing or worsening slowdown could significantly reduce domestic commerce in China, including through the internet generally and within our ecosystem. An economic downturn, whether actual or perceived, a further decrease in economic growth rates, or an otherwise uncertain economic outlook in China or any other market in which we may operate could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Uncertainties and changes in the Chinese legal system could materially and adversely affect our business.

Our business operations are based in China through our WFOE and its subsidiaries and our Consolidated Affiliated Entities, all of which are organized under PRC laws. Our business in China is governed by PRC laws and regulations. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, and forms of foreign investment (including wholly foreign-owned enterprises and joint ventures) in particular. On March 15, 2019, the National People's Congress promulgated the Foreign Investment Law, which comes into effect on January 1, 2020 and replace the trio of laws regulating foreign investment in China. These laws, regulations and legal requirements, including those governing PRC tax matters, are relatively new and amended frequently, and their interpretation and enforcement often raise uncertainties that could limit the reliability of the legal protections available to us. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until the violations have occurred. Furthermore, the PRC administrative and court authorities have significant discretions in interpreting and implementing or enforcing statutory rules and contractual terms,

RISK FACTORS

and it may be more difficult to predict the outcome of administrative and court proceedings and the level of legal protection we may enjoy in China versus other more developed legal systems. These uncertainties may affect our judgment on the relevance of legal requirements and our decisions on the measures and actions to be taken to fully comply therewith, and may affect our ability to enforce our contractual or tort rights. Such uncertainties may result in substantial operating expenses and costs, and any litigation in China may result in diversion of resources and management's attention, and therefore materially and adversely affect our business and results of operations. We cannot predict future developments in the PRC legal system. We may be required to procure additional permits, authorizations and approvals for our operations, which we may not be able to obtain. Our inability to obtain such permits or authorizations may materially and adversely affect our business, results of operations and financial condition.

Regulation of information disseminated over the internet in China may adversely affect our business and subject us to liability for information displayed on, retrieved from or linked to our platform or website or distributed to our users.

The PRC government has adopted certain regulations governing internet access and the distribution of news and other information over the internet. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is obscene, superstitious, fraudulent or defamatory. Failure to comply with these requirements could result in the revocation of ICP License and other required licenses and the closure of the concerned websites. The website operator may also be held liable for such prohibited information displayed on, retrieved from or linked to such website. In addition, the MIIT has published regulations that subject website operators to potential liability for content included on their websites and for the actions of users and others using their websites, including liability for violations of PRC laws and regulations prohibiting the dissemination of content deemed to be socially destabilizing. The Ministry of Public Security has the authority to order any local internet service provider, or ISP, to block any internet website maintained outside China in accordance with the relevant PRC laws and regulations. The State Secrecy Bureau, which is directly responsible for the protection of state secrets of the PRC government, is authorized to block any website it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the dissemination of online information.

As these regulations are subject to interpretation by the relevant authorities and may change over time, it may not be possible for us to determine in all cases the type of content that could result in liability for us as a website operator. In addition, we may not be able to control or restrict the content of other internet content providers linked to or accessible through our platform, or content generated or placed on our platform by our users, despite our attempt to monitor such content. To the extent that regulatory authorities find any portion of the content on our platform objectionable, they may require us to limit or eliminate the dissemination of such information or otherwise curtail the nature of such content on our platform, which may reduce our user traffic and have a material and adverse effect on our financial condition and results of operations.

RISK FACTORS

There are uncertainties associated with PRC laws and regulations on virtual assets, and therefore it is not clear what liabilities, if any, we may have relating to the loss of virtual assets by our users.

While participating on our platform, our users may acquire, purchase and accumulate certain virtual assets, such as gifts or certain statuses and privileges. Such virtual assets can be important to users and have monetary value and, in some cases, can be cashed to actual money. However, virtual assets may become lost for various reasons, often through unauthorized use of the account of one user by other users and occasionally through data loss caused by delays in network service, network crashes or hacking activities. Currently, there are uncertainties associated with PRC laws and regulations on virtual assets. As a result, uncertainties still exist as to who the legal owner of virtual assets is, whether and how the ownership of virtual assets is protected by law, and whether an operator of a platform such as ours would have any liability, whether in contract, tort or otherwise, to users or other interested parties, for loss of such virtual assets. Some recent PRC court judgments ordered certain online platform operators liable for losses of virtual assets by platform users, and have ordered online platform operators to restore the lost virtual items to users or pay damages and losses. In case of a loss of virtual assets, we may be sued by our users and held liable for losses, which may negatively affect our reputation, business, financial condition, results of operations and prospects. We have been involved in virtual items related lawsuits in the past, and we cannot assure you that such lawsuits will not be brought against us again in the future.

Fluctuations in the value of the Renminbi and other currencies may have a material and adverse impact on our results of operations and other comprehensive income or loss, as well as the value of your investment.

As we expand our operations, we expect to incur more expenditures denominated in Renminbi, while the net proceeds from the Global Offering and any dividends we pay on our Shares will be in Hong Kong dollars. Fluctuations in the exchange rate between the Renminbi and the Hong Kong dollar or U.S. dollar may affect the relative purchasing power in Renminbi terms of the proceeds from the Global Offering. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our PRC subsidiaries. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar or U.S. dollar may affect our financial results in Hong Kong dollar or U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and China's foreign exchange regime and policy. The Renminbi has been unpegged from the U.S. dollar since July 2005 and, although the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that the PRC authorities may lift restrictions on fluctuations in Renminbi exchange rates and lessen intervention in the foreign exchange market in the future.

RISK FACTORS

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

Restrictions on the remittance of Renminbi into and out of the PRC and governmental control of currency conversion may limit our ability to utilize our revenues effectively and effect foreign exchange transactions, including our ability to pay dividends and perform other obligations, and may affect the value of your investment.

Currently, the Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE.

Under existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. If we fail to obtain approval from the SAFE to convert Renminbi into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, operating results and financial condition, may be materially and adversely affected.

PRC regulation of loans to and direct investments in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our WFOE and/or our Consolidated Affiliated Entities.

Any funds we transfer to our WFOE, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, the information of capital contributions to our WFOE should be reported to MOFCOM or its local branches and filed with other governmental authorities in China.

RISK FACTORS

Additionally, any foreign loan procured by our WFOE is required to be registered with the SAFE or its local branches, and our WFOE may not procure loans which exceed the difference between its registered capital and its total investment amount as approved by MOFCOM or its local branches. Any medium or long-term loan to be provided by us to our Consolidated Affiliated Entities for a term of over one year must be approved by the NDRC and the SAFE or its local branches. We may not obtain these governmental approvals or complete such registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us to our Consolidated Affiliated Entities. If we fail to receive such approvals or complete such registrations, our ability to use the proceeds of the Global Offering and to capitalize our PRC operations may be negatively affected, which could adversely affect our WFOE's liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE issued the Circular on Performing the Administration Approach regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises ("SAFE Circular 19"). SAFE Circular 19 allows foreign-invested enterprises in China to convert foreign currencies into Renminbi in order to pay their registered capital and make equity investments in Renminbi. However, it still prohibits foreign-invested enterprises from making security market investments, offering entrustment loans and purchasing any investment properties, unless otherwise permitted by other relevant PRC laws and regulations. On June 9, 2016, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account ("SAFE Circular 16"), which reiterates some of the rules set forth in SAFE Circular 19, but changes the prohibition against using Renminbi capital converted from foreign currency-denominated registered capital of a foreign-invested enterprises to issue Renminbi entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. As a result, SAFE Circular 19 and SAFE Circular 16 may restrict our ability to convert, transfer and use the net proceeds from the Global Offering.

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

On August 8, 2006, six PRC regulatory authorities, including the MOFCOM and other government authorities jointly issued the Rules on Mergers and Acquisitions of Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) which was effective as of September 8, 2006 and amended on June 22, 2009 (the "M&A Rules"). The M&A Rules and other regulations and rules concerning mergers and acquisitions established procedures and requirements that could make merger and acquisition activities by foreign investors time consuming and complex. For example, the M&A Rules requires that MOFCOM be notified in advance of any change-of control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (1) any important industry is concerned, (2) such transaction involves factors that have or may have impact on the national economic security, or (3) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the Anti-Monopoly Law promulgated by the SCNPC on August 30, 2007 and effective as of August 1, 2008 requires

RISK FACTORS

transactions which are deemed concentrations and involve parties with specified turnover thresholds (i.e., during the previous fiscal year, (i) the total global turnover of all operators participating in the transaction exceeds RMB10 billion and at least two of these operators each had a turnover of more than RMB400 million within China, or (ii) the total turnover within China of all the operators participating in the concentration exceeded RMB2 billion, and at least two of these operators each had a turnover of more than RMB400 million within China) must be notified and cleared by MOFCOM before they can be completed. In addition, on February 3, 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (“Circular No. 6”), which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Under Circular No. 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns, and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. In August 2011, MOFCOM promulgated the Rules on Implementation of Security Review System (“MOFCOM Security Review Rules”), to replace the Interim Provisions of the Ministry of Commerce on Matters Relating to the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by MOFCOM effective from March 2011 and expired by the end of August 2011, for implementing Circular No. 6. The MOFCOM Security Review Rules, which became effective on September 1, 2011, explicitly provide that MOFCOM will look into the substance and actual impact of the transaction and further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, and obtaining control through contractual arrangements or offshore transactions.

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

The approval of or filing procedure with the CSRC may be required in connection with the Global Offering, and, if required, we cannot predict whether we will be able to obtain such approval.

On December 24, 2021, the CSRC issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) (the

RISK FACTORS

“Draft Administration Provisions”) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (境內企業境外發行證券和上市備案管理辦法(徵求意見稿)) (the “Draft Measures”). The Draft Administration Provisions and the Draft Measures are open for public comments until January 23, 2022. The Draft Administration Provisions and the Draft Measures regulate overseas securities offering and listing activities by domestic enterprises in direct or indirect form. The Draft Administration Provisions specify that the CSRC has regulatory to regulate both direct and indirect overseas offering and listing of PRC domestic companies’ securities, and adopt a filing-based regulatory regime. Overseas offerings and listings that are prohibited by specific laws and regulations, constitute threat to or endanger national security, involve material ownership disputes, the PRC domestic companies, their controlling shareholder or actual controller involving in certain criminal offence, or directors, supervisors and senior management of the issuer involving in certain criminal offence or administrative penalties, among other circumstances, are explicitly forbidden. The Draft Measures provide supplementary rules for the Draft Administration Provisions by specifying the primary filing procedures for overseas securities offerings and listings activities by domestic enterprises in direct or indirect form. If the Draft Administration Provisions and the Draft Measures are fully implemented as-is, we may be required to file in accordance with the Draft Measures. Public consultation for the Draft Administration Provisions and the Draft Measures ended on January 23, 2022. However, the final version and effective date of such regulations are subject to change with substantial uncertainty.

If it is determined in the future that CSRC approval, filing or other procedural requirements are required to be met for and prior to the Global Offering, it is uncertain whether we can or how long it will take us to obtain such approval or complete such procedures and any such approval could be rescinded. Any failure to obtain or delay in obtaining such approval or completing such procedures for the Global Offering, could subject us to sanctions by the relevant PRC governmental authorities. The governmental authorities may impose restrictions and penalties on our operations in the PRC, such as suspension of our operations, stopping the Global Offering, limiting our ability to pay dividends outside of the PRC or taking other actions that could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as the trading price of the Shares. In addition, if the PRC governmental authorities later promulgate new rules or explanations requiring that we obtain their approvals for filings, registrations or other kinds of authorizations for the Global Offering, we cannot assure you that we can obtain the approval, authorizations, or complete required procedures or other requirements in a timely manner, or at all, or obtain a waiver of the requisite requirements if and when procedures are established to obtain such a waiver.

RISK FACTORS

Under the PRC enterprise income tax law, we may be deemed a PRC “resident enterprise,” which could result in unfavorable tax consequences to us and our Shareholders and have a material and adverse effect on our results of operations and the value of your investment.

Under the PRC enterprise income tax law that became effective on January 1, 2008, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject to a uniform EIT tax rate of 25% on its worldwide income. On April 22, 2009, the SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as People’s Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) (the “Circular 82”), which sets out certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Further to the Circular 82, on July 27, 2011, the SAT issued the Administrative Measures of Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (“SAT Bulletin 45”), which became effective on September 1, 2011, to provide more guidance on the implementation of the Circular 82. According to the Circular 82, an offshore-incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be considered a PRC tax resident enterprise by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following conditions are met: (1) the senior management and core management departments in charge of its daily operations function have their presence mainly in the PRC; (2) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (3) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in the PRC; and (4) not less than half of the enterprise’s directors or senior management with voting rights habitually reside in the PRC. SAT Bulletin 45 provides further rules on residence status determination, post-determination administration as well as competent tax authorities procedures.

Although the Circular 82 and SAT Bulletin 45 apply only to offshore-incorporated enterprises controlled by PRC enterprises or PRC enterprise groups and not those controlled by PRC individuals or foreigners, our PRC Legal Advisor has advised us that the determination criteria set out therein may reflect the SAT’s general position on how the term “de facto management body” could be applied in determining the tax resident status of offshore enterprises regardless of whether they are controlled by PRC enterprises, individuals or foreigners. We do not meet all of the conditions set out in the Circular 82. Therefore, we believe that we should not be treated as a “resident enterprise” for PRC tax purposes even if the standards for “de facto management body” prescribed in the Circular 82 applied to us. For example, our minutes and files of the resolutions of our Board of Directors and the resolutions of our Shareholders are maintained outside the PRC. However, the PRC tax authorities may take a different view. If the PRC tax authorities determine that our Cayman Islands holding company or any Hong Kong or BVI subsidiary is a PRC resident enterprise for PRC enterprise income tax purposes, its worldwide income could be subject to PRC tax at a rate of 25%, which

RISK FACTORS

could reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Although dividends paid by one PRC tax resident to another PRC tax resident should qualify as “tax-exempt income” under the enterprise income tax law, dividends paid by our PRC subsidiary to us or any of our Hong Kong or BVI subsidiaries could be subject to a 10% withholding tax if we or any of our Hong Kong or BVI subsidiaries were treated as a PRC resident enterprise. The PRC foreign exchange control authorities, which enforce the withholding tax on dividends, and the PRC tax authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes.

If we are treated as a resident enterprise, non-PRC resident holders of Shares may also be subject to PRC withholding tax on dividends paid by us and PRC tax on gains realized on the sale or other disposition of Shares, if such income is sourced from within the PRC. The tax would be imposed at the rate of 10% in the case of non-PRC resident enterprise holders and 20% in the case of non-PRC resident individual holders. In the case of dividends, we would be required to withhold the tax at source. Any PRC tax liability may be reduced under applicable tax treaties or similar arrangements, but it is unclear whether our non-PRC shareholders would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Although our holding company is incorporated in the Cayman Islands, it remains unclear whether dividends received and gains realized by our non-PRC resident holders of Shares will be regarded as income from sources within the PRC if we are classified as a PRC resident enterprise. Any such tax will reduce the returns on your investment in our Shares.

There are uncertainties with respect to indirect transfers of PRC taxable properties outside a public stock exchange.

We face uncertainties regarding the reporting and consequences of private equity financing transactions, private share transfers, and share exchanges involving the transfer of shares in our Company by non-resident investors. According to the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》), issued by the SAT on February 3, 2015 (“Bulletin 7”), an “indirect transfer” of assets of a PRC resident enterprise, including a transfer of equity interests in a non-PRC holding company of a PRC resident enterprise, by non-PRC resident enterprises (“Indirect Transfer”), may be re-characterized and treated as a direct transfer of PRC taxable properties, if such transaction lacks reasonable commercial purpose and was undertaken for the purpose of reducing, avoiding or deferring PRC enterprise income tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and tax filing or withholding obligations may be triggered, depending on the nature of the PRC taxable properties being transferred. According to Bulletin 7, “PRC taxable properties” include assets of a PRC establishment or place of business, real properties in the PRC, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income tax. When determining if there is a “reasonable commercial purpose” for the transaction arrangement, features to be taken into consideration include: whether the main

RISK FACTORS

value of the equity interest of the relevant offshore enterprise derives from PRC taxable properties; whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable properties have a real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable properties; and the tax situation of such Indirect Transfer outside China and its applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment or place of business of a foreign enterprise, the resulting gain is to be included with the annual enterprise filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to PRC real properties or to equity investments in a PRC resident enterprise, which are not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payer fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the competent tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest.

Currently, Bulletin 7 does not apply to the sale of shares by investors through a public stock exchange where such shares were acquired in a transaction on a public stock exchange. The PRC tax authorities could, at their discretion, adjust any capital gains and impose tax return filing and withholding or tax payment obligations and associated penalties with respect to any internal restructuring, and our PRC subsidiary may be requested to assist in the filing. Any PRC tax imposed on a transfer of our Shares not through a public stock exchange, or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in our Company.

We may rely on dividends paid by our WFOE to fund cash and financing requirements and our Consolidated Affiliated Entities are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements.

We are a holding company incorporated in the Cayman Islands, and we may rely on dividends to be paid to us by our WFOE for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to the holders of our Shares and to service any debt we may incur. If our WFOE incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Under PRC laws and regulations, a wholly foreign-owned enterprise in China, such as our WFOE, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such fund reaches 50% of its registered capital. Any

RISK FACTORS

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

Furthermore, the ability of our WFOE to pay dividends in turn depends on service fees paid by our Consolidated Affiliated Entities pursuant to the Contractual Arrangements. Although our WFOE, our Consolidated Affiliated Entities and their subsidiaries have no plan to pay any dividends in the foreseeable future, if they incur debt on their own behalf in the future, the instruments governing such debt may restrict their ability to pay dividends or make other payments to us, which may restrict our ability to satisfy our liquidity requirements.

In addition, the PRC enterprise income tax law and its implementation rules provide that a withholding tax rate of 10% will be applicable to dividends payable by PRC companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC and governments of other jurisdictions in which the non-PRC-resident enterprises are incorporated. As of May 31, 2022, our WFOE and our Consolidated Affiliated Entities (including their subsidiaries) had not paid any dividends and had no plan to pay any dividends in the foreseeable future.

It may be difficult to effect service of process upon us or our Directors or executive officers who reside in China or to enforce against them in China any judgments obtained from non-PRC courts.

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. We conduct substantially all of our operations in China and substantially all of our assets are located in China. All of our executive Directors and executive officers reside within China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon these individuals, or to bring an action against us or against these individuals in Hong Kong in the event that you believe your rights have been infringed under the Hong Kong laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our Directors and officers. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.

Pursuant to the Notice on Strengthening the Administration on Enterprise Income Tax for Non-Resident Enterprise Equity Transfer (the “SAT Circular 698”) issued by the SAT in December 2009 with retroactive effect from January 1, 2008, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas non-public holding company, and such overseas holding company is located in a tax jurisdiction that (1) has an effective tax rate of less than 12.5% or (2) does not

RISK FACTORS

impose income tax on foreign income of its residents, the non-resident enterprise, being the transferor, must report such Indirect Transfer to the competent tax authority of the PRC resident enterprise. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

On February 3, 2015, the SAT issued the Bulletin 7. Bulletin 7 supersedes the rules with respect to the Indirect Transfer under SAT Circular 698, but does not touch upon the other provisions of SAT Circular 698, which remain in force. Bulletin 7 has introduced a new tax regime that is significantly different from the previous one under SAT Circular 698. Bulletin 7 extends its tax jurisdiction to not only Indirect Transfers set out under SAT Circular 698 but also transactions involving transfer of other taxable assets through offshore transfer of a foreign intermediate holding company. In addition, Bulletin 7 provides clearer criteria than SAT Circular 698 for assessment of reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. Bulletin 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. Where a non-resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10%, for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws and regulations if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

On October 17, 2017, SAT issued the Announcement on Issues Concerning the Withholding of Enterprise Income Tax at Source on Non-PRC Resident Enterprises (《關於非居民企業所得稅源泉扣繳有關問題的公告》) (the “Bulletin 37”), which, among others, repeals the SAT Circular 698 on December 1, 2017. Bulletin 37 further details and clarifies the tax withholding methods in respect of income of non-resident enterprises under SAT Circular 698, and certain rules stipulated in Bulletin 7 are replaced by Bulletin 37. Where the non-resident enterprise fails to declare the tax payable pursuant to Article 39 of the Enterprise Income Tax, the tax authority may order it to pay the tax due within required time limits, and the non-resident enterprise shall declare and pay the tax payable within such time limits specified

RISK FACTORS

by the tax authority; however, if the non-resident enterprise voluntarily declares and pays the tax payable before the tax authority orders it to do so within required time limits, it shall be deemed that such enterprise has paid the tax in time.

There are uncertainties as to the application of Bulletin 7 and Bulletin 37. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or made any formal declaration as to the process and format for reporting an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise. In addition, there are no formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. Bulletin 7 and Bulletin 37 may be determined by the tax authorities to be applicable to previous investments by non-resident investors in our Company, if any, if such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our existing non-resident investors may become at risk of being taxed under Bulletin 7 and Bulletin 37 and may be required to expend valuable resources to comply with Bulletin 7 and Bulletin 37 or to establish that we should not be taxed under Bulletin 7 and Bulletin 37, which may have a material and adverse effect on our financial condition and results of operations or such non-resident investors’ investments in us. We have conducted and may conduct acquisitions involving changes in corporate structures. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our Shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in us.

PRC regulations relating to offshore investment activities by PRC residents may limit our Consolidated Affiliated Entities’ ability to increase their registered capital or distribute profits to us and our ability to reinvest in our Consolidated Affiliated Entities and may otherwise expose us to liability and penalties under PRC law.

In July 2014, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“SAFE Circular 37”), which requires PRC residents or entities to register with the SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by SAFE, local banks will examine and handle foreign exchange registration for

RISK FACTORS

overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015. If our Shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches, our PRC subsidiary may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiary. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws and regulations for evasion of applicable foreign exchange restrictions. However, we may not at all times be fully aware or informed of the identities of all our Shareholders or beneficial owners that are required to make such registrations, and we cannot compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our Shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. Failure by such Shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiary, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, and limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

Inflation in China could negatively affect our profitability and growth.

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

RISKS RELATED TO THE GLOBAL OFFERING

There has been no prior public market for our Shares, and the liquidity and market price of our Shares following the Global Offering may be volatile.

Prior to the Global Offering, there has been no public market for our Shares. The Offer Price for our Shares was the result of negotiations among us and the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Offer Price may differ significantly from the market price for the Shares following the Global Offering. We have applied to list and deal in the Shares on the Stock Exchange. We cannot

RISK FACTORS

assure you that the Global Offering will result in the development of an active, liquid public trading market for the Shares. In addition, the price and trading volumes of the Shares may be volatile. The following factors may affect the trading volume and market price of our Shares:

- actual or anticipated fluctuations in our operating and financial results, such as turnovers, earnings and cash flow;
- changes in earnings estimate or recommendations by financial analysts; general market conditions or other developments affecting us or our industry;
- potential litigation or regulatory investigations;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- the release of lock-up or other transfer restrictions on our outstanding Shares or sales or perceived sales of additional Shares by us or other Shareholders.

Moreover, the securities market has from time to time experienced significant price and volume fluctuations that were unrelated or not directly related to the operating performance of the underlying companies. For example, the recent political unrest and the ongoing and occasionally violent protests ensuing the Hong Kong Legislative Council's proposed amendments to the Fugitive Offenders Ordinance and the Mutual Legal Assistance in Criminal Matters Ordinance and the relevant developments have apparently impacted market sentiment in the Hong Kong capital market. Hang Seng Indexes have experienced significant fluctuations since July 2019. Such fluctuations, whether caused by market, industry or political factors, may have a material and adverse effect on the market price and trading volume of our Shares.

The trading price of our Shares may be volatile, which could result in substantial losses to you.

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performances of and fluctuations in the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatilities in the price and trading volumes of our Shares. A number of China-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards China-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

RISK FACTORS

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

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until five Hong Kong business days after the pricing date. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse development which could occur between the time of sale and the time trading begins.

You will incur immediate and substantial dilution and may experience further dilution in the future.

The Offer Price of the Shares is higher than the net tangible book value per Share immediately prior to the Global Offering. Therefore, purchases of the Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value, and our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience further dilution of their interests if the Underwriters exercise the Over-allotment Option or if we obtain additional capital in the future through equity offerings.

We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return. For details of our intended use of proceeds, see “Future Plans and Use of Proceeds.” However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific use we will make of the net proceeds from this Global Offering.

Any future sales, or perceived sale, of a substantial amount of our Shares in the public market could have a material adverse effect on the prevailing market price of our Shares and our ability to raise capital in the future.

Future sales of a substantial amount of our Shares by our existing Shareholders, or the possibility of such sales, could negatively impact the market price of our Shares from time to time. See “Underwriting — Underwriting Arrangements and Expenses” for a more detailed discussion of restrictions that may apply to future sales of our Shares. After these restrictions lapse, the market price of our Shares may decline as a result of future sales of a substantial amount of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Shares, or the perceptions that such sales or issuances may occur. This could negatively affect the market price of our Shares and our ability to raise equity capital in the future.

RISK FACTORS

We cannot guarantee the accuracy of facts, forecasts and other statistics obtained from official governmental sources or other sources contained in this prospectus.

This prospectus, particularly “Industry Overview,” contains information and statistics relating to our industry. Such information and statistics have been derived from the iResearch Report, which was commissioned by us, and from various official government publications and other publicly available publications. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information from official government sources has not been independently verified by us, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and the Capital Market Intermediaries, any of their respective directors and advisors, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our Shares and trading volume could decline.

The trading market for our Shares may be influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade our Shares, the market price for our Shares would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the market price or trading volume of our Shares to decline.

As we do not expect to pay dividends in the foreseeable future after the Global Offering, you must rely on price appreciation of our Shares for return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings after the Global Offering to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our Shares as a source for any future dividend income.

Our Board of Directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our Shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our Board of Directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may

RISK FACTORS

a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our Board of Directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions, and other factors deemed relevant by our Board of Directors. Accordingly, the return on your investment in our Shares will likely depend entirely upon any future price appreciation of our Shares. There is no guarantee that our Shares will appreciate in value after the Global Offering or even maintain the price at which you purchased the Shares. You may not realize a return on your investment in our Shares and you may even lose your entire investment in our Shares.

Certain judgments obtained against us by our Shareholders may not be enforceable.

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, a majority of our Directors and executive officers reside within China, and most of the assets of these persons are located within China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon these individuals, or to bring an action against us or against these individuals in Hong Kong in the event that you believe your rights have been infringed under the Hong Kong laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our Directors and officers.

Since we are incorporated under the Cayman Islands law, you may face difficulties in protecting your interests, and your ability to protect your rights through Hong Kong courts may be limited.

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our Memorandum of Association and Articles of Association, the Cayman Companies Act and the common law of the Cayman Islands. The rights of Shareholders to take action against the Directors, actions by minority Shareholders and the fiduciary duties of our Directors owed to us under the Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England and Wales, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary duties of our Directors under the Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions. In particular, the Cayman Islands has a less developed body of securities laws than Hong Kong. Hong Kong has more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, the Cayman Islands companies may not have standing to initiate a shareholder derivative action in Hong Kong courts.

RISK FACTORS

Shareholders of Cayman Islands exempted companies like us have no general rights under the Cayman Islands law to inspect corporate records (other than the memorandum and articles of association and any special resolutions passed by such companies, and the registers of mortgages and charges of such companies) or to obtain copies of lists of shareholders of these companies. Under the Cayman Islands law, the names of our current Directors can be obtained from a search conducted at the Registrar of Companies in the Cayman Islands. Our Directors will have discretion under the Memorandum of Association and Articles of Association, to determine whether or not, and under what conditions, our corporate records may be inspected by our Shareholders, but are not obliged to make them available to our Shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a Shareholder resolution or to solicit proxies from other Shareholders in connection with a proxy contest.

As a result of all of the above, our public Shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the Board of Directors or Controlling Shareholders than they would as public shareholders of a company incorporated in Hong Kong. For a discussion of significant differences between the provisions of the Cayman Companies Act and the laws applicable to companies incorporated in Hong Kong and their shareholders, see “Summary of the Articles of Association and Cayman Islands Company Law” in Appendix III to this prospectus.

Waivers have been granted from compliance with certain requirements of the Listing Rules. Shareholders will not have the benefit of the Listing Rules that are so waived. These waivers could be revoked, exposing us and our Shareholders to additional legal and compliance obligations.

We have applied for, and the Stock Exchange has granted to us, a number of waivers from strict compliance with the Listing Rules. See “Waivers from Strict Compliance with the Listing Rules.” There is no assurance that the Hong Kong Stock Exchange or SFC will not revoke any of these waivers granted or impose certain conditions on any of these waivers. If any of these waivers were to be revoked or to be subject to certain conditions, we may be subject to additional compliance obligations, incur additional compliance costs and face uncertainties arising from issues of multijurisdictional compliance, all of which could materially and adversely affect us and our Shareholders.

RISK FACTORS

You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the Global Offering.

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the Global Offering. Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering. Such press and media coverage may include references to certain information that does not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and you should not rely on such information.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The business operations of the Group are mostly located in China. Due to the business requirements of the Group, the executive Director has not been, is not or will not be based in Hong Kong. Our Company considers that it would be impracticable and commercially infeasible to appoint two Hong Kong residents as executive Directors or to relocate the existing executive Director to Hong Kong considering that the operations of our Group are based outside of Hong Kong. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement of Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will adopt, among others, the following measures:

- (1) our Company has appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that we comply with the Listing Rules at all times. These two authorized representatives appointed are Ms. Yu Dan (于丹), the executive Director of our Company and Ms. Lai Janette Tin Yun (賴天恩), joint company secretary of our Company. Each of the authorized representatives will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and e-mail. Each of the two authorized representatives has been duly authorized to communicate on our Company's behalf with the Stock Exchange. The Company will inform the Stock Exchange promptly in respect of any change in its authorized representatives;
- (2) both authorized representatives have means to contact all Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. Our Company will implement a policy whereby (1) the executive Director will provide valid phone numbers or other means of communication to the authorized representatives when they are traveling or out of office; and (2) each Director will provide his mobile phone number, office phone number, e-mail address and, where available, fax number to the Stock Exchange and will inform the Stock Exchange promptly if there are any changes to the contact details of the Directors;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (3) all our executive Director, non-executive Directors and independent non-executive Directors who are not ordinarily resident in Hong Kong have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with relevant members of the Stock Exchange in Hong Kong upon reasonable notice, when required; and
- (4) our Company has appointed Goldlink Capital (Corporate Finance) Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules, who will act as our additional communication channel with the Stock Exchange and will be available to respond to enquiries from the Stock Exchange.

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules and the Stock Exchange's Guidance Letter HKEX-GL108-20 regarding experience and qualification requirement of a company secretary, the company secretary must be an individual who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable: (1) a member of The Hong Kong Chartered Governance Institute; (2) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and (3) a certified public accountant (as defined in the Professional Accountants Ordinance).

In assessing "relevant experience," the Stock Exchange will consider the individual's: (1) length of employment with the issuer and other listed companies and the roles he/she played, (2) familiarity with the Listing Rules and other relevant law and regulations including SFO, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code, (3) relevant training taken and/or to be taken in addition to the minimum requirement of taking not less than fifteen hours of relevant professional training in each financial year under Rule 3.29 of the Listing Rules, and (4) professional qualifications in other jurisdictions.

We have appointed Ms. Lai Janette Tin Yun (賴天恩) and Mr. Jiao Yang (焦陽) as our joint company secretaries. Biographical information of Ms. Lai Janette Tin Yun and Mr. Jiao Yang is set out in the section headed "Directors and Senior Management" in this prospectus. Mr. Jiao Yang is currently our vice president and a joint company secretary of our Company. We have appointed him due to his past management experience within our company and his thorough understanding of our internal administration, business operations and corporate culture. Since Mr. Jiao Yang does not possess a qualification stipulated in Rule 3.28 of the Listing Rules, he is not able to solely fulfill the requirements as a company secretary of a listed issuer stipulated under Rules 3.28 and 8.17 of the Listing Rules. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules in relation to the appointment of Mr. Jiao Yang as our joint company secretary for an initial period of three years commencing from the Listing Date.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Although Mr. Jiao Yang does not possess the specified qualification required by Rule 3.28 of the Listing Rules, the Directors believe that considering Mr. Jiao Yang's past experience in capital market-related affairs and corporate governance matters, he is capable of discharging the functions of a joint company secretary with the assistance of Ms. Lai Janette Tin Yun, the other joint company secretary of our Company who fully complies with the requirements under Rules 3.28 and 8.17 of the Listing Rules. In addition, the principal business activities of the Group are conducted in China. Mr. Jiao Yang, who resides in China, is familiar with and has a thorough understanding of the operations of our internal business and finance. Therefore, we believe that the appointment of Mr. Jiao Yang as a joint company secretary is in our Company's and the Shareholders' best interests and beneficial to our corporate governance.

Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting with the listed issuer as well as its directors in complying with the Listing Rules and other relevant laws and regulations, we have made the following arrangements for the waiver:

- (i) Mr. Jiao Yang will endeavor to attend relevant training courses, including briefing on the latest changes to the applicable Hong Kong laws and regulations as well as the Listing Rules organized by our legal advisor as to the laws of Hong Kong on an invitation basis, and seminars organized by the Stock Exchange or other professional bodies from time to time, in addition to the 15-hour minimum requirement under Rule 3.29 of the Listing Rules;
- (ii) We have appointed Ms. Lai Janette Tin Yun, an associate member of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute in the United Kingdom, who fully complies with the requirements under Rules 3.28 and 8.17 of the Listing Rules to act as the other joint company secretary. Ms. Lai Janette Tin Yun will work closely with and to provide assistance to Mr. Jiao Yang in the discharge of her duties as a company secretary for an initial period of three years commencing from the Listing Date so as to enable Mr. Jiao Yang to acquire the relevant experience (as required under Rule 3.28(2) of the Listing Rules) to discharge the duties and responsibilities as a company secretary; and
- (iii) Mr. Jiao Yang will also be assisted by the Company's compliance advisor and legal advisor as to the laws of Hong Kong on matters in relation to the Company's continuing compliance obligations under the Listing Rules and the applicable laws and regulations.

Such waiver will be revoked immediately if and when Ms. Lai Janette Tin Yun ceases to provide such assistance or if there are material breaches of the Listing Rules by us. We will liaise with the Stock Exchange before the end of the three-year period to enable it to assess whether Mr. Jiao Yang, having had the benefit of Ms. Lai Janette Tin Yun's assistance for three years, will have acquired relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

See the section headed “Directors and Senior Management” in this prospectus for further information of Ms. Lai Janette Tin Yun and Mr. Jiao Yang.

WAIVERS IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions that will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon Listing.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from strict compliance with (1) the announcement, circular and/or independent shareholders’ approval requirements, and/or (2) the annual cap and terms requirement set out in Chapter 14A of the Listing Rules for such continuing connected transactions. Please refer to the section headed “Connected Transactions” for further information.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY STATEMENT

This prospectus, for which the Directors (including any proposed Director who is named as such in this prospectus) collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

UNDERTAKING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Green Application Form set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained in this prospectus and the Green Application Form and on the terms and subject to conditions set out herein and wherein. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters and the Capital Market Intermediaries, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Overall Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to us and the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) agreeing on the Offer Price. An International Underwriting Agreement relating to the International Offering is expected to be entered into on or around Price Determination Date, subject to the Offer Price being agreed.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by us and the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or around Monday, December 5, 2022 or such other date as agreed between parties, and in any event no later than Friday, December 9, 2022.

If, for any reason, the Offer Price is not agreed among us and the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Friday, December 9, 2022, the Global Offering will not proceed and will lapse.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for our Shares are set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the section headed “Structure of the Global Offering” in this prospectus.

COMMENCEMENT OF DEALING IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Monday, December 12, 2022. The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares will be 3611.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Green Application Form in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue and the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any shares which may be issued upon the exercise of any option granted under the Pre-IPO Share Option Scheme.

No part of our Company's share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought on the Stock Exchange or any other stock exchange as of the date of this prospectus. All the Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second settlement day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional advisor for details of those settlement arrangements and how such arrangements will affect their rights and interests.

SHARE REGISTRAR AND HONG KONG STAMP DUTY

Our principal register of members will be maintained by its principal share registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands, and our Hong Kong register of members will be maintained by Tricor Investor Services Limited. All Offer Shares will be registered on the Company's register of members in Hong Kong.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Dealings in the Shares will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisors if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasize that none of our Company, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters and the Capital Market Intermediaries, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

EXCHANGE RATE CONVERSION

Unless otherwise specified, this prospectus contains certain translations for the convenience purposes at the following rates:

HK\$7.8499: US\$1.00

HK\$1.00: RMB0.9044

RMB7.0998: US\$1.00

No representation is made that any amounts in HK\$, RMB and US\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail unless otherwise stated. However, the translated English names of the PRC and foreign national, entities, departments, facilities, certificates, titles, laws, regulations (including certain of our subsidiaries) and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the names in their original languages shall prevail.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
------	---------	-------------

Executive Director

Ms. YU Dan (于丹)	Room 401, Unit 5 Building 1, Jiamei Fashion Center Chaoyang District Beijing, PRC	Chinese
-----------------	---	---------

Non-executive Directors

Mr. ZHOU Hongyi (周鴻禕)	No. 102, Apartment 313 Yanbeiyuan, Peking University Haidian District Beijing, PRC	Chinese
-----------------------	---	---------

Mr. CHEN Shengmin (陳勝敏)	Room 202, Building 5 Ailiyuan Xihu District, Hangzhou Zhejiang Province, PRC	Chinese
-------------------------	---	---------

Mr. ZHAO Dan (趙丹)	900, Yan'an West Road Changning District Shanghai, PRC	Chinese
-------------------	--	---------

Independent Non-executive Directors

Mr. CHEN Weiguang (陳偉光)	Room 502, Unit 2, Building 3 Haiyue Garden Shangcheng District, Hangzhou Zhejiang Province, PRC	Chinese
-------------------------	--	---------

Mr. LI Bing (李冰)	Room 06D, Building 13, Luyincuidi Liantangluosha Road Luohu District, Shenzhen Guangdong Province, PRC	Chinese
------------------	---	---------

Ms. QIAN Aimin (錢愛民)	Room 501, Unit 3, Building 308 Nanhuzhongyuan Chaoyang District Beijing, PRC	Chinese
----------------------	---	---------

Further information is disclosed in the section headed "Directors and Senior Management" in this Prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

(in no particular order)

Haitong International Capital Limited

Suites 3001-3006 and 3015-3016
One International Finance Centre
No. 1 Harbour View Street
Central
Hong Kong

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

Overall Coordinators, Sponsor-overall Coordinators and Joint Global Coordinators

(in no particular order)

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Rd Central
Hong Kong

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

Joint Bookrunners

(in no particular order)

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Rd Central
Hong Kong

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

ABCI Capital Limited

11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Daiwa Capital Markets
Hong Kong Limited**
Level 28, One Pacific Place
88 Queensway
Hong Kong

**Huatai Financial Holdings
(Hong Kong) Limited**
62/F, The Center
99 Queen's Road Central
Central
Hong Kong

Tiger Brokers (HK) Global Limited
1/F, FWD Financial Centre
308 Des Voeux Road Central
Hong Kong

Valuable Capital Limited
2808, 28/F, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Zhongtai International Securities Limited
19th Floor
Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Joint Lead Managers
(in no particular order)

**Haitong International Securities Company
Limited**
22/F, Li Po Chun Chambers
189 Des Voeux Rd Central
Hong Kong

CCB International Capital Limited
12/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

ABCI Securities Company Limited
10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Daiwa Capital Markets Hong Kong Limited

Level 28, One Pacific Place
88 Queensway
Hong Kong

Eddid Securities and Futures Limited

21/F, Citic Tower
1 Tim Mei Avenue
Central
Hong Kong

Huatai Financial Holdings (Hong Kong) Limited

62/F, The Center
99 Queen's Road Central
Central
Hong Kong

Tiger Brokers (HK) Global Limited

1/F, FWD Financial Centre
308 Des Voeux Road Central
Hong Kong

Valuable Capital Limited

2808, 28/F, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Zhongtai International Securities Limited

19th Floor
Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Capital Market Intermediaries

(in no particular order)

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Rd Central
Hong Kong

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

ABCI Capital Limited

11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

ABCI Securities Company Limited

10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

Daiwa Capital Markets Hong Kong Limited

Level 28, One Pacific Place
88 Queensway
Hong Kong

Eddid Securities and Futures Limited

21/F, Citic Tower
1 Tim Mei Avenue
Central
Hong Kong

Huatai Financial Holdings (Hong Kong) Limited

62/F, The Center
99 Queen's Road Central
Central
Hong Kong

Tiger Brokers (HK) Global Limited

1/F, FWD Financial Centre
308 Des Voeux Road Central
Hong Kong

Valuable Capital Limited

2808, 28/F, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Zhongtai International Securities Limited

19th Floor
Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal Advisors to our Company

as to Hong Kong and U.S. law:

Wilson Sonsini Goodrich & Rosati

Suite 1509, 15/F, Jardine House
1 Connaught Place
Central
Hong Kong

as to PRC law:

King & Wood Mallesons

18/F, East Tower, World Financial Center
1 Dongsanhuan Zhonglu
Chaoyang District, Beijing
China

as to Cayman Islands law:

Maples and Calder (Hong Kong) LLP

26/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Legal Advisors to the Joint Sponsors and Underwriters

as to Hong Kong and U.S. law:

O'Melveny & Myers

31/F, AIA Central
1 Connaught Road Central
Hong Kong

as to PRC law:

Haiwen & Partners

20/F, Fortune Financial Center
5 Dongsanhuan Zhonglu
Chaoyang District, Beijing
PRC

Auditor and Reporting Accountants

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Industry Consultant**Shanghai iResearch Co., Ltd.**

3/F, Building H
Xuhui Wanke Center
No. 9333 Humin Road
Xuhui District
Shanghai
PRC

Receiving Banks**Bank of China (Hong Kong) Limited**

1 Garden Road
Hong Kong

**China Construction Bank (Asia)
Corporation Limited**

26/F, CCB Tower
3 Connaught Road Central
Central, Hong Kong

CORPORATE INFORMATION

Registered office	Tricor Services (Cayman Islands) Limited Second Floor, Century Yard Cricket Square P.O. Box 902, Grand Cayman KY1-1103 Cayman Islands
Principal place of business in Hong Kong	5/F, Manulife Place 348 Kwun Tong Road, Kowloon Hong Kong
Headquarters and principal place of business in the PRC	Building 5, Yard 6 Jiuxianqiao Road Chaoyang District Beijing, PRC
Company website address	<u>www.huafang.com</u> <i>(Information contained in this website does not form a part of this prospectus)</i>
Joint company secretaries	Ms. Lai Janette Tin Yun (賴天恩) <i>(an associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom)</i> 5/F, Manulife Place 348 Kwun Tong Road, Kowloon Hong Kong Mr. JIAO Yang (焦陽) Building 5, Yard 6 Jiuxianqiao Road Chaoyang District Beijing, PRC
Authorized representatives	Ms. YU Dan (于丹) Room 401, Unit 5 Building 1, Jiamei Fashion Center Chaoyang District Beijing, PRC Ms. LAI Janette Tin Yun (賴天恩) 5/F, Manulife Place 348 Kwun Tong Road, Kowloon Hong Kong

CORPORATE INFORMATION

Audit committee	Ms. QIAN Aimin (錢愛民) (Chairman) Mr. LI Bing (李冰) Mr. CHEN Shengmin (陳勝敏)
Remuneration committee	Mr. CHEN Weiguang (陳偉光) (Chairman) Ms. QIAN Aimin (錢愛民) Ms. YU Dan (于丹)
Nomination committee	Mr. ZHOU Hongyi (周鴻禕) (Chairman) Mr. CHEN Weiguang (陳偉光) Mr. LI Bing (李冰)
Compliance advisor	Goldlink Capital (Corporate Finance) Limited
Principal share registrar and transfer office	Maples Fund Services (Cayman) Limited PO Box 1093, Boundary Hall, Cricket Square Grand Cayman KY1-1102 Cayman Islands
Hong Kong share registrar and transfer office	Tricor Investor Services Limited 17/F, Far East Finance Centre 16 Harcourt Road Hong Kong
Principal bank	China Merchants Bank Co., Ltd. Beijing Century City Sub branch No. 1 Chuihong Garden, Indigo Factory Haidian District Beijing, PRC

REGULATION

PRC REGULATORY FRAMEWORK

The Group's operations are subject to laws and regulations issued by various PRC government authorities. This section sets forth a summary of the most significant laws and regulations applicable to our business and operations in China, but as the short video and live streaming industries are still evolving in China, new laws and regulations may be adopted to require new licenses or permits in addition to those we currently have.

REGULATIONS ON VALUE-ADDED TELECOMMUNICATIONS SERVICES

Licenses for Value-added Telecommunications Services

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the "Telecommunications Regulations"), promulgated by the State Council on September 25, 2000 and last amended with immediate effect on February 6, 2016, provide the regulatory framework for telecommunications service providers in the PRC. The Telecommunications Regulations classifies telecommunications services into basic telecommunications services and value-added telecommunications services. Providers of value-added telecommunications services are required to obtain a license for value-added telecommunications services. According to the Catalog of Telecommunications Services (《電信業務分類目錄》), last amended by the MIIT on June 6, 2019, information services provided via public communication network for the internet are value-added telecommunications services.

As a subcategory of the value-added telecommunications services, internet information services are regulated by the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the "Internet Measures"), which was promulgated by the State Council on September 25, 2000 and last amended with immediate effect on January 8, 2011. Internet information services are defined as "services that provide information to online users through the internet". The Internet Measures classifies internet information services into commercial internet information services and non-commercial internet information services. Commercial internet information service providers shall obtain an ICP License from appropriate telecommunications authorities. An ICP License has a term of five years and can be renewed 90 days prior to its expiration, according to the Administrative Measures on Telecommunications Businesses Operating Licensing (《電信業務經營許可管理辦法》), which was promulgated by the MIIT on March 1, 2009, amended on July 3, 2017 and came into effect on September 1, 2017.

Furthermore, the content of the internet information is highly regulated in China. According to the Internet Measures, violators may be subject to penalties, including criminal sanctions, for providing internet content that opposes the fundamental principles stated in the PRC Constitutions; compromises national securities, divulges national secrets, subverts national power or damages national unity; harms national dignity or interest; incites ethnic hatred or racial discrimination or damages inter-ethnic unity; undermines the PRC's religious policy or propagates superstition; disseminates rumors, disturbs social order or disrupts social

REGULATION

stability; disseminates obscenity or pornography, encourages gambling, violence, murder or fear or incites the commission of a crime; insults or slanders a third party or infringes upon the lawful rights and interests of a third party; or is otherwise prohibited by law or administrative regulations.

Internet information service providers are required to monitor their websites. They may not post or disseminate any content that falls within prohibited categories and must stop providing any such content on their websites. The PRC government may order ICP License holders that violate any of the above-mentioned content restrictions to correct those violations and revoke their ICP Licenses under serious conditions.

Restrictions on Foreign Investment in Value-Added Telecommunications Services

The Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) was promulgated by the State Council on December 11, 2001 and last amended with immediate effect on February 6, 2016. The regulations require the foreign investors to establish Sino-foreign joint ventures in order to provide value-added telecommunications services in China and the foreign investors may acquire up to 50% of the equity interest in the joint venture. In addition, the main foreign investor who invests in such an enterprise shall demonstrate a good track record and experience in such industry. Moreover, the joint ventures must obtain approvals from the MIIT and MOFCOM, or their authorized local counterparts, before launching the value-added telecommunications business in China.

The Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the “2021 Negative List”), was promulgated by the NDRC and MOFCOM jointly on December 27, 2021 and came into effect on January 1, 2022. According to the 2021 Negative List, the proportion of foreign investments in an entity engages in value-added telecommunications business (except for e-commerce, domestic multi-party communications, storage-forwarding and call centers) shall not exceed 50%.

Pursuant to the Ministry of Information Industry Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Services (《信息產業部關於加強外商投資經營增值電信業務管理的通知》) (the “MII Notice”), issued by the Ministry of Information Industry (the “MII” which is the predecessor of the MIIT) on July 13, 2006, domestic value-added telecommunications enterprises were prohibited to rent, transfer or sell licenses for value-added telecommunications services to foreign investors in any form, or provide any resources, premises, facilities or other assistance in any form to foreign investors for their illegal operation of any value-added telecommunications business in China. Furthermore, under the MII Notice, the internet domain names and registered trademarks used by a foreign-invested value-added telecommunications services operator shall be legally owned by that operator (or its shareholders).

REGULATION

Pursuant to the New Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), which has come into force on May 1, 2022, the qualification requirements for the main foreign investor of a foreign-invested telecommunications enterprise are removed. As of the Latest Practicable Date, the New Regulations for the Administration of Foreign-Invested Telecommunications Enterprises had just become effective, and due to the lack of further clarifications, there are still uncertainties regarding the interpretation and implementation of the New Regulations for the Administration of Foreign-Invested Telecommunications Enterprises.

Restrictions on Commercial Performance Agency Services

According to the Regulations for the Administration of Commercial Performances (《營業性演出管理條例》) amended by State Council on November 29, 2020, individual performers engaging in commercial performance as a profession and individual performance brokers engaging in such activities as intermediary and agency for commercial performance as a business shall obtain a business license from the industry and commerce administrative department.

Within 20 days upon obtaining a business license, an individual performer or individual performance broker shall go through the archival filing procedures with the culture administrative department of the local people's government at the county level.

REGULATIONS RELATING TO INTERNET AUDIO-VISUAL PROGRAM SERVICES

The Internet Culture Provisions, promulgated by the MOC on May 10, 2003 and last amended with immediate effect on December 15, 2017, provides that internet culture activities are classified into non-commercial internet cultural activities and commercial internet culture activities. Under the Internet Culture Provisions, internet culture activities include: (1) the production, reproduction, importation, distribution or streaming of internet culture products (such as online music, online game, online program, online series, online performance, online cartoon, etc.); (2) online communication activities of publishing cultural products on internet, or sending cultural products via information network such as the internet and mobile communication network to such clients as computers, fixed telephones, mobile telephones, televisions, game players, etc. as well as internet cafes and other internet access service business places for users to browse, enjoy, use or download; and (3) the exhibitions, competitions and other similar activities concerning internet culture products. To conduct commercial internet culture activities, ICP License is a prerequisite.

On April 13, 2005, the State Council promulgated Decisions on the Entry of the Non-state-owned Capital into the Cultural Industry (《關於非公有資本進入文化產業的若干決定》). On July 6, 2005, five PRC regulatory agencies, namely, the MOC, State Administration of Radio, Film and Television (the "SARFT", which is the predecessor of the NRTA), the General Administration of Press and Publication, the NDRC and the MOFCOM, jointly adopted Opinions on Introducing Foreign Investments to the Cultural Sector (《關於文化領域引進外資的若干意見》). According to the above-mentioned regulations, non-state-owned

REGULATION

capital and foreign investors are generally not allowed to conduct the business of transmitting audio-visual programs via information network. In addition, internet cultural business (excluding music) remains a prohibited area for foreign investment on the 2021 Negative List.

According to the Administrative Regulations on Internet Audio-Visual Program Service (《互聯網視聽節目服務管理規定》) (the “Audio-Visual Regulations”), promulgated by the SARFT and the MII on December 20, 2007, as amended on August 28, 2015, internet audio-visual program service refers to activities of making, editing and integrating audio-visual programs, providing them to the general public via internet, and providing such services to other people by uploading. An internet audio-visual program service provider shall obtain an Audio-Visual Permit issued by the SARFT or complete certain registration procedures with the SARFT. On March 30, 2009, the SARFT promulgated the Notice on Strengthening the Administration of the Content of Internet Audio-Visual Programs (《關於加強互聯網視聽節目內容管理的通知》), which reiterates the pre-approval requirements for the internet audio-visual programs, including those on mobile network (if applicable), and prohibits internet audio-visual programs containing violence, pornography, gambling, terrorism, superstition or other prohibited elements. The State Administration of Press, Publication, Radio, Film and Television (the “SAPPRFT”) issued the Supplemental Notice on Improving the Administration of Online Audio-visual Content Including Internet Drama and Micro Films (《關於進一步完善網絡劇、微電影等網絡視聽節目管理的補充通知》) on January 2, 2014. This notice stresses that entities producing online audio-visual content, such as internet drama and micro films, must obtain a permit for radio television program production and operation, and that online audio-visual content service providers shall not release any internet drama or micro films that were produced by any entity lacking such permit. For internet drama or micro films produced and uploaded by individual users, the online audio-visual service providers transmitting such content will be deemed responsible as a producer. Further, under this notice, online audio-visual service providers can only transmit content uploaded by individuals whose identity has been verified and such content shall comply with the relevant content management rules. This notice also requires that online audio-visual content, including internet drama and micro films, to be filed with the relevant authorities before release.

Pursuant to the Audio-Visual Regulations, providers of internet audio-visual program services are generally required to be either state-owned or state-controlled. According to the Official Answers to Press Questions Regarding the Internet Audio-Visual Program Regulations (《就<互聯網視聽節目服務管理規定>答記者問》) published on the SARFT’s website on February 3, 2008, the SARFT and MII clarified that providers of internet audio-visual program services who had legally engaged in such services prior to the adoption of the Audio-visual Regulations shall be eligible to re-register their businesses and continue their operations of internet audio-visual program services so long as those providers have not been in violation of the laws and regulations. This exemption will not be granted to internet audio-visual program service providers established after the adoption of the Audio-Visual Regulations. These policies have later been reflected in the Notice on Relevant Issues Concerning Application and Approval of Audio-Visual Permit (《關於做好<信息網絡傳播視聽節目許可證>申報審核工作有關問題的通知》), issued by SARFT on May 21, 2008 and amended on August 28, 2015.

REGULATION

According to the Administrative Provisions on Online Audio-visual Information Services (《網絡音視頻信息服務管理規定》), promulgated jointly by the CAC, the MCT and the NRTA on November 18, 2019, online audio-visual information service providers shall authenticate user's real identity information based on organization code, identity card number, mobile phone number, etc. Online audio-visual information service providers shall not serve users who fail to provide their real identity information. Online audio-visual information service providers shall strengthen the management of the audio-visual information posted by users, deploy and apply identification technologies for illegal and non-real audio and video; if any user is found to produce, post or disseminate content prohibited by laws or regulations, the transmission of such information shall be ceased, and disposal measures such as deletion shall be taken to prevent the information from spreading, and such service providers shall save relevant records, and report to the CAC, the MCT, the NRTA, etc.

Under the Regulations on the Administration of Production of Radio and Television Programs (《廣播電視節目製作經營管理規定》), promulgated by the SARFT on July 19, 2004, and amended on October 29, 2020, any entities that engage in the production of radio and television programs are required to apply for a license from the SARFT or its local level counterparts. Entities with the Radio and Television Production Operation License shall conduct their operations strictly within the approved scope of production and operation. Except for radio and television broadcasting institutions, the abovementioned permit holders shall not produce radio and television programs concerning current political news or special topics, columns and other programs of the same kind.

On June 15, 2021, the CAC launched a “Fan Group Chaos Rectification” special action, followed by the issuance of the Notice on Further Strengthening the Management of Chaos in Fan Groups (《關於進一步加強“飯圈”亂象治理的通知》) on August 25, 2021. Both of the special action and notice are intended to rectify chaos in online fan groups for celebrities, specifically, in features such as celebrity rankings, hot topics, fan communities, and fans interactive functions, so as to curb verbal abuse, stigmatization, instigation, confrontation, insults, slander, rumors, malicious marketing and the spread of other harmful information. This notice requested, among other things, the cancelation of all rankings of celebrities. The rankings of music, film and television works are still allowed, but the network platforms should optimize and adjust ranking rules to focus on the art works themselves and professional evaluation. Also, it is not allowed to encourage fans' consumption, among others, by displaying information such as fans' personal purchase amount and contribution value, or ranking the amount of products purchased by fans. Furthermore, minors are not allowed to make virtual gifting or spending money on supporting idols, or act as the organizer or manager of a fan group.

REGULATIONS RELATING TO ONLINE LIVE STREAMING SERVICES

On November 4, 2016, the CAC issued the Internet Live Streaming Service Management Regulations (《互聯網直播服務管理規定》) (the “Online Live Streaming Regulations”), which came into effect on December 1, 2016. According to the Online Live Streaming Regulations, all online live streaming service providers shall take various measures during

REGULATION

operation of live streaming services, including but not limited to: (1) establish platforms for reviewing live streaming content, conducting classification and grading management according to the online live streaming content categories, user scale and others, add tags to graphics, video, audio or broadcast tag information for platforms; (2) conduct verification on online live streaming users with valid identification information (e.g., authentic mobile phone numbers) and validate the registration of online live streaming publishers based on their identification documents (such as identity documents, business licenses and organization code certificates); (3) examine and verify the authenticity of the identification information of online live streaming service publishers, classify and file such identification information records with the internet information offices at the provincial level where they are located and provide such information to relevant law enforcement departments upon legal request; (4) enter into a service agreement with the users of online live streaming services of which the essential clauses shall be under guidance of internet information offices at the provincial level, to clarify the rights and obligations of the parties and require them to comply with the laws, regulations and platform conventions; and (5) establish a credit-rating system and a blacklist system, to provide management and services according to such credit rating, prohibit re-registration of accounts by online live streaming service users on the black list and promptly report such users to relevant internet information offices.

According to the Online Live Streaming Regulations, online live streaming service providers and online live streaming publishers that provide internet news information services without licenses, or exceed the scope of their licenses, shall subject to punishment by the CAC and its provincial counterparts which may include an order to cease such services and a fine of RMB10,000 to RMB30,000. Other violations of the Online Live Streaming Regulations are subject to punishment by the national and local internet information offices; if such violations constitute crime offense, criminal investigations or penalties may be imposed.

On September 2, 2016, the SAPPRFT issued the Circular on Issues concerning Strengthening the Administration of Online Live Streaming of Audio-Visual Programs (《關於加強網絡視聽節目直播服務管理有關問題的通知》) (the “Online Live Streaming Circular”). According to the Online Live Streaming Circular, appropriate Audio-Visual Permit is a prerequisite for online audio-visual live streaming of general cultural events of social communities, sports events, important political, military, economic, social, and cultural events. Relevant information about specific activities to be streamed shall be filled in advance to the provincial counterparts of the SAPPRFT. Online audio-visual live streaming service providers shall censor and tape such programs and retain them for at least 60 days for future check by the administrative departments; and they shall have emergency plan in place to replace programs in violation of laws and regulations. Bullet-screen comments shall be forbidden in the live streaming of important political, military, economic, social, sports and cultural events. Special censor shall be appointed for bullet-screen comments in the live streaming of general cultural events of social communities and sports events. Hosts, guests and targets hired or invited by online audio-visual live streaming programs shall meet following requirements: (1) patriotic and law-abiding; (2) good public reputation and social image, no scandals and misdeeds; (3) dress, hairstyle, language and actions are consistent with public order and good morals, and not drawing topics with vulgar contents or contents inappropriate to discuss in public.

REGULATION

On August 1, 2018, the MIIT, the Ministry of Public Security (the “MPS”), the MCT, the NRTA, the CAC and the office for “eliminating pornography and illegal publications” jointly promulgated and implemented the Notice on Tightening the Administration of Online Live-streaming Services (《關於加強網絡直播服務管理工作的通知》), the Notice pointed out that to strengthen the administration of licensing and record-filing of online live-streaming services, online live-streaming services providers shall fulfill the website ICP filing formalities with the competent department for telecommunications according to the law. Online live-streaming services providers involved in the operation of telecommunications services and internet-based news information, online performances, live broadcast of internet audio-visual programs and other services shall apply to the relevant departments respectively for obtaining licenses for the operation of telecommunications services, internet-based news information services, network cultural operations, and dissemination of audio-visual programs through information networks and shall complete record-filing formalities with the local public security authorities in accordance with the relevant regulations within 30 days of their live-streaming services being launched.

According to the Measures for the Administration of Cyber Performance Business Operations (《網絡表演經營活動管理辦法》), promulgated by the MOC on December 2, 2016 and became effective on January 1, 2017, a cyber-performance business entity engaging in cyber performance business operations shall, in accordance with the Internet Culture Provisions, apply to the cultural administrative department at the provincial level for an Online Culture Operating License (the “ICB License”), and the license shall specify the scope of its cyber performance. A cyber-performance business entity shall indicate the number of its ICB License in a conspicuous position on its homepage. According to the 2021 Negative List, foreign investors are prohibited from investing in an entity holding an ICB License (except for music). Consequently, foreign investors are prohibited from investing in businesses that carry out and operate the short video and live streaming and online game via platforms, as these businesses are deemed as businesses subject to foreign-investment prohibition by virtue of the platform’s need to obtain an ICB License (except for music).

According to the Circular on Strengthening the Administration of the Online Show Live Streaming and E-commerce Live Streaming (《關於加強網絡秀場直播和電商直播管理的通知》) issued by the NRTA on November 12, 2020, platforms providing online show live streaming or e-commerce live streaming services shall register their information and business operations by November 30, 2020. The overall ratio of front-line content analysts to live streaming rooms shall be 1:50 or higher on such platforms. The training for content analysts shall be strengthened and content analysts who have passed the training shall be registered in the system. A platform shall report the number of its live streaming rooms, streamers and content analysts to the provincial branch of the NRTA on a quarterly basis. Online show live streaming platforms shall tag content and streamers by category. A streamer cannot change the category of the programs offered in his or her live streaming room without prior approval from the platform. Users that are minors or without real-name registration are forbidden from virtual gifting, and platforms shall limit the maximum amount of virtual gifting per time, per day, and per month. When the virtual gifting by a user reaches half of the daily/monthly limit, a consumption reminder from the platform and a confirmation from the user by text messages or

REGULATION

other means are required before the next transaction. When the amount of virtual gifting by a user reaches the daily/monthly limit, the platform shall suspend the virtual gifting function for such user for that day or month. To host any e-commerce promotion events such as E-commerce Festival, E-commerce Day or Promotion Day in the forms of live streaming, live performances, live variety shows and other live programs, the platforms shall register the information of guests, streamers, content and settings with the local branch of NRTA 14 business days in advance. Online e-commerce live streaming platforms shall conduct relevant qualification examination and real-name authentication on businesses and individuals providing live-streaming marketing services and keep complete examination and authentication records, and shall not enable imposters or businesses or individuals without qualification or real-name registration to conduct live-streaming marketing services.

According to the Notice on Promulgation of the Guiding Opinions on Strengthening the Standardized Administration of Online Live-streaming (《關於印發〈關於加強網絡直播規範管理工作的指導意見〉的通知》) issued by the CAC, the office for “eliminating pornography and illegal publications,” the MIIT, the MPS, the MCT, the SAMR and the NRTA on February 9, 2021, online live-streaming platforms providing online live-streaming information services shall strictly abide by laws, regulations, and the relevant provisions of the State, and shall strictly perform their statutory duties and obligations, implement the list of primary responsibilities of online live-streaming platforms. Meanwhile, strengthen the access record-filing management, live-streaming platforms carrying out commercial online performances shall hold the permit for Network Culture Business and go through ICP record-filing, live-streaming platforms carrying out online audio-visual program services shall hold the Audio-Visual Permit (or complete registration with the National Network Audio-Visual Platform Information Registration Management System) and go through ICP record-filing.

According to the Law of the PRC on the Protection of Minors (2020 Revision) (《中華人民共和國未成年人保護法(2020年修訂)》), which took effect on June 1, 2021, among others, live broadcasting service providers are not allowed to provide minors under age 16 with online live broadcasting publisher account registration service, and must obtain the consent from parents or guardians and verify the identity of the minors before allowing minors aged 16 or above to register live broadcasting publisher accounts. On August 30, 2021, the MCT published the Online Performance Brokerage Agencies Measures (《網絡表演經紀機構管理辦法》), which provides that the online performance brokerage agencies should not induce users to consume by means of false consumption, taking the lead in virtual gifting, etc., or to promote their online performers by encouraging virtual gifting with rankings and fake advertising. According to the Online Performance Brokerage Agencies Measures, online performance brokerage agencies shall not provide online performance brokerage services to minors under the age of 16 and if online performance brokerage services are provided to minors over the age of 16, identity information of the minors shall be verified, and written consent shall be obtained from their guardians.

REGULATION

On April 12, 2022, the NRTA and the Publicity Department of the the Central Committee of the Communist Party of China issued the Notice on Strengthening the Management of Live Streaming of Games on the Online Audio-Visual Program Platform (《關於加強網絡視聽節目平台遊戲直播管理的通知》) (the “April 12 Notice”). According to the April 12 Notice, (1) live streaming platforms are strictly prohibited from disseminating or streaming online games that have not been approved by the competent authorities; (2) live streaming platforms shall establish and improve the management system for information release, thread comments and emergency response related to live streaming for gaming programs, as well as improve the content and public opinion monitoring mechanism; (3) live streaming platforms shall strengthen the management of gaming streamers, and guide streamers and users to interact civilly, express themselves rationally and spend reasonably; (4) live streaming platforms shall strictly prohibit individuals who have violated laws and regulations, or public orders and social norm, or with incorrect political views, from appearing on or speaking through live streaming activities; (5) live streaming platforms shall strictly implement a classified reporting system. The launch, stream and display of gaming programs shall be submitted to the relevant administrative departments of the NRTA in accordance with the relevant requirements of live streaming programs. Online audio-visual platforms (including various domestic and overseas individual and institutional accounts opened on relevant platforms) must obtain approval before launching any live streaming programs for overseas gaming programs or competitions; and (6) live streaming platforms with game streaming programs shall establish anti-addiction mechanisms for the protection of minors, implement effective measures to ensure the practical efficacy of the youth mode, and implement real-name registration requirement. Live streaming platforms shall prohibit minors from topping up and gifting virtual items, and establish special channels to handle refund of virtual items made by minors.

On June 8, 2022, the NRTA and the MCT issued the Code of Conduct for Streamers (《網絡主播行為規範》) (the “Code of Conduct”) which stipulates, among others, that: (1) for live streaming content that requires a high level of professional skills (such as medical and health care, finance, law and education), streamers should obtain the corresponding practice qualifications and report the practice qualifications to the live streaming platforms, and the live streaming platforms should review and record the relevant qualifications; (2) during live streaming sessions, streamers shall not behave extravagantly or waste food, flaunt luxury goods, jewelry and other assets, or display sexually suggestive and provocative content; (3) live streaming platforms shall establish comprehensive internal policies to manage their streamers, covering various aspects of operations, from recruitment, training, daily management, performance evaluation to violation record management, and shall provide incentives to streamers who display positive qualities and abide by the Code of Conduct, and reprimand and discipline hosts who have violated the Code of Conduct, and ban the account of streamers who have repeatedly violated the Code of Conduct or applicable rules and regulations.

REGULATION

REGULATION RELATING TO MINOR PROTECTION

The Law of the PRC on the Protection of Minors (2020 Revision) (《中華人民共和國未成年人保護法(2020年修訂)》) added a new section entitled “Online Protections,” which stipulates a series of provisions to further protect minors’ interests on the internet, and together with the Opinions of the General Office of the MCT on Strengthening the Protection of Minors in the Online Cultural Market (《文化和旅遊部辦公廳關於加強網絡文化市場未成年人保護工作的意見》), provide, among others: (1) live streaming service providers are prohibited from providing minors under age of 16 online live streaming publisher account registration service, and must obtain consent from parents or guardians of minors and verify the identity of minors before allowing minors aged 16 and above to register online live streaming publisher accounts on live streaming platform; and (2) online service providers for products and services such as video or audio live streaming and social networking are required to establish management systems to manage viewing time, and monitor access authority and consumption for minors.

Furthermore, on March 14, 2022, the CAC promulgated the Regulation on the Protection of Minors on the Internet (Draft for Comments) (《未成年人網絡保護條例(徵求意見稿)》) for public consultations (the “Draft”). Pursuant to the Draft, (1) online service providers shall require minors or their guardians to provide the minors’ identity information, where minors or their guardians refuse to do so, online service providers shall not provide relevant services to minors; (2) live streaming service providers are not allowed to provide online live streaming publisher account registration service to minors under age of 16, and must obtain the consent from guardians and verify the identity of the minors before allowing minors aged 16 and above to register online live streaming publisher accounts on live streaming platform; (3) online service providers shall establish and continue to improve their anti-addiction systems and youth mode; and (4) online service providers shall reasonably limit or monitor the total consumption amount and daily cumulative consumption amount for minors in the use of their services.

On May 7, 2022, the Office of Central Guidance Commission on Building Spiritual Civilization, the MCT, NRTA and the CAC promulgated the Opinions on Regulating Virtual Gifting to Strengthen the Protection of Minors (《關於規範網絡直播打賞加強未成年人保護的意見》) (the “May 7 Opinions”). According to the May 7 Opinions, live streaming platforms shall, among others (1) prohibit minors from virtual gifting, and implement the requirements on real-name registration; (2) not provide online live streaming publisher account registration service to minors under age of 16 and obtain the consent from guardians before allowing minors between the ages of 16 and 18 to register online live streaming publisher accounts on their platforms; (3) continue to upgrade their youth mode and establish a customer service team for minors to process, and prioritize the settlement of complaints and disputes related to minors; (4) manage key functions of their applications so that virtual gifting amount is not the sole criteria for ranking; and (5) shall discontinue all services under youth mode after 10:00 PM every day.

Failure to satisfy these requirements under the aforementioned legislations and draft, if implemented in its current form, may subject online live streaming platforms to order of rectification, administrative warning, confiscation of illegal earnings and fines. If such

REGULATION

platforms refuse to rectify or in serious cases, such platforms may be ordered to suspend their business and shutdown relevant websites and/or apps. In addition, their business licenses or operation permits may also be revoked, and personnel in charge and other responsible personnel may be subject to fines and other regulatory punishments.

REGULATIONS RELATING TO MOBILE INTERNET APPLICATIONS INFORMATION SERVICES

In addition to the Telecommunications Regulations and other regulations above, mobile internet applications (the “APPs”) and the internet application store (the “APP Store”) are specially regulated by the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》) (the “APP Provisions”), which was promulgated by the CAC on June 28, 2016 and became effective on August 1, 2016 and was further amended in August 2022. The APP Provisions sets forth the relevant requirements on the APP information service providers and the APP Store service providers. The CAC and its local branches shall be responsible for the supervision and administration of nationwide and local APP information respectively.

The APP information service providers shall satisfy relevant qualifications required by laws and regulations, strictly fulfill their responsibilities of information security management, and perform the following duties: (1) verify identities with the registered users through mobile phone numbers etc.; (2) establish and improve the mechanism for user information security protection, follow the principles of “legality, appropriateness, necessity and good faith” in collection and use of personal information, expressly state the purpose, methods and scope of information collection, and obtain the users’ consent; (3) establish and improve the verification and management mechanism for the information content; adopt proper sanctions and measures such as warning, limiting functions, suspending updates, and closing accounts, for releasing illegal information content, as appropriate, keep records and report to the competent department; (4) according to the law, protect and safeguard users’ “rights to know and rights to choose” during installation or use; do not turn on the functions of collecting geographic location, reading address books, or using cameras or recordings, without express statement to the users and the consent of the users; do not turn on functions irrelevant to the services; do not tie up and install irrelevant APPs; (5) respect and protect intellectual property rights; do not produce or release APPs which violate others’ intellectual property rights; and (6) keep records of user log information.

REGULATIONS ON INTERNET ADVERTISEMENT

The Advertisement Law of the PRC (《中華人民共和國廣告法》), which was promulgated by the SCNPC on October 27, 1994 and last amended on April 29, 2021, requires advertisers to ensure that the content of the advertisements is true. The content of advertisements shall not contain prohibited information, including but not limited to: (1) information that harms the dignity or interests of the State or divulges the secrets of the State; (2) information that contains wordings such as “national level”, “highest level” and “best”; and (3) information that contains ethnic, racial, religious, sexual discrimination. Advertisements

REGULATION

posted or published through the internet shall not affect normal usage of network by users. Advertisements published in the form of pop-up windows on the internet shall display the close button clearly to make sure that the viewers can close the advertisement by one-click.

On July 4, 2016, the SAIC promulgated the Internet Advertisement Measures (《互聯網廣告管理暫行辦法》), which became effective on September 1, 2016. The internet Advertisement Measures regulates any advertisement published on the internet, including but not limited to, those on websites, webpage and APPs, those in the forms of word, picture, audio and video. According to the Internet Advertisement Measures, internet information service providers must stop any person from using their information services to publish illegal advertisements if they are aware of, or should reasonably be aware of, such illegal advertisements even though the internet information service provider merely provides information services and is not involved in the internet advertisement businesses. The following activities are prohibited under the Internet Advertisement Measures: (1) providing or using applications and hardware to block, filter, skip over, tamper with, or cover up lawful advertisements provided by others; (2) using network access, network equipment and applications to disrupt the normal transmission of lawful advertisements provided by others or adding or uploading advertisements without permission; or (3) harming the interests of others by using false statistics or traffic data.

REGULATIONS ON INFORMATION SECURITY

Internet content in China is also regulated and restricted from a state security point of view. The Decision Regarding the Safeguarding of Internet Security (《關於維護互聯網安全的決定》), enacted by the SCNPC on December 28, 2000 and amended with immediate effect on August 27, 2009, makes it unlawful to: (1) intrusion into any of the computer information systems relating to state affairs, national defense or cutting-edge science and technology; (2) disseminate politically disruptive information; (3) leak state secrets; (4) spread false commercial information; or (5) infringe intellectual property rights.

The Administrative Measures for the Security Protection of International Connections to Computer Information Network (《計算機信息網絡國際聯網安全保護管理辦法》), issued by the MPS on December 16, 1997 and amended on January 8, 2011, prohibits the use of the internet in ways that, among other things, result in a leakage of state secrets or the distribution of socially destabilizing content. Socially destabilizing content includes any content that incites defiance or violations of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumors or involves cult activities, superstition, obscenities, pornography, gambling or violence. State secrets are defined broadly to include information concerning PRC's national defense affairs, state affairs and other matters as determined by the PRC authorities.

In addition, the State Secrecy Bureau is authorized for the blocking of access to any website it deems to be leaking state secrets or failing to comply with the relevant legislation regarding the protection of state secrets.

REGULATION

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

On November 7, 2016, the SCNPC issued the Cyber Security Law (《網絡安全法》), which came into effect on June 1, 2017. This is the first Chinese law that focuses exclusively on cyber security. The Cyber Security Law provides that network operators must set up internal security management systems that meet the requirements of a classified protection system for cyber security, including appointing dedicated cyber security personnel, taking technical measures to prevent computer viruses, network attacks and intrusions, taking technical measures to monitor and record network operation status and cyber security incidents, and taking data security measures such as data classification, backups and encryption. The Cyber Security Law also imposes a relatively vague but broad obligation to provide technical support and assistance to the public and state security authorities in connection with criminal investigations or for reasons of national security. The Cyber Security Law also requires network operators that provide network access or domain name registration services, landline or mobile phone network access, or that provide users with information publication or instant messaging services, to require users to provide a real identity when they sign up. The Cyber Security Law sets high requirements for the operational security of facilities deemed to be part of China's "critical information infrastructure". These requirements include data localization, i.e., storing personal information and important business data in China, and national security review requirements for any network products or services that may impact national security. Among other factors, "critical information infrastructure" is defined as critical information infrastructure, that will, in the event of destruction, loss of function or data leak, result in serious damage to national security, the national economy and people's livelihoods, or the public interest, specific reference is made to key sectors such as public communication and information services, energy, transportation, water-resources, finance, public services and e-government.

On December 28, 2021, the CAC, and other regulatory authorities jointly released the revised Cybersecurity Review Measures, which came into effect on February 15, 2022. It further restates and expands the applicable scope of the cybersecurity review. Pursuant to the Cybersecurity Review Measures, on the basis of the Cybersecurity Review Measures released in 2020, in addition to the procurement of network products and services by critical information infrastructure operators, any data processing activities that affects or may affect national security shall also be subject to the cybersecurity review. In accordance with the Cybersecurity Review Measures, internet platform operators holding personal information of more than one million users must apply to the Cybersecurity Review Office for cybersecurity review when they seek listing in a foreign country.

REGULATION

On June 10, 2021, the SCNPC issued the Data Security Law, which took effect on September 1, 2021. The Data Security Law provides a national data security review system, under which data processing activities that affect or may affect national security shall be reviewed. In addition, it clarifies the data security protection obligations of organizations and individuals carrying out data activities and implementing data security protection responsibility, data processors shall establish and improve the whole-process data security management rules, organize and implement data security trainings as well as take appropriate technical measures and other necessary measures to protect data security. Any organizational or individual data processing activities that violate the Data Security Law shall bear the corresponding civil, administrative or criminal liabilities depending on specific circumstances.

On July 30, 2021, the State Council issued the Security Protection Regulations of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》) (the “CII Regulations”), which came into effect on September 1, 2021. Pursuant to the CII Regulations, “critical information infrastructures” refers to important network facilities and information systems of important industries and sectors such as public communications and information services, energy, transport, water conservation, finance, public services, e-government, and science and technology industry for national defense, as well as other important network facilities and information systems that may seriously endanger national security, national economy and citizen’s livelihood and public interests if they are damaged or suffer from malfunctions, or if any leakage of data in relation thereto occurs. Competent authorities as well as the supervision and administrative authorities of the above-mentioned important industries and sectors are responsible for the security protection of critical information infrastructures (the “Protection Authorities”). The Protection Authorities will establish the rules for the identification of critical information infrastructures based on the particular situations of the industry and report such rules to the public security department of the State Council for record. The following factors must be considered when establishing identification rules: (i) the importance of network facilities and information systems to the core businesses of the industry and the sector; (ii) the harm that may be brought by the damage, malfunction or data leakage of, the network facilities and information systems; and (iii) the associated impact on other industries and sectors. The Protection Authorities are responsible for organizing the identification of critical information infrastructures in their own industries and sectors in accordance with the identification rules, promptly notifying the operators of the identification results and reporting to the public security department of the State Council. These provisions were newly issued, and detailed rules or explanations may be further enacted with respect to the interpretation and implementation of such provisions, including rules on identifying critical information infrastructures in different industries and sectors. As of the date of this prospectus, the Company had not received any notification from the critical information infrastructure protection authorities about being identified as “an operator of critical information infrastructure.”

On October 29, 2021, the CAC has publicly solicited the Measures for the Security Assessment of Data Cross-border Transfer (Draft for Comments), which requires that any data processor providing important data collected and generated during operations within the territory of the PRC or personal information that should be subject to security assessment according to law to an overseas recipient shall conduct security assessment. The Measures for the Security Assessment of Data Cross-border Transfer (Draft for Comments) was officially

REGULATION

promulgated by the CAC on July 7, 2022 as the Measures for Outbound Data Transfers, and came into effect on September 1, 2022. The Measures for Outbound Data Transfers provides four circumstances, under any of which data processors shall, through the local cyberspace administration at the provincial level, apply to the national cyberspace administration for security assessment of data cross-border transfer. These circumstances include: (i) where the data to be transferred to an overseas recipient are personal information collected and generated by operators of critical information infrastructure and data processors processing the personal information of more than 1 million individuals; (ii) where the data to be transferred to an overseas recipient is important data; (iii) where a personal information processor that has provided personal information of more than 100,000 people or sensitive personal information of more than 10,000 people overseas in aggregate since January 1 of the previous year provides personal information overseas; or (iv) other circumstances under which security assessment of data cross-border transfer is required as prescribed by the national cyberspace administration.

On November 14, 2021, the CAC publicly solicited opinions on the Draft Data Security Regulations. According to the Draft Data Security Regulations, data processors shall, in accordance with relevant state provisions, apply for cybersecurity review when carrying out the following activities: (1) the merger, reorganization or separation of internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests, which affects or may affect national security; (2) data processors that handle the personal information of more than one million people intends to be listed abroad; (3) the data processor intends to be listed in Hong Kong, which affects or may affect national security; (4) other data processing activities that affect or may affect national security. However, the Draft Data Security Regulations provides no further explanation or interpretation for “affects or may affect national security.” In addition, the Draft Data Security Regulations also regulates other specific requirements in respect of the data processing activities conducted by data processors through internet in the view of personal data protection, important data safety, data cross-broader safety management and obligations of internet platform operators. For example, in one of the following situations, data processors shall delete or anonymize personal information within fifteen business days: (1) the purpose of processing personal information has been achieved or become obsolete; (2) the storage term agreed with the users or specified in the personal information processing rules has expired; (3) the service has been terminated or the account has been disabled by the individual; and (4) unnecessary personal information or personal information inevitably collected without the consent of the individual due to the use of automatic data collection technology. For important data, data processors must comply with specific requirements, such as specifying the responsible person of data safety, establishing a data safety management department and filing to the cyberspace administration at the city level within 15 business days after the identification of important personal data. Pursuant to the Draft Data Security Regulations, the processors of important data or data processors who are listed overseas shall carry out data security assessments by themselves or by data security service agencies every year, and submit the previous year’s data security assessment report to the cyberspace administration at the districted city level before January 31 of each year.

REGULATION

On December 31, 2021, the CAC, the MIIT, the MPS and the SAMR jointly announced Provisions on the Management of Algorithmic Recommendations for Internet Information Services (《互聯網信息服務算法推薦管理規定》) (the “Provisions on Algorithmic Recommendations”), which became effective on March 1, 2022. Provisions on Algorithmic Recommendations specifies that it applies to the application of algorithmic recommendation technologies to provide internet information services (the “Algorithmic Recommendation Services”) within the territory of China. Algorithmic Recommendation Services providers shall comply with certain standards of information services and ensure the protection of users’ rights and interests. For example, the providers of Algorithmic Recommendation Services shall inform users of the circumstances of the Algorithmic Recommendation Services in a prominent manner, provide users with options not to target their individual characteristics, or provide users with convenient options to close Algorithmic Recommendation Services. Our operations shall comply with such provisions. If we fail to fulfill our responsibilities and obligations under such provisions, we may be subject to penalties such as warning, public reprimand, orders to make corrections within a time limit, suspension of information updating, fines and other penalties.

The Provisions on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》), which was promulgated by the MPS on December 13, 2005 and became effective on March 1, 2006, requires Internet service providers to keep records of certain information about their users (including user registration information, log-in and log-out times, IP addresses, content and time of posts by users) for at least 60 days. Under the Cyber Security Law, network operators must also report any instances of public dissemination of prohibited content. If a network operator fails to comply with such requirements, the PRC government may revoke its ICP License and shut down its websites.

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

REGULATIONS ON INTERNET PRIVACY

In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. PRC law does not prohibit internet content provision operators from collecting and analyzing personal information from their users. However, the Internet Measures prohibits an internet content provision operator from insulting or slandering a third party or infringing the lawful rights and interests of a third party.

The Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》), which was promulgated by the MIIT on December 29, 2011 and became effective on March 15, 2012, stipulates that internet content

REGULATION

provision operators must not, without user consent, collect user personal information, which is defined as user information that can be used alone or in combination with other information to identify the user, and may not provide any such information to third parties without prior user consent. Internet content provision operators may only collect user personal information necessary to provide their services and must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information. In addition, an internet content provision operator may only use such user personal information for the stated purposes under the internet content provision operator's scope of service. Internet content provision operators are also required to ensure the proper security of user personal information, and take immediate remedial measures if user personal information is suspected to have been disclosed. If the consequences of any such disclosure are expected to be serious, internet content provision operators must immediately report the incident to the telecommunications regulatory authority and cooperate with the authorities in their investigations.

On July 16, 2013, the MIIT issued the Order for the Protection of Telecommunication and Internet User Personal Information (《電信和互聯網用戶個人信息保護規定》), which came into effect on September 1, 2013. Most requirements under the Order that are relevant to internet content provision operators are consistent with pre-existing requirements but the requirements under the Order are often more stringent and have a wider scope. If an internet content provision operator wishes to collect or use personal information, it may do so only if such collection is necessary for the services it provides. Further, it must disclose to its users the purpose, method and scope of any such collection or use, and must obtain consent from its users whose information is being collected or used. Internet content provision operators are also required to establish and publish their rules relating to personal information collection or use, keep any collected information strictly confidential, and take technological and other measures to maintain the security of such information. Internet content provision operators are required to cease any collection or use of the user's personal information, and de-register the relevant user's account, when a given user stops using the relevant internet service. Internet content provision operators are further prohibited from divulging, distorting or destroying any such personal information, or selling or providing such information unlawfully to other parties.

The Cyber Security Law imposes certain data protection obligations on network operators, including that network operators may not disclose, tamper with, or damage users' personal information that they have collected, and are obligated to delete unlawfully collected information and to amend incorrect information. Moreover, network operators may not provide users' personal information to others without consent. Exempted from these rules is information irreversibly processed to preclude identification of specific individuals. Also, the Cyber Security Law imposes breach notification requirements that will apply to breaches involving personal information.

On January 23, 2019, the CAC, the MIIT, the MPS, and the SAMR jointly issued the Notice on Special Governance of Illegal Collection and Use of Personal Information via APPs (《關於開展App違法違規收集使用個人信息專項治理的公告》), which restated the

REGULATION

requirements of legal collections and use of personal information, encourages APP operators to conduct security certifications, and encourages search engines and APP stores to clearly mark and recommend those certified APPs.

On August 22, 2019, the CAC issued the Regulation on Cyber Protection of Children's Personal Information (《兒童個人信息網絡保護規定》), which became effective on October 1, 2019. Network operators are required to establish special policies and user agreements to protect children's personal information, and to appoint special personnel in charge of protecting children's personal information. Network operators who collect, use, transfer or disclose personal information of children are required to, in a prominent and clear way, notify and obtain consent from children's guardians.

On June 1, 2021, the Law of the PRC on the Protection of Minors (2020 Revision) (《中華人民共和國未成年人保護法(2020年修訂)》), promulgated by the SCNPC, came into effect, which specifies stringent requirements for the protection of minors' information.

On August 20, 2021, the SCNPC promulgated the PIPL, which became effective on November 1, 2021. The PIPL specifically specified the rules for handling sensitive personal information, which means personal information that, once leaked or illegally used, may easily cause harm to the dignity of natural persons or grave harm to personal or property security, including information on biometric characteristics, financial accounts, individual location tracking, etc., as well as the personal information of minors under the age of 14. Personal information handlers shall bear responsibility for their personal information handling activities, and adopt the necessary measures to safeguard the security of the personal information they handle. Otherwise, the personal information handlers will be ordered to correct or suspend or terminate the provision of services, confiscation of illegal income, fines or other penalties.

On November 28, 2019, the CAC, the MIIT, the MPS and SAMR jointly issued the Measures to Identify Illegal Collection and Usage of Personal Information by APPs (《App違法違規收集使用個人信息行為認定方法》), which lists six types of illegal collection and use of personal information by Apps, including “not providing privacy rules” and “not publishing rules on the collection and usage of personal information”.

On October 31, 2019, the MIIT issued the Circular on Launching a Special Rectification Program Against Application Harming Users' Rights and Interests (《關於開展App侵害用戶權益專項整治工作的通知》), the MIIT will focus on the following four aspects of standardized rectification work, including: Irregular collection of users' individual information; Irregular use of users' individual information; Unreasonable claim for users' authorities; Setting obstacles to users' account cancelation.

Pursuant to the Ninth Amendment to the Criminal Law of the PRC (《中華人民共和國刑法修正案(九)》), issued by the SCNPC on August 29, 2015 and became effective on November 1, 2015, any internet service provider that fails to fulfill its obligations related to internet information security administration as required under applicable laws and refuses to rectify

REGULATION

upon orders shall be subject to criminal penalty. In addition, Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Personal Information (《關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》), issued on May 8, 2017 and effective as of June 1, 2017, clarified certain standards for the conviction and sentencing of the criminals in relation to personal information infringement. In addition, on May 28, 2020, the National People's Congress adopted the Civil Code, which came into effect on January 1, 2021. Pursuant to the Civil Code, the personal information of a natural person shall be protected by the law. Any organization or individual shall legally obtain such personal information of others when necessary and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others.

According to the Notice on Promulgation of the Guiding Opinions on Strengthening the Standardized Administration of Online Live-streaming (《關於印發〈關於加強網絡直播規範管理工作的指導意見〉的通知》) issued by the CAC, the office for “eliminating pornography and illegal publications,” the MIIT, the MPS, the MCT, the SAMR and the NRTA on February 9, 2021, online live-streaming platforms shall strictly abide by the relevant regulations on the protection of personal information, regulate the collection and legal use of users' personal information such as identities, geographic locations and contact information, fully protect users' legitimate rights and interests such as the right to know, the right to choose, and the right to privacy, guide and regulate users' reasonable consumption and rational rewards in accordance with the laws and regulations, keep records of live-streaming images, interactive messages, and rewards in accordance with the laws and regulations, and intensify the crackdown on various infringements upon the rights and interests of users to effectively maintain the order of the online live-streaming industry.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

Copyright

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

The Copyright Law of the PRC (《中華人民共和國著作權法》) (the “Copyright Law”), which was promulgated by the SCNPC on September 7, 1990, last amended on November 11, 2020 and became effective on June 1, 2021, provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering

REGULATION

technology and computer software. The purpose of the Copyright Law aims to encourage the creation and dissemination of works which is beneficial for the construction of socialist spiritual civilization and material civilization and promote the development and prosperity of Chinese culture.

The Regulation on Protection of the Right to Network Dissemination of Information (《信息網絡傳播權保護條例》), which was issued by the State Council on May 18, 2006, took effect on July 1, 2006 and was last amended on January 30, 2013, further provides that an internet information service provider may be held liable under various situations, including if it knows or should reasonably have known a copyright infringement through the internet and the service provider fails to take measures to remove or block or disconnects links to the relevant content, or, although not aware of the infringement, the internet information service provider fails to take such measures upon receipt of the copyright holder's notice of infringement. The internet information service provider may be exempted from indemnification liabilities under the following circumstances:

- (i) any internet information service provider that provides automatic internet access service upon instructions from its users or provides automatic transmission service for works, performances and audio/visual products provided by its users is not required to assume indemnification liabilities if (1) it has not chosen or altered the transmitted works, performance and audio/visual products and (2) it provides such works, performances and audio/visual products to the designated users and prevents any person other than such designated users from obtaining access;
- (ii) any internet information service provider that, for the sake of improving network transmission efficiency, automatically stores and provides to its own users the relevant works, performances and audio/visual products obtained from any other internet information service providers, is not required to assume the indemnification liabilities if (1) it has not altered any of the works, performances or audio/visual products that are automatically stored; (2) it has not affected such original internet information service provider in holding the information about where the users obtain the relevant works, performances and audio/visual products; and (3) when the original internet information service provider revises, deletes or shields the works, performances and audio/visual products, it will automatically revise, delete or shield the same;
- (iii) any internet information service provider that provides its users with information memory space for such users to provide the works, performances and audio/visual products to the general public via an informational network is not required to assume the indemnification liabilities if (1) it clearly indicates that the information memory space is provided to the users and publicizes its own name, contact person and web address; (2) it has not altered the works, performances and audio/visual products that are provided by the users; (3) it is not aware of or has no justified reason to know that the works, performances and audio/visual products provided by the users infringe upon the copyrights of others; (4) it has not directly derived any

REGULATION

economic benefit from the providing of the works, performances and audio/visual products by its users; and (5) after receiving a notice from the copyright holder, it promptly deletes the allegedly infringing works, performances and audio/visual products pursuant to the regulation; and

- (iv) any internet information service provider that provides its users with search engine or link services is not required to assume the indemnification liabilities if, after receiving a notice from the copyright holder, it disconnects the link to the allegedly infringing works, performances and audio/visual products pursuant to the regulation, unless it is aware of or should reasonably have known the infringement.

Measures on Administrative Protection of Internet Copyright (《互聯網著作權行政保護辦法》), that were promulgated by the MIIT and National Copyright Administration (the “NCA”) and took effect on May 30, 2005, provided that an internet information service provider shall take measures to remove the relevant contents, record relevant information after receiving the notice from the copyright owner that some content communicated through internet infringes upon his/its copyright and preserve the copyright owner’s notice for 6 months. Where an internet information service provider clearly knows an internet content provider’s tortuous act of infringing upon another’s copyright through internet, or fails to take measures to remove relevant contents after receipt of the copyright owner’s notice although it does not know it clearly, and meanwhile damages public benefits, the infringer shall be ordered to stop the tortuous act, and may be imposed of confiscation of the illegal proceeds and a fine of not more than 3 times the illegal business amount; if the illegal business amount is difficult to be calculated, a fine of not more than RMB100,000 may be imposed.

The Notice on Regulating Copyright Order of Internet Reproduction (《關於規範網絡轉載版權秩序的通知》), issued by the NCA in April 2015, includes the following four major points: (1) clarify certain important issues related to internet copyrights in existing laws and regulations, including the definition of news, clarify statutory licenses that are not applicable to internet copyrights and prohibit the distortion of title and work intent; (2) guide the press and media to further improve the internal management of copyrights, especially requesting the press to clarify the copyright sources of their content; (3) encourage the press and internet media to actively carry out copyright cooperation; and (4) ask the copyright administrations at all levels to strictly implement copyright supervision.

The Circular on Strengthening the Copyright Administration of Internet Literary Works (《關於加強網絡文學作品版權管理的通知》) promulgated by the NCA on November 4, 2016 and effective from the same day provides that internet service providers who provide literary works through information networks and render relevant network services shall strengthen the copyright supervision and administration, establish a sound infringing works handling mechanism, and fulfill the obligation to protect the copyright of internet literary works according to the law, fulfill the obligation to review the copyright of literary works disseminated and exercise their duty of care according to the law. Except as otherwise provided by laws and regulations, without the permission of right holders, the dissemination of their

REGULATION

literary works shall be prohibited and shall establish a copyright compliant mechanism, actively accept complaints from right holders, and resolve the legitimate demands of right holders in a timely manner according to the law.

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

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

The Notice on Launching “Jian Wang 2016” Special Actions Against Internet Piracy and Copyright Infringement (《關於開展打擊網絡侵權盜版“劍網2016”專項行動的通知》), jointly issued by the NCA, the MIIT, the MPS and the CAC in 2016 includes the following: (1) the punishment of the unauthorized distribution of online literature, news, and films, and protecting the legitimate rights of the copyright owners; (2) the crackdown of the distribution of pirated content through mobile apps, e-commerce platforms, and online advertising platforms, in order to maintain the order of the internet copyright environment; and (3) the copyright order of online music, online cloud storage space, and online distribution of news will be further standardized to create a clean internet environment for copyright.

Trademark

Trademarks are protected by the Trademark Law of the PRC (《中華人民共和國商標法》) which was promulgated on August 23, 1982 and last amended on April 23, 2019 as well as the Implementation Regulation of the PRC Trademark Law (《中華人民共和國商標法實施條例》) which was adopted by the State Council on August 3, 2002 and amended on April 29, 2014. In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

REGULATION

The PRC Trademark Office of National Intellectual Property Administration (the “Trademark Office”) is responsible for the registration and administration of trademarks throughout the PRC, and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within twelve months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license contracts must be filed with the Trademark Office to be recorded. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities. As with trademarks, the PRC Trademark Law has adopted a “first come, first file” principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

Patent

Patents are protected by the Patent Law of the PRC (《中華人民共和國專利法》) which was promulgated on March 12, 1984 and amended on October 17, 2020 with effect from June 1, 2021. A patentable invention or utility model must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the National Intellectual Property Administration is responsible for receiving, examining and approving patent applications. A patent is valid for a twenty-year term for an invention, a ten-year term for a utility model and a fifteen-year term for a design. Except under certain specific circumstances provided by law, any third-party user must obtain consent or a proper license from the patent owner to use the patent, or else the use will constitute an infringement of the rights of the patent holder.

Domain Names

The MIIT promulgated the Administrative Measures on the Internet Domain Names (《互聯網域名管理辦法》) (the “Domain Name Measures”) on August 24, 2017, which became effective on November 1, 2017. According to the Domain Name Measures, domain name owners are required to register their domain names and the MIIT is in charge of the administration of PRC internet domain names. The China Internet Network Information Center (the “CNNIC”) is responsible for the daily administration of .cn domain names and Chinese domain names. CNNIC adopts the “first to file” principle with respect to the registration of domain names. The domain name services follow a “first apply, first register” principle. In November 27, 2017, the MIIT promulgated the Notice of the Ministry of Industry and

REGULATION

Information Technology on Regulating the Use of Domain Names in Providing Internet-based Information Services (《工業和信息化部關於規範互聯網信息服務使用域名的通知》), which became effective on January 1, 2018. Pursuant to the notice, the domain name used by an internet-based information service provider in providing internet-based information services must be registered and owned by such provider in accordance with the law. If the internet-based information service provider is an entity, the domain name registrant must be the entity (or any of the entity's shareholders), or the entity's principal or senior manager.

REGULATIONS ON OVERSEAS LISTING

On December 24, 2021, the CSRC issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for comments) (《國務院關於境內企業境外發行證券和上市的管理規定》(草案徵求意見稿)) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (collectively the “New Consultation Drafts”) for public consultations until January 23, 2022. Pursuant to the New Consultation Drafts, domestic enterprises that directly or indirectly list overseas shall go through the filing procedures with the CSRC. Furthermore, if the issuer meets the following conditions, the offering and listing shall be determined as an indirect overseas offering and listing by a domestic company: (1) the total assets, net assets, revenues or profits of the domestic operating entity of the issuer in the most recent accounting year account for more than 50% of the corresponding figure in the issuer's audited consolidated financial statements for the same period; and (2) the senior managers in charge of business operation and management of the issuer are mostly Chinese citizens or have domicile in China, and its main places of business are located in China or main business activities are conducted in China.

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

On December 27, 2021, the NDRC and the MOFCOM jointly promulgated the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》), or the 2021 Negative List. The Internet

REGULATION

cultural activities, Internet audio-visual program services, and value-added telecommunications services are subject to foreign investment restrictions or prohibitions as set out in the 2021 Negative List, and according to the 2021 Negative List, to list overseas, any domestic enterprise engaging in the fields prohibited by the 2021 Negative List shall obtain the consent of the relevant competent authorities of the State, and the overseas investors shall not participate in the operation and management of the enterprise, and overseas investors' shareholding percentage shall be subject to the relevant provisions on administration of domestic securities investment by overseas investors.

REGULATIONS RELATING TO FOREIGN EXCHANGE

General Administration of Foreign Exchange

Under the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》) promulgated by the State Council on January 29, 1996 and last amended on August 5, 2008 and various regulations issued by SAFE and other relevant PRC government authorities, RMB is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of RMB into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local branches. Payments for transactions that take place within China must be made in RMB. Unless otherwise provided by laws and regulations, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of China. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current account may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of China.

Regulations Relating to Offshore Investment

Pursuant to SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》 (the "SAFE Circular 75"), which became effective on November 1, 2005, the domestic residents, including domestic individuals and domestic companies, must register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle (the "Overseas SPV"), for the purposes of overseas equity financing activities, and to update such registration in the event of any

REGULATION

significant changes with respect to that offshore company. On July 4, 2014, the SAFE promulgated the Notice on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Round-tripping by Chinese Residents via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular 37”), which replaced SAFE Circular 75, for the purpose of simplifying the approval process, and for the promotion of the cross-border investment. SAFE Circular 37 supersedes the SAFE Circular 75 and revises and regulates the relevant matters involving foreign exchange registration for round-trip investment. Under SAFE Circular 37, a domestic resident must register with the local SAFE branch before he or she contributes assets or equity interests in an Overseas SPV, which is directly established or indirectly controlled by the domestic resident for the purpose of conducting investment or financing. In addition, in the event of any change of basic information of the Overseas SPV such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the change of foreign exchange registration procedures for offshore investment. According to the procedural guideline as attached to SAFE Circular 37, the principle of review has been changed to “the domestic individual resident shall only register the Overseas SPV directly established or controlled (first level)”. At the same time, the SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment (《返程投資外匯管理所涉業務操作指引》) with respect to the procedures for SAFE registration under SAFE Circular 37, which became effective on July 4, 2014 as an attachment to SAFE Circular 37. Under the relevant rules, failure to comply with the registration procedures set out in SAFE Circular 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who hold any shares in the company from time to time are required to register with the SAFE in connection with their investments in the company.

On February 13, 2015, SAFE promulgated the Notice on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), effective from June 1, 2015, which further amended SAFE Circular 37 by requiring domestic residents to register with qualified banks rather than SAFE or its local branches in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

REGULATIONS RELATING TO FOREIGN INVESTMENT

Investment activities in the PRC by foreign investors are principally governed by the Catalog of Industries for Encouraging Foreign Investment (《鼓勵外商投資產業目錄》) (the “Encouraging Catalog”) and the Special Management Measures (Negative List) for the Access of Foreign Investment (《外商投資准入特別管理措施(負面清單)》) (the “Negative List”) which were promulgated and are amended from time to time by MOFCOM and the NDRC, and together with the Foreign Investment Law and their respective implementation rules and ancillary regulations. The Encouraging Catalog and the Negative List lay out the basic

REGULATION

framework for foreign investment in China, classifying businesses into three categories with regard to foreign investment: “encouraged,” “restricted” and “prohibited.” Industries not listed in the Catalog are generally deemed as falling into a fourth category “permitted” unless specifically restricted by other PRC laws.

On December 27, 2020, the MOFCOM and the NDRC released the Catalog of Industries for Encouraging Foreign Investment (2020 Version) (《鼓勵外商投資產業目錄(2020年版)》), which became effective on January 27, 2021, to replace the previous Encouraging Catalog. On December 27, 2021, MOFCOM and the NDRC released 2021 Negative List, which became effective on January 1, 2022, to replace the previous Negative List.

On March 15, 2019, the National People’s Congress promulgated the Foreign Investment Law (《中華人民共和國外商投資法》) (the “FIL”), which became effective on January 1, 2020 and replaced the major laws and regulations governing foreign investment in the PRC. Pursuant to the FIL, “foreign investments” refer to investment activities conducted by foreign investors directly or indirectly in the PRC, which include any of the following circumstances: (1) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors; (2) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC; (3) foreign investors investing in new projects in the PRC solely or jointly with other investors; and (4) investment of other methods as specified in laws, administrative regulations, or as stipulated by the State Council.

According to the FIL, foreign investment shall enjoy pre-entry national treatment, except for those foreign invested entities that operate in industries deemed to be either “restricted” or “prohibited” in the Negative List. The FIL provides that foreign invested entities operating in foreign “restricted” or “prohibited” industries will require entry clearance and other approvals. The FIL does not comment on the concept of “de facto control” or contractual arrangements with variable interest entities, however, it has a catch-all provision under definition of “foreign investment” to include investments made by foreign investors in China through means stipulated by laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions to provide for contractual arrangements as a form of foreign investment.

The FIL also provides several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that local governments shall abide by their commitments to the foreign investors; foreign-invested enterprises are allowed to issue stocks and corporate bonds; except for special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner, expropriate or requisition the investment of foreign investors is prohibited; mandatory technology transfer is prohibited; allows foreign investors’ funds to be freely transferred out and into the territory of PRC, which run through the entire lifecycle from the entry to the exit of foreign investment, and provide an all-around and multi-angle system to guarantee fair competition of foreign-invested enterprises in the market economy. In addition, foreign investors or the foreign investment enterprise should be imposed legal liabilities for failing to report investment information in accordance with the requirements. Furthermore, the FIL

REGULATION

provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementing of the FIL, which means that foreign invested enterprises may be required to adjust the structure and corporate governance in accordance with the current PRC Company Law (《中華人民共和國公司法》) and other laws and regulations governing the corporate governance.

On December 26, 2019, the State Council promulgated the Implementation Rules to the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》), which became effective on January 1, 2020. The Implementation rules further clarified that the State encourages and promotes foreign investment, protects the lawful rights and interests of foreign investors, regulates foreign investment administration, continues to optimize foreign investment environment, and advances a higher-level opening.

On December 30, 2019, MOFCOM and the SAMR jointly promulgated the Measures for Information Reporting on Foreign Investment (《外商投資信息報告辦法》), which became effective on January 1, 2020. Pursuant to the Measures for Information Reporting on Foreign Investment, where a foreign investor carries out investment activities in China directly or indirectly, the foreign investor or the foreign-invested enterprise shall submit the investment information to the competent Commerce Department.

REGULATIONS RELATING TO TAX

Enterprise Income Tax

The Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅法》) and the Regulations for the Implementation of the Law on Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》) (collectively, the "EIT Laws") were promulgated on March 16, 2007 and December 6, 2007, respectively, and were most recently amended on December 29, 2018 and April 23, 2019, respectively. According to the EIT Laws, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within China. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside China, but have established institutions or premises in China, or have no such established institutions or premises but have income generated from inside China. Under the EIT Laws and relevant implementing regulations, a uniform EIT rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in China, or if they have formed permanent establishment institutions or premises in China but there is no actual relationship between the relevant income derived in China and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside China. Pursuant to an Arrangement Between the Mainland China and the Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Tax on Income (《內地

REGULATION

和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) (the “Circular 81”) issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

The Notice of the State Administration of Taxation on Issues Concerning the Determination of Chinese-Controlled Enterprises Registered Overseas as Resident Enterprises on the Basis of Their Bodies of Actual Management (《國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) (the “Circular 82”) was promulgated by the SAT on April 22, 2009 and amended on January 29, 2014 and December 29, 2017, sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of China and controlled by PRC enterprises or PRC enterprise groups is located within China.

According to Circular 82, a Chinese-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a “de facto management body” in China and will be subject to PRC EIT on its worldwide income only if all of the following criteria are met: (1) the primary location of the day-to-day operational management is in the PRC; (2) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (3) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders meeting minutes are located or maintained in the PRC; and (4) 50% or more of voting board members or senior executives habitually reside in the PRC.

The EIT Laws permit certain High and New Technologies Enterprises, or HNTes, to enjoy a reduced 15% EIT rate subject to these HNTes meeting certain qualification criteria. In addition, the relevant EIT laws and regulations also provide that entities recognized as Software Enterprises are able to enjoy a tax holiday consisting of a two-year-exemption commencing from their first profitable calendar year and a 50% reduction in ordinary tax rate for the following three calendar years, while entities qualified as key software enterprises can enjoy a preferential EIT rate of 10%.

The Announcement of the State Administration of Taxation on Several Issues Relating to Enterprise Income Tax on Transfer of Assets between Non-resident Enterprises (《國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (the “Bulletin 7”) was issued by the SAT on February 3, 2015 and recently amended on December 29, 2017. Pursuant to Bulletin 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct

REGULATION

transfer of PRC taxable assets, if the arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC EIT. As a result, gains derived from an indirect transfer may be subject to PRC EIT. According to Bulletin 7, “PRC taxable assets” include assets attributed to an establishment or a place of business in China, immovable properties in China, and equity investments in PRC resident enterprises. In respect of an indirect offshore transfer of assets of a PRC establishment or place of business, the relevant gain is to be regarded as effectively connected with the PRC establishment or a place of business and therefore included in its EIT filing, and would consequently be subject to PRC EIT at a rate of 25%. Where the underlying transfer relates to the immovable properties in China or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment or a place of business of a non-resident enterprise, a PRC EIT at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. There is uncertainty as to the implementation details of Bulletin 7.

VAT and Business Tax

Before August 2013 and pursuant to applicable PRC tax regulations, any entity or individual conducting business in the service industry is generally required to pay a business tax at the rate of 5% on the revenue generated from providing services. However, if the services provided are related to technology development and transfer, the business tax may be exempted subject to approval by the relevant tax authorities.

In November 2011, the Ministry of Finance (the “MOF”) and the SAT promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業稅改徵增值稅試點方案》). In May and December 2013, April 2014, March 2016 and July 2017, the MOF and the SAT promulgated five circulars to further expand the scope of services that are to be subject to VAT instead of business tax. Pursuant to these tax rules, from August 1, 2013, a VAT was imposed to replace the business tax in certain service industries, including technology services and advertising services, and from May 1, 2016, VAT replaced business tax in all industries on a nationwide basis. On November 19, 2017, the State Council further amended the Interim Regulation of the People’s Republic of China on Value Added Tax (《中華人民共和國增值稅暫行條例》) to reflect the normalization of the pilot program. The VAT rates generally applicable are simplified as 17%, 11%, 6% and 0%, and the VAT rate applicable to the small-scale taxpayers is 3%. Unlike business tax, a taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the revenue from services provided.

On April 4, 2018, the MOF and the SAT issued the Notice on Adjustment of VAT Rates (《關於調整增值稅稅率的通知》), which came into effect on May 1, 2018. According to the abovementioned Notice, the taxable goods previously subject to VAT rates of 17% and 11% respectively become subject to lower VAT rates of 16% and 10%, respectively starting from May 1, 2018.

REGULATION

On March 20, 2019, the MOF, the SAT and the General Administration of Customs issued the Announcement on Policies for Deepening the VAT Reform (《關於深化增值稅改革有關政策的公告》) (the “Announcement 39”), which came into effect on April 1, 2019, to further slash VAT rates. According to Announcement 39, (1) for general VAT payers’ sales activities or imports previously subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9% respectively; (2) for the agricultural products purchased by taxpayers to which an existing 10% deduction rate is applicable, the deduction rate is adjusted to 9%; (3) for the agricultural products purchased by taxpayers for production or commissioned processing, which are subject to VAT at 13%, the input VAT will be calculated at a 10% deduction rate; (4) for the exportation of goods or labor services that are subject to VAT at 16%, with the applicable export refund at the same rate, the export refund rate is adjusted to 13%; and (5) for the exportation of goods or cross-border taxable activities that are subject to VAT at 10%, with the export refund at the same rate, the export refund rate is adjusted to 9%.

REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL WELFARE

Labor Contract Law

According to the Labor Law of the People’s Republic of China (《中華人民共和國勞動法》) promulgated on July 5, 1994 and last amended on December 29, 2018, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by State rules and standards on workplace safety, educate laborers in labor safety and sanitation in China. Labor safety and sanitation facilities shall comply with State-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with State stipulations and the relevant articles of labor protection. The PRC Labor Contract Law (《中華人民共和國勞動合同法》), which was issued on June 29, 2007, implemented on January 1, 2008 and amended on December 28, 2012, is primarily aimed at regulating employee/employer’s rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. Pursuant to the PRC Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with the laws and regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers in a timely manner.

Social Insurance and Housing Fund

As required under the Regulation of Insurance for Labor Injury (《工傷保險條例》) implemented on January 1, 2004 and amended on December 20, 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance for Employees of Corporation of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on July 16,

REGULATION

1997, the Decision on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, the Unemployment Insurance Measures (《失業保險條例》) promulgated on January 22, 1999 and the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) implemented on July 1, 2011 and amended on December 29, 2018, enterprises are obligated to provide their employees in China with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with the Regulations on the Management of Housing Funds (《住房公積金管理條例》), which was promulgated by the State Council on April 3, 1999 and last amended on March 24, 2019, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner.

SANCTIONS LAWS AND REGULATIONS

This section sets out a summary of the International Sanctions imposed by United Nations, European Union, United Kingdom, United States and Australia.

United Nations

Through various resolutions during and before the Track Record Period, the UN Security Council ("UNSC") imposed arms embargoes, targeted asset freezing measures and economic and trade sanctions against (or in relation to) a number of countries (or against certain individuals and organizations within those countries). The UNSC sanctions are mostly related to conflict areas and are designed to discourage activities which destabilize peace and security. There are currently twelve active sanctions regimes against (or relating to) specific sovereign countries and a number of resolutions concerning sanctions against ISIL (Da'esh), Al-Qaida and associated individuals, groups, undertakings and entities. In some case, the UNSC sanctions target specific regimes (particularly in the case of the Democratic People's Republic of Korea ("DPRK")).

The UNSC sanctions include the requirement to freeze the asset and economic resources of designated individuals and legal entities. In some cases, the sanctions include a travel ban on certain individuals designated under the sanctions regime. In most cases, individuals and legal entities are designated on the basis of evidence of their involvement in military, repression, terrorism or other violent activities or abuses of human rights. In some cases, legal entities are included in the sanctions lists on the basis that they are used to fund or organize such activities or to provide a cover for such activities. In most cases, the UNSC sanctions also

REGULATION

include an arms embargo prohibiting UN member states from selling arms (or permitting the sale of arms) to the country in question or (in the case of Islamic State and Al-Qaida) to designated individuals and entities.

UNSC sanctions against the DPRK are particularly extensive and include not only asset freezing against lists of designated individuals and entities but also a ban on supplying any items that may support the development of military capabilities, items relevant to nuclear, ballistic missiles and other weapons of mass destruction-related programs, bans on the purchase from the DPRK of coal and various other minerals, precious metals, wood and other commodities, textiles, seafood and statues and a ban on the sale to the DPRK of various items ranging from crude oil, refined petroleum products, condensed natural gas through to new or used vessels or new helicopters and luxury goods. The UNSC resolution relating the sanctions against the DPRK also prohibits the grant of work permits to workers from the DPRK.

UNSC resolutions are binding on UN member states under the UN Charter. In order to bring these decisions into effect they have to be implemented into domestic legislation by each UN member state. This means that the interpretation and enforcement of UNSC sanctions may differ among United Nations member states.

European Union

The European Union (“EU”) imposed economic sanctions implementing the current UNSC sanctions regimes and the measures required under those regimes (such as arms embargos and the freezing of assets and economic resources of designated individuals and legal entities as well as more extensive economic measures against the DPRK). In addition, the EU introduced its own sanction regimes (“Domestic Sanction Regimes”) against (or in relation to) certain other countries, organizations or individuals. In certain cases, in addition to asset freezing measures against designated persons and an arms embargo, the Domestic Sanction Regimes imposes sector-specific trade sanctions, notably, sanctions targeting arctic sea oil explorations and extraction activities in Russia, broad economic sanctions against the occupied Crimea territory (including an import ban of all products originating in Crimea) and various economic measures imposed against Venezuela and Myanmar. In addition, the EU imposed asset freezing sanctions against designated individuals and organizations designed to counter international terrorism, cyber-crime, corruption, abuse of human rights and the use of chemical weapons.

Whilst some of the EU sanctions regimes (such as against the DPRK and the Crimea region of Ukraine occupied by Russia) ban a broad range of economic activities involving the affected territories, none of those EU regimes imposes a blanket prohibition against business dealings or financial transactions with individuals or organizations in those territories relating to non-controlled and non-prohibited articles or services (except dealings with individuals or organizations specifically designated under the sanctions regime).

REGULATION

EU Sanctions extend to all persons in the territory of the EU, any nationals of any EU member state or entities incorporated under the laws of EU member states (whether inside or outside the territory of the EU), and to all activities conducted in or through the EU territory (including on board any aircraft or any vessel under the jurisdiction of an EU member state) or otherwise subject to EU jurisdiction. The EU sanctions regulations are directly applicable in the 27 member states of the EU. Each EU member state sets out its own enforcement measures and procedures against violations of the sanctions regimes, however, EU law requires those measures to be effective and deterring.

United Kingdom

While the United Kingdom (“UK”) withdrew from the EU with effect from 31 December 2020, upon its withdrawal it adopted the EU sanctions regime into its domestic legislation and continues to enforce identical sanctions as the EU in relation to its own territory, its nationals and legal entities subject to its jurisdiction. Before 31 December 2020, the UK enforced EU sanctions within its own territory in the same way as all other EU member states. In addition, the UK extended its (and the EU’s) sanctions regimes to certain overseas territories including (amongst others) the Cayman Islands and the British Virgin Islands. Domestic laws in those territories (passed by the UK legislature and through local legal measures) enforce the EU/UK sanctions regimes (which include the UNSC sanctions) against nationals of those overseas territories, legal entities operating under the laws of the overseas territories and against activities in violation of the sanctions carried out through the territories of the overseas territories, including through their banking system, vessels and aircraft.

Violation of the sanctions regimes including acts of circumvention of the sanctions or facilitating of such violations, may constitute criminal offenses in the relevant jurisdictions and may give rise to criminal sanctions against individuals, legal entities and the directors of legal entities.

United States of America

Economic Sanctions

The U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”) administers U.S. economic sanctions programs authorized under various enacted laws, Executive Orders, and codified regulations. As of the date of this prospectus, OFAC administers comprehensive economic sanctions against the Sanctioned Countries of Cuba, Iran, North Korea, Syria, and the Crimean, Donetsk People’s Republic, and Luhansk People’s Republic regions of Ukraine, which prohibit nearly all transactions involving these Sanctioned Countries unless authorized by OFAC. In addition, as of the date of this prospectus, the United States has less restrictive, list-based sanctions against Sanctioned Targets that are individuals and entities in other jurisdictions including the Balkans, Belarus, Burma, Burundi, Central African Republic, Democratic Republic of the Congo, Ethiopia, Hong Kong, Iraq, Lebanon, Libya, Mali, Nicaragua, Russia, Somalia, South Sudan, Sudan, Ukraine, Venezuela, Yemen, and Zimbabwe. OFAC also has list-based sanctions programs aimed at Sanctioned Targets that

REGULATION

are individuals and companies around the world who are involved in certain harmful activities like narcotics trafficking, cyber-crime, terrorism, proliferation of weapons of mass destruction, public corruption, and human rights abuses.

The broadest of OFAC's list-based sanctions apply against Sanctioned Targets that appear on OFAC's List of Specially Designated Nationals and Blocked Persons ("SDN List," with each listed person an "SDN"). OFAC also applies the SDN List to entities that are 50% or more owned by SDNs (the "50 Percent Rule"). Under this 50 Percent Rule, the same prohibitions against dealing with SDNs apply to any such owned entities that do not explicitly appear on the SDN List. SDNs and Sanctioned Targets under the 50 Percent Rule are subject to asset blocking sanctions, such that their property interests subject to U.S. jurisdiction become "blocked" and U. S. persons may not be deal in those interests. Besides the SDN List, OFAC also administers other list-based sanctions that are more limited in scope that prohibit only specified types of transactions.

The prohibitions under OFAC's sanctions programs apply directly as primary sanctions to "U.S. persons," meaning U.S. citizens, U.S. lawful permanent residents, persons located within U.S. territory, and entities established under U.S. law (including foreign subsidiaries with respect to the Cuban and Iranian sanctions). U.S. persons are prohibited generally from directly or indirectly engaging in transactions with Sanctioned Countries and dealing in the property interests of Sanctioned Targets. However, OFAC sanctions also prohibit facilitation and causation of prohibited transactions between U.S. persons and Sanctioned Countries and Sanctioned Targets. It is thus possible for non-U.S. persons to violate OFAC's primary sanctions in limited circumstances by facilitating or causing a U.S. person's violation of OFAC sanctions (e.g., by serving as an intermediary or soliciting a U.S. person's involvement in a prohibited transaction).

OFAC imposes secondary sanctions on non-U.S. persons who engage in significant transactions with, or on behalf of, Sanctioned Countries and Sanctioned Targets. In these cases, the non-U.S. person becomes a Sanctioned Target subject to the asset blocking sanction. The non-U.S. person would lose the ability to deal with U.S. persons or make use of the U.S. financial system.

Trade Sanctions

The U.S. Department of Commerce's Bureau of Industry and Security ("BIS") administers U.S. trade sanctions that are distinct from OFAC's economic sanctions. These BIS administered trade sanctions include U.S. trade embargoes against Sanctioned Countries and export restrictions against certain Sanctioned Targets that appear on BIS's Entity List among other sanctions lists. These trade sanctions are codified in the Export Administration Regulations ("EAR") and only apply with respect to the exportation, re-exportation, and transfer of commodities, software, and technology that are "subject to the EAR." In general, an item is only subject to the EAR if it is sourced from the United States or if it has substantial U.S. content above a prescribed "*de minimis*" threshold.

REGULATION

Australia

In Australia, sanction laws implement two related sanctions regimes: the UNSC sanctions regimes outlined above and Australian autonomous sanctions regimes under the *Autonomous Sanctions Act 2011* (Cth) and *Autonomous Sanctions Regulations 2011* (Cth) (“autonomous sanctions”). The autonomous sanctions have extraterritorial reach and apply to Australian citizens, bodies corporate that are registered in Australia or controlled by a body corporate registered in Australia, persons located in Australia, activities conducted in or through Australia, and conduct or a result of conduct occurring on board an Australian aircraft or an Australian ship.

Autonomous sanctions have been imposed against the following countries: Crimea and Sevastopol; the DPRK; the Former Federal Republic of Yugoslavia; Iran; Libya; Myanmar; Russia and Ukraine; Syria; and Zimbabwe.

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this prospectus were extracted from the iResearch Report, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged iResearch to prepare the iResearch Report, an independent industry report, in connection with the Global Offering. The information from official government sources has not been independently verified by us, the Joint Sponsors, the Overall Coordinators, Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers, Underwriters and the Capital Market Intermediaries, any of their respective directors and advisors, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy.

SOURCE OF INFORMATION

This section includes information from the iResearch Report commissioned by us, as we believe information imparts a greater understanding of China's online video and audio social entertainment market. We believe that iResearch has specialized research capabilities and experience in this industry in China. iResearch is an independent market intelligence provider that provides market research, information and advice to companies in various industries, including China's online video and audio social entertainment market. We have agreed to pay a commission fee of RMB730,000 for the iResearch Report. We are of the view that the payment of such fee does not impair the fairness of the conclusions drawn in the iResearch Report. Figures and statistics provided in this prospectus and attributed to iResearch or the iResearch Report have been extracted from the iResearch report and published with the consent of iResearch.

In preparing the iResearch Report, iResearch conducted detailed research which involved primary research that involved expert interviews and company interviews, and secondary research analyzing information and statistics published by government departments, industry associations, publications and studies by industry experts, public company annual and quarterly reports, iResearch's other research reports, online resources and data from iResearch's research database. iResearch also assumes that (1) the social, economic and political environments of China will remain stable during the forecast period, (2) the data quoted from authoritative agencies remains unchanged, (3) related market drivers are expected to continue to drive the growth of the relevant markets in the forecast period, such as the steady development of China's mobile internet industry and Generation Z's demand of video and audio social entertainment content, and (4) there is no extreme force majeure events or new industry regulation which would dramatically or fundamentally affect the relevant markets.

INDUSTRY OVERVIEW

DIRECTORS' CONFIRMATION

After making reasonable inquiries, our Directors confirm that, to the best of their knowledge, there has been no adverse change in the market information presented in the iResearch Report since the date of the iResearch Report, which may disqualify, contradict or impact the information in this prospectus.

CHINA'S ONLINE CULTURAL ENTERTAINMENT MARKET

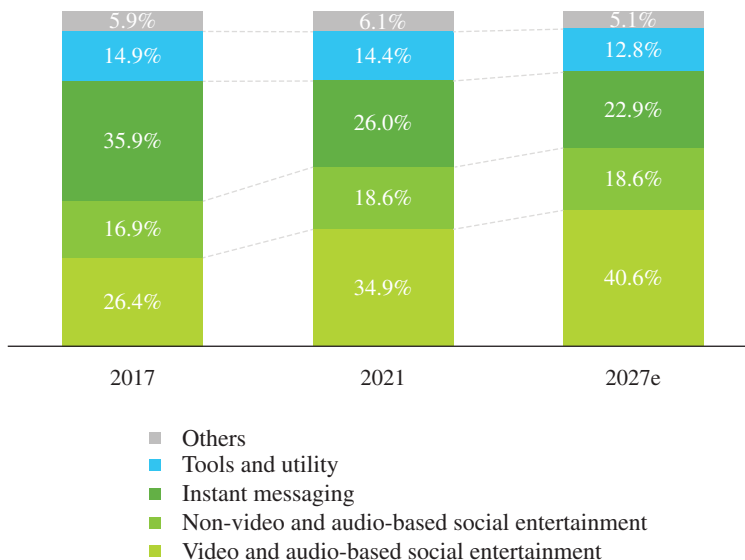
In recent years, the demand for cultural entertainment among consumers in China has continued to grow. The steady economic growth in China has driven the continuous growth in per capita disposable income of Chinese consumers. Despite the impact of COVID-19, the per capita disposable income in China is expected to grow, supporting the increasing per capita spending on education, culture and entertainment by Chinese consumers. China's cultural entertainment market, which consists of online and offline cultural entertainment, in terms of revenues, increased from RMB773.8 billion in 2017 to RMB1,479.6 billion in 2021 at a CAGR of 17.6% and is expected to reach RMB2,667.2 billion in 2027 at a CAGR of 10.3% from 2021 to 2027. With the development of internet technology, including 5G, big data and AI technologies, and the proliferation of online social media and mobile apps in China, online cultural entertainment is expected to become the primary source of cultural entertainment.

China's online cultural entertainment market mainly includes short video, live streaming and online music (including karaoke), as well as online audio, online literature and online games. With the fast-paced technological innovation, industry participants, which are mainly online cultural entertainment platforms (including mobile apps and PC clients), are able to accurately identify target users and their preferences for content through quantitative analysis to efficiently distribute relevant content to audience. Riding on this favorable industry development, China's online cultural entertainment market, in terms of revenues, increased from RMB389.3 billion in 2017 to RMB1,085.3 billion in 2021 at a CAGR of 29.2% and is expected to reach RMB2,182.5 billion in 2027 at a CAGR of 12.3% from 2021 to 2027.

The continued growth of China's online cultural entertainment market is further supported by the proliferation of the internet as the primary venue for entertainment. The penetration rate of China's online cultural entertainment users as a percentage of the total number of internet devices stabilized at approximately 92.7% in 2021, showing a great growth potential for further monetization of online cultural entertainment market. Furthermore, Chinese internet users are spending more time on video and audio online social entertainment. In 2021, internet users in China spent more than one-third of their total internet surfing time on video and audio social entertainment apps, and are expected to spend more than 40.6% of their internet surfing time on video and audio social entertainment content in 2027. With the acceleration of 5G technology deployment, online video and audio content, such as short videos and live streaming, will become one of the most important avenues for mobile internet users to access information and entertainment content. The following chart sets out a breakdown of Chinese internet users' internet surfing time by content types for the years indicated.

INDUSTRY OVERVIEW

Breakdown of China's Internet Users' Internet Surfing Time by Content Types 2017-2027E

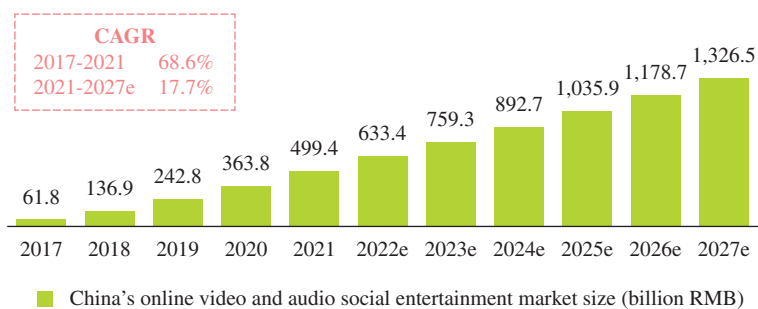


Source: iResearch Report

CHINA'S ONLINE VIDEO AND AUDIO SOCIAL ENTERTAINMENT MARKET

Internet users are no longer satisfied with graphics-based entertainment and social interaction, and are increasingly attached to real-time, video- and audio-based social entertainment content. Live streaming and short video are currently the most widely used form of video-based interaction to meet users' daily social entertainment demand. Audio social entertainment enables users to interact or enjoy entertainment in scenarios that are not covered by video social entertainment, such as smart wearable devices, smart home devices and in-vehicle devices. China's online video and audio social entertainment market, in terms of revenues, grew from RMB61.8 billion in 2017 to RMB499.4 billion in 2021 at a CAGR of 68.6%, and it is expected to reach RMB1,326.5 billion in 2027 at a CAGR of 17.7% from 2021 to 2027. The following chart sets out the market size of China's online video and audio social entertainment market for the years indicated.

China's Online Video and Audio Social Entertainment Market by Revenues 2017-2027E



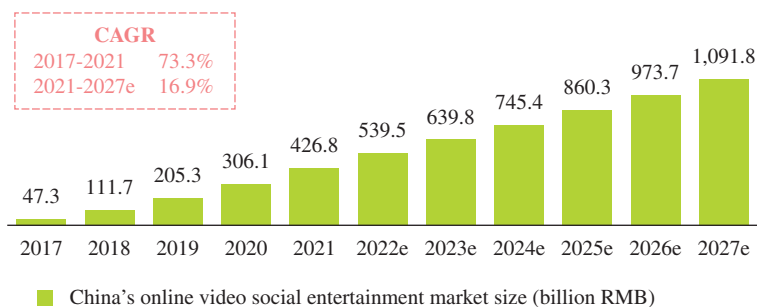
Source: iResearch Report

INDUSTRY OVERVIEW

China's Online Video Social Entertainment Market

China's online video social entertainment market mainly includes short video and live streaming platforms. China's online video social entertainment market, in terms of revenues, increased from RMB47.3 billion in 2017 to RMB426.8 billion in 2021 at a CAGR of 73.3%. As viewing short videos and live streaming online has become an integral part of daily life for more than half of China's mobile internet users, it has created a strong market demand for high-quality entertaining streaming content, inspired the creative enthusiasm of content creators, which drives social entertainment platforms to refine their operations. China's online video social entertainment market, in terms of revenues, is expected to reach RMB1,091.8 billion in 2027 at a CAGR of 16.9% from 2021 to 2027. The following chart sets out the market size of China's online video social entertainment market by revenues for the years indicated.

China's Online Video Social Entertainment Market by Revenues 2017-2027E



Source: iResearch Report

China's live streaming market

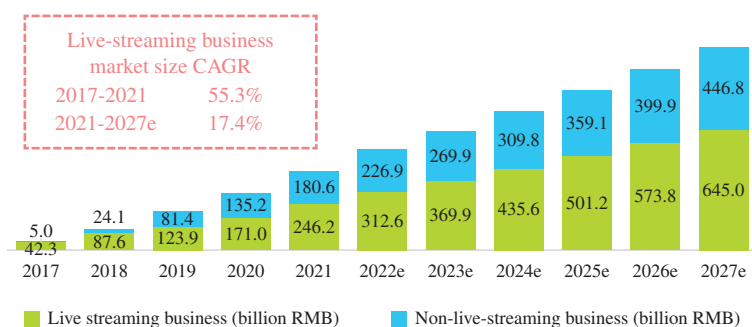
Live streaming is an enduring form of online entertainment that features multiple-party real-time interactions with diversified content. Hosts and viewers may interact with each other on a real-time basis, by live chat and gifting. China's online video social entertainment live streaming market, in terms of revenues, grew from RMB42.3 billion in 2017 to RMB246.2 billion in 2021 at a CAGR of 55.3% and is expected to reach RMB645.0 billion in 2027 at a CAGR of 17.4% from 2021 to 2027.

Platforms offering live streaming services primarily generate revenues from virtual gifting and other monetization methods, such as advertisement and e-commerce. Virtual gifting refers to the gifting of virtual items by live streaming users to streamers as a means to express their appreciation, admiration and support, which also enriches interactions among streamers and their viewers. Since the beginning of the live streaming market in China, virtual gifting has been a major source of revenue for live streaming platforms. Revenues generated from virtual gifting were approximately RMB172.9 billion, representing approximately 70.2% of the total revenues generated from live streaming services by China's video live streaming platforms in 2021. Virtual gifting as a business model is expected to have strong monetization potential.

INDUSTRY OVERVIEW

According to a survey conducted by iResearch in July 2021, more than half of viewers are aged under 35 and they tend to have relative higher income and are more willing to pay for quality live streaming content. As virtual gifting as a business model has gradually matured over years and platforms continue to invest in the innovation of visual effects and playstyles of virtual items, China’s video social entertainment live streaming market, in terms of revenues, is expected to reach RMB645.0 billion in 2027 at a CAGR of 17.4% from 2021 to 2027. The following chart sets out the market size of China’s video living streaming market for the years indicated.

China’s Video Social Entertainment Market by Revenues Types 2017-2027E



Source: iResearch Report

There are four major participants in the value chain of China’s video social entertainment live streaming industry, including (1) live steaming platforms, (2) hosts and talent agencies, (3) viewers, and (4) supporting companies.

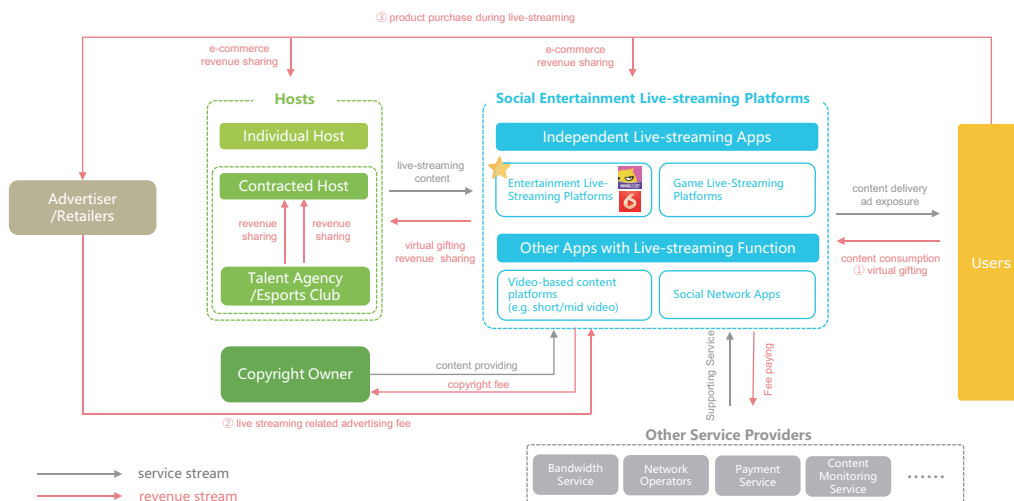
- Live streaming platforms.* Live streaming platforms connect users with hosts of desirable personalities, appearance or talents, and provide a wide array of real-time, interactive features. Live streaming platforms primarily monetize their user base through sales of virtual items to users, and share the gross billings with hosts or their associated talent agencies.
- Hosts and talent agencies.* Hosts perform on a live streaming platform as a “freelancer” or as a member of a specific streamer association on that platform. They provide a wide range of performances in their streaming rooms to showcase their talents, knowledge and skills, as well as share their life stories with users. Streamers primarily generate income from receiving virtual gifts from users. They may also monetize their fan base through advertising services, sponsored product sales or brand endorsements. Hosts may be associated with talent agencies, which consist of MCNs, streamer associations, or other entertainment companies. They generally cooperate with multiple live streaming platforms as a source of viable hosts and content. They generate revenues primarily from sharing a portion of the gross billings from the sales of virtual items on live streaming platforms attributed to their hosts.

INDUSTRY OVERVIEW

- Users.* Users generally find live streaming attractive because of the immersive interaction experiences. They can watch live streaming content on live streaming platforms for free; alternatively, they may gift virtual items to their preferred hosts to show their affection and support. They may use other features on live streaming platforms to interact with desirable hosts, such as private messages and co-streaming.
- Supporting companies.* A number of supporting companies, such as advertisement agencies, e-commerce merchants, hardware and software providers, technical support and third-party payment channels, also take a role in the development of China’s video social entertainment live streaming industry.

The following diagram illustrates the value chain of China’s online video social entertainment live streaming industry.

China’s Online Video Social Entertainment Live-streaming Value Chain



Source: iResearch Report

China’s entertainment live streaming market

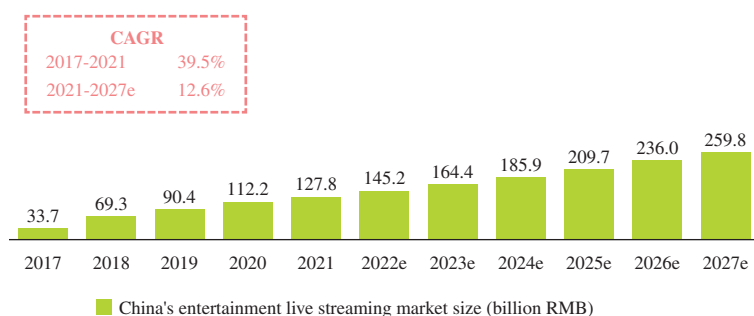
Based on content offerings, China’s live streaming market can be further divided into entertainment, gaming and e-commerce. Entertainment live streaming is currently the largest market by revenue, which primarily includes music, dancing, beauty and talk shows. Total revenue of entertainment live streaming platforms in China accounted for approximately 7.0% of China’s online video and audio social entertainment market in terms of revenue in 2021. The origin of entertainment live streaming can be traced back to early 2000s, with PC client-based platforms such as *6.cn* and *9158* pioneered in the era of PC-based live streaming. With the proliferation of mobile devices in China, live streaming has been gradually migrating from the PC clients to mobile apps. At the same time, live streaming of gaming (including e-sport competition) and e-commerce has also gained increasing popularity in recent years.

INDUSTRY OVERVIEW

Entertainment live streaming has become a new development trend to meet the diverse demands of viewers. However, due to the interactive and social nature of the entertainment live streaming market, first-mover platforms such as *Huajiao*, *YY* and *Inke* can leverage their technological advantages, operational experiences, brand influence and user base to capture market shares.

Entertainment live streaming is currently the primary source of live streaming content, as users have strong demands for live streaming content arising out of the emotional need or admiration and support for hosts. The average revenue per monthly paying user of entertainment live streaming platforms in China increased from RMB470 in 2016 to RMB516 in 2021, and is expected to reach RMB541 in 2026. China's entertainment live streaming, in terms of revenues, is expected to increase from RMB127.8 billion in 2021 to RMB259.8 billion in 2027 at a CAGR of 12.6% from 2021 to 2027. The following chart sets out China's entertainment live streaming market by revenues for the years indicated.

China's Entertainment Live Streaming Market by Revenues 2017-2027E



Source: *iResearch Report*

The following factors are the key drivers for China's entertainment live streaming market:

- *Popularity of live streaming to promote quality content.* Live streaming has continued to gain popularity as a form of content consumption and to experience improved public perception, which has stimulated the continuous development of professional hosts and professional content production.
- *User attraction and stickiness.* The proliferation of mobile internet has enabled more diversified forms of content consumption. Compared with graphics and video, the strong sense of interactivity, affinity and immersion provided by live streaming makes it uniquely compatible with entertainment formats such as music, dancing and gaming and further facilitates user engagement during live streaming session. Diverse and quality entertainment content is expected to attract a wider range of user groups and increase the stickiness of existing users. The expansion of the professional host base and their content creation capabilities have also enabled users

INDUSTRY OVERVIEW

to access more diversified, interesting and high-quality live streaming content. The increasingly sophisticated content distribution system also enables users to easily locate their favorite hosts based on their preferences.

- *Increased user willingness to pay for quality content.* On one hand, hosts have the dual identities of ordinary people and internet influencers to satisfy the differentiated emotional needs of users. Users also gradually form a strong relationship with hosts as they spend more time on the content provided by such host, and as a result, they will be more willing to support the performance by such hosts. On other hand, paying users are rewarded with unique status and privileges in the live streaming room, which can improve their sense of satisfaction and accomplishment. With the proliferation of live streaming and the emergence of large platforms, users' trust in the gifting feature and top-up services also continues to improve, which can systematically improve users' willingness to pay for quality live streaming content. The average conversion ratio from MAU to MPU for leading mobile-based entertainment live streaming platforms in 2021 was approximately 3.0%. On the other hand, the ARPPU of platforms can be affected by operational activities, such as the promotion of the sales of virtual items. Due to the difference in user cohort and characteristics among platforms, the ARPPU for major platforms ranged between RMB250 to RMB600 from 2019 to 2021.

The following factors will contribute to the success of an entertainment live streaming platform:

- *Talented hosts.* Entertainment live streaming platforms rely on quality content to attract users. In order to maintain a consistent supply of quality content, platforms collaborate with top-tier MCNs and actively discover and provide training to promising streamers. They also assist in the production of professional generated content and connect premium hosts with performance opportunities and variety shows.
- *Competition for users.* Entertainment live streaming platforms compete for the recognition and loyalty of users, which requires them to continually supply and distribute quality content, optimize operations to introduce new products and playstyles and curate a group of influential hosts. In addition, platforms also conduct effective marketing and promotion to expand brand influence and improve user retention by enhancing customer satisfaction.
- *Technological capabilities and infrastructure.* Entertainment live streaming platforms compete for users attention and screen time, which requires them to strengthen their creative and research efforts and continually introduce innovative products, features and functionality to increase user engagement and stickiness. In addition, they improve their technologies to efficiently distribute relevant content to

INDUSTRY OVERVIEW

a large and growing number of users. Compared with traditional entertainment format, live streaming platforms occupy more bandwidth resources and must continually improve their technological infrastructure to ensure the streaming quality and user experience.

- *Brand influence.* Brand reputation affects user perception and user stickiness. The community atmosphere and platform attributes form an inherent impression and reputation among the user groups, which affects the inflow of new users and the retention of existing users.
- *Regulatory compliance.* Entertainment live streaming platforms are required to obtain certain approvals, licenses and permits to conduct their business operations from the relevant PRC government authorities, including the Online Culture Operating License (網絡文化經營許可證) and the ICP License (增值電信業務經營許可證), and maintain a strict content review and monitor policy to ensure continuous compliance with applicable laws. Platforms with sufficient capital and human resources to obtain the required licenses and bear the high compliance costs will have a competitive advantage in light of the evolving regulatory regime governing China's live streaming industry.
- *Capital.* Entertainment live streaming platforms require abundant high-quality content to attract user traffic. They compete with each other for superior content creators, and to this end, offer suitable talent supporting system and flexible incentive division policy, which requires access to sufficient capital on reasonable terms.

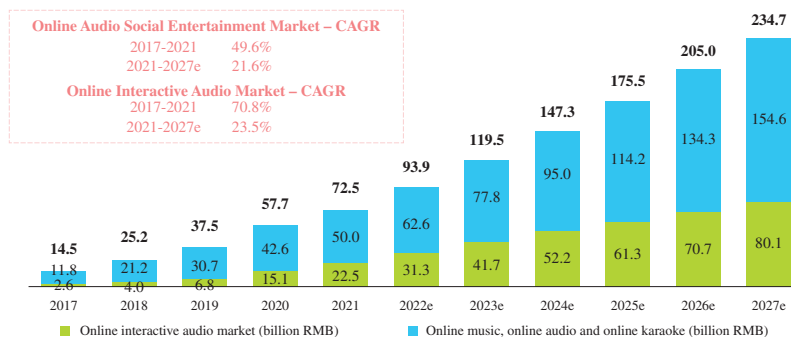
China's Online Audio Social Entertainment Market

China's online audio social entertainment market primarily consists of online music platforms, online audio platforms, online karaoke platforms, and other innovative platforms providing real-time audio interactive services. Since 2017, revenues generated from content subscription and virtual gifting by top-tier online audio social entertainment platforms have increased significantly, leading to significant increase in the overall market growth. China's online audio social entertainment market, in terms of revenues, increased from RMB14.5 billion in 2017 to RMB72.5 billion in 2021 at a CAGR of 49.6%. In the long term, the growth of China online audio social entertainment platforms will be mainly driven by user payment such as virtual gifting and content subscriptions. China's online audio social entertainment market, in terms of revenues, is expected to reach RMB234.7 billion in 2027 at a CAGR of 21.6% from 2021 to 2027. Compared to video live streaming, online audio interactive entertainment can preserve anonymity, which caters to the need of a wider range of users for social experiences with privacy, security and mystery. Driven by the pursuit of emotional companionships among the growing younger population in China, the online interactive audio

INDUSTRY OVERVIEW

market, in terms of revenues, grew from RMB2.6 billion in 2017 to RMB22.5 billion in 2021 at a CAGR of 70.8% and is expected to reach RMB80.1 billion in 2027 at a CAGR of 23.5% from 2021 to 2027. The following chart sets out the market size of China’s online audio social entertainment market by segments.

Market Size of China’s Online Audio Social Entertainment Market by Segment 2017-2027E



Source: iResearch Report

The following are key drivers for China’s online audio social entertainment market:

- *Generation Z users’ demand for self-expression.* Generation Z users have strong demand for building their unique social image online. They are eager to communicate with and express themselves through virtual social images and are willing to share their lives online. Generation Z users seek spiritual resonance on the internet and are eager to connect with others through content sharing and audio-based interaction. Online audio interaction platform has become a hotspot for young people to interact freely.
- *User anonymity.* Unlike real-time video interaction, audio live streaming and audio social networking do not require users to reveal their faces on the internet, which provides greater privacy and protection against identity leak in real life. A user can also assume separate persona in different scenarios, as voice is the main perceivable identification. This new interactive mode subverts traditional video-based social interaction and has become increasingly popular among young users.
- *Diversified user interest promoting growth of audio interaction.* Diversified content categories gather users with similar interests and emotions to form various groups and participate in audio-based social discovery activities, which have become an important driver to construct audio interaction ecosystem, Audio-based interaction is different from traditional video-based social discovery, which focuses on one-on-one interaction. Such groups are also important for building cultural and group identity among Generation Z users.

INDUSTRY OVERVIEW

The following factors will contribute to the success of offering audio social entertainment products:

- *Products and technologies.* Products backed by advanced technology infrastructure that attract users are the prerequisites for the success of online audio interaction platforms. Rapid innovation of platform features and product functionality are crucial to attract users interested in real-time interactive social experience. Audio interaction platforms also need to retain and train experienced research and operational staff to enhance technical infrastructure of the platforms.
- *Operational capability.* In order to effectively manage the growing user base and at the same time accurately identify promising hosts and assist them in creating quality content, an audio social entertainment platform needs to maintain an effective operation system which encompasses every key aspect of operations, from resource management, customer services, to efficient marketing and promotion campaigns, to grow its business in a sustainable manner.
- *Community culture.* The diverse and inclusive online community continues to attract users to participate in group discussion, interaction and other group-based activities, which help further attract users to the platform.
- *Regulatory compliance.* Online audio interaction services are also subject to regulatory policies to ensure the orderly development of the market. Online audio interaction market participants need to have strict internal control and content review system, comply with relevant laws, regulations and policies and adjust platform operational strategies in a timely and flexible manner, so as to avoid any negative impact and economic loss caused by non-compliance incidents.

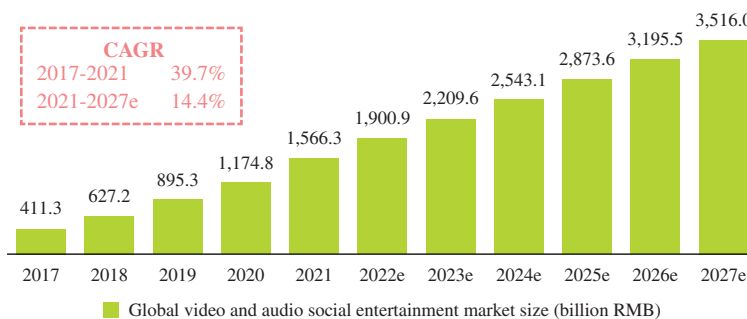
GLOBAL OPPORTUNITIES OF CHINA'S ONLINE VIDEO AND AUDIO SOCIAL ENTERTAINMENT PLATFORMS

Globally, video and audio social entertainment platforms are experiencing rapid development as the user base of online social entertainment market continues to grow with the proliferation of global mobile internet infrastructure. Global online social entertainment market had a user base of approximately 3.8 billion in 2021. The penetration rate of online social entertainment users in many regions in the world, such as North America, most of Europe and parts of Asia, have ranged from 60% to 70% in 2021. The Far East and MENA markets have strong growth potentials. The user base of global online social entertainment market is expected to reach 4.6 billion in 2027.

INDUSTRY OVERVIEW

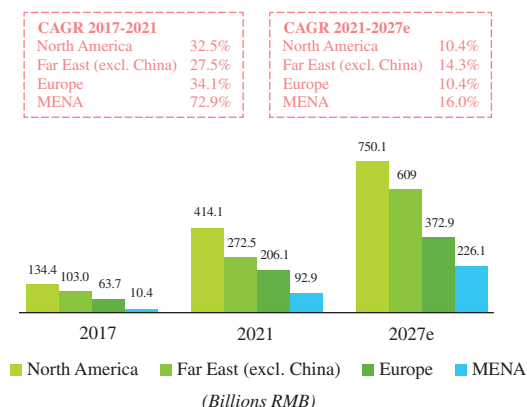
The global video and audio social entertainment market has experienced robust growth in the past five years and is expected to maintain steady growth in the next five years. Riding on the steady development of the global online social entertainment market, the global video and audio social entertainment market, in terms of revenues, increased from RMB411.3 billion in 2017 to RMB1,566.3 billion in 2021 at a CAGR of 39.7% and is expected to reach RMB3,516.0 billion in 2027 at a CAGR of 14.4% from 2021 to 2027. The following charts set out the market size of the global and certain regional video and audio social entertainment market for the years indicated.

Global Video and Audio Social Entertainment Market by Revenues, 2017-2027E



Source: iResearch Report

Main Regional Video and Audio Social Entertainment Market Size, 2017-2027E



Source: iResearch Report

The growth in social live streaming users in the Far East and MENA is significantly higher than that of North America and Europe, and social live streaming services are gaining greater popularity as COVID-19 changed the lifestyle of many people. Compared with the Chinese market, where live streaming services are more developed, the penetration rate of social live streaming in other overseas regions still has ample room to catch up, which represents significant monetization potential. Leveraging their rich operational experience and effective localization strategies, many of China's online video and audio social entertainment

INDUSTRY OVERVIEW

platforms have launched successful overseas operations, and created strong market appeal among overseas users. Since global users' needs for social entertainment are universal and transcend cultural and national boundaries, there is significant opportunity for China's online social entertainment platforms to implement localized operations and marketing strategies.

COMPETITIVE LANDSCAPE OF CHINA'S ENTERTAINMENT LIVE STREAMING MARKET

Within China's online entertainment market, some market participants primarily focus on providing entertainment live streaming content and serving a diversified user base, while others focus more on specific content genres and tailor their services to targeted user groups. While there are certain degrees of user overlap among them, platforms differentiate themselves with distinctive user experiences. Platforms with more diverse content and more vibrant content creation ecosystems are better equipped to address the evolving needs of users with different backgrounds and interests.

As an online entertainment live streaming platform that caters to a diverse range of users in both mobile apps and PC clients, we compete with other entertainment live streaming platforms offering similar products and services. In addition, we compete with other major companies in the internet industry that have also established their own live streaming businesses for user time.

China's entertainment live streaming market contains many market players that have relatively unstable business and short product life cycle as a result of the intensive market competition. It is estimated that, in 2021, there were approximately 20 entertainment live streaming platforms with an average MAUs of above 0.5 million, which are considered as platforms with relatively stable business.

According to the iResearch Report, we ranked third among entertainment live streaming platforms in China, in terms of revenue generated from apps and websites on mobile and PC, as well as WeChat mini programs in 2021, accounting for approximately 13.1% of total revenue of China's entertainment live streaming platforms and approximately 0.9% of total revenue of China's video and audio social entertainment market in 2021. We ranked among the top two entertainment live streaming platforms in China in terms of monthly active users and monthly paying users from apps and websites on mobile and PC, as well as WeChat mini programs, and monthly usage time of online entertainment live streaming on mobile apps and PC clients in 2021. The following tables set out our market positions as compared with other industry participants for the periods indicated.

INDUSTRY OVERVIEW

Market Share by Revenue Generated from Entertainment Live Streaming Platforms (Apps and Websites on Mobile & PC and WeChat Mini Programs) 2021

Company	by Revenue (%)
Tencent Music Entertainment Group (<i>Kugou Live & Kuwo Live</i>) ⁽¹⁾	31.0
Baidu (<i>YY Live</i>) ⁽²⁾	28.6
Huafang Group (<i>Huajiao & 6.cn</i>)	13.1
Inkeverse (<i>Inke Live</i>) ⁽³⁾	7.3
Tencent (<i>Now Zhibo</i>) ⁽⁴⁾	6.3

Monthly Active Users of Entertainment Live Streaming Platforms (Apps and Websites on Mobile & PC and WeChat Mini Programs)⁽⁶⁾ 2021

Company	MAUs (million)
Huafang Group (<i>Huajiao & 6.cn</i>)	59
Tencent Music Entertainment Group (<i>Kugou Live & Kuwo Live</i>) ⁽¹⁾	45
Inkeverse (<i>Inke Live</i>) ⁽³⁾	28
Tencent (<i>Now Zhibo</i>) ⁽⁴⁾	5
Weibo (<i>Yi Zhibo</i>) ⁽⁵⁾	4

Total Monthly Usage Time on Entertainment Live Streaming Platforms (Mobile Device and PC Client) 2021

Company	Usage Time (million minutes)
Baidu (<i>YY Live</i>) ⁽²⁾	3,600
Huafang Group (<i>Huajiao & 6.cn</i>)	1,400
Tencent Music Entertainment Group (<i>Kugou Live & Kuwo Live</i>) ⁽¹⁾	1,200
Inkeverse (<i>Inke Live</i>) ⁽³⁾	700
Tencent (<i>Now Zhibo</i>) ⁽⁴⁾	300

INDUSTRY OVERVIEW

Monthly Paying Users of Entertainment Live Streaming Platforms (Apps and Websites on Mobile & PC and WeChat Mini Programs) 2021

Company	Average Monthly Paying Users (millions)
Baidu (<i>YY Live</i>) ⁽²⁾	1.94
Huafang Group (<i>Huajiao & 6.cn</i>)	1.40
Tencent Music Entertainment Group (<i>Kugou Live & Kuwo Live</i>) ⁽¹⁾	1.25
Inkeverse (<i>Inke Live</i>) ⁽³⁾	0.81
Tencent (<i>Now Zhibo</i>) ⁽⁴⁾	0.14

-
- (1) Tencent Music Entertainment Group is a listed company headquartered in Shenzhen and a leading online music and audio entertainment service provider in China. It operates two well-known entertainment live streaming platforms, *Kugou Live & Kuwo Live*, in China.
 - (2) Baidu is a listed company headquartered in Beijing and operates *YY Live*, a leading video entertainment live streaming platform in China.
 - (3) Inkeverse is a listed company headquartered in Beijing offering entertainment live streaming and social networking services. It operates *Inke Live*, a well-known entertainment live streaming platform in China.
 - (4) Tencent is a listed company headquartered in Shenzhen and a leading internet technology company in China with various Internet-related products and services. It operates *Now Zhibo*, a well-known entertainment live streaming platform in China.
 - (5) Weibo is a listed company headquartered in Beijing and a leading social media platform in China. It also operates *Yi Zhibo*, a well-known entertainment live streaming platform in China.
 - (6) *YY Live*'s data is not currently available. However, based on available market data, iResearch estimates that *YY Live* would rank among top two entertainment live streaming platforms in terms of monthly active users of entertainment live streaming on all channels in 2021.

Entry barriers of China's entertainment live streaming market mainly include (1) operational capability, which refers to a platform's ability to generate user traffic, attract and retain users and convert active users to paying users, (2) capital investment, which refers to a platform's ability to raise sufficient capital to maintain its operations and cover the increasing operational expenses as its user base grows, and (3) content creation capability, which refers to a platform's ability to attract and retain a sufficient number of talented hosts to generate a wide range of quality content and attract users and improve user loyalty.

INDUSTRY OVERVIEW

COST OF HOSTS RETENTION

As platforms compete for user traffic through quality content created by a large number of talented hosts, revenue shared with hosts and their associated talent agencies, including MCNs, typically accounts for a significant portion of a platform's cost of sales. As there is a limited supply of talented hosts capable of generating a large fan base, platforms compete aggressively to retain hosts in order to attract users and drive business growth. The demand for quality hosts is expected to remain strong, and the cost to retain quality hosts is expected to remain at the similar level in the future. Revenue-sharing is the primary method of retaining hosts in the industry, and leading entertainment live streaming platforms with established operations typically can maintain a base revenue-sharing ratio of approximately 50%, and may adjust their base revenue-sharing ratio based on market condition to attract hosts and talent agencies. When platforms strive to cooperate with or retain specific hosts talent agencies, they may raise the revenue-sharing percentage to approximately 80%.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

We are an internet company in China, offering video- and audio-based live entertainment and social networking services to our users. We operate one of the leading online entertainment live streaming platforms in China. We offer video- and audio-based live entertainment and social networking services through our flagship products, *Huajiao* and *6.cn*. We also offer social networking and discovery services through our overseas products under HOLLA Group.

Since the inception of the Group in 2006, the Group has developed its business by providing users with a diversified business portfolio from live streaming to a suite of multi-faceted video- and audio-based social networking products and services. In 2006, the Group launched *6.cn* through Huafang Technology, which empowers hosts to form streaming clans and fan bases and compete against one another, fostering a competitive environment that encourages user engagement. In 2015, *Huajiao* was launched through Mijing Hefeng, which offers a stage for people who aspire to show their talents and share their skills, experience and lifestyles through interactive and entertaining experience delivered in live streaming sessions. The *Huajiao-6.cn* Merger (as defined below) in 2019 has allowed the Group to leverage the rich media and operational experiences of *6.cn* to diversify its service offerings and create a more engaging experience for users. In 2020, in order to expand the matrix of products and services as well as to serve a truly global user community, the Group acquired HOLLA Group, a group of companies operated under EXU INC., and has since introduced other video-based social networking products in North America, Europe, Far East and MENA.

We operate *Huajiao* through Mijing Hefeng and *6.cn* through Huafang Technology following the *Huajiao-6.cn* Merger (as defined below), which was completed on April 29, 2019. For details of the *Huajiao-6.cn* Merger, see “— Our Corporate Development — Huafang Technology” of this section. Huafang Technology had been the onshore holding company of our Group prior to the Reorganization.

OUR MILESTONES

The following table sets forth major events and milestones in the development of our business:

Year	Event
May 2006	Launched <i>6.cn</i>
May 2015	Launched <i>Huajiao</i>
September 2016	Held a performance event, <i>Night of Huajiao</i> , also known as the Oscar in the live streaming industry, which promoted the recognition of our brand among viewers and hosts

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Event
April 2019	Huajiao-6.cn Merger completed
December 2020	Acquisition of HOLLA Group completed for expansion of our overseas business
May 2022	Cumulative registered users of our Group reached 414.9 million

OUR MAJOR SUBSIDIARIES AND OPERATING ENTITIES

The following entities are of strategic importance to us or have made material contributions to our results of operations during the Track Record Period, each of which commenced business after their respective incorporation or establishment:

1. Chengdu Huafang Online Technology Co., Ltd. (成都花房在線科技有限公司)

Chengdu Huafang Online Technology Co., Ltd., our WFOE, was incorporated as a company with limited liability in the PRC on June 28, 2021.

We have adopted a series of Contractual Arrangements among WFOE, Huafang Technology and their Registered Shareholders, pursuant to which the Company shall exercise control over the business operation of our Consolidated Affiliated Entities and enjoy substantially all the economic interests derived therefrom through WFOE. See “Contractual Arrangements” for details of our Contractual Arrangements.

2. Huafang Technology

Huafang Technology was incorporated as a company with limited liability in the PRC on March 22, 2006. Huafang Technology is principally engaged in live entertainment and video-based social networking services business and operates *6.cn*. Huafang Technology is one of our Consolidated Affiliated Entities.

3. Mijing Hefeng

Mijing Hefeng was incorporated as a company with limited liability in the PRC on December 24, 2014. Mijing Hefeng is principally engaged in video- and audio-based live entertainment and social networking services business and operates *Huajiao*. Mijing Hefeng is one of our Consolidated Affiliated Entities.

4. Hainan Kailin

Hainan Kailin was incorporated as a company with limited liability in the PRC on May 22, 2020. Hainan Kailin is principally engaged in live streaming related business, including recruitment and management of hosts.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

5. EXU INC.

EXU INC. was incorporated as a company with limited liability in the Cayman Islands on August 6, 2014. EXU INC. is the holding company of our overseas business, including *Holla* and *Monkey*. EXU INC. was acquired by our Company in December 2020.

OUR CORPORATE DEVELOPMENT

We conduct our business mainly through Huafang Technology and Mijing Hefeng. The corporate information and development of these entities as of the Latest Practicable Date are set out below.

1. Huafang Technology

Huafang Technology operates our *6.cn*, a primarily PC client-based live streaming product with its own mobile app, and is one of the principal operating entities of our Group during the Track Record Period and up to the date of this prospectus. Huafang Technology had been the onshore holding company of our Group prior to the Reorganization.

Huafang Technology was established on March 22, 2006 as a limited liability company in the PRC by two individuals with an initial registered capital of RMB30,000. After a series of share transfers and capital injections, as of March 9, 2015, Huafang Technology was owned by eight individuals (namely, Wang Wangji (王望記), Jiang Hong (姜宏), Zhu Xiaoming (朱曉明), Lu Baogang (盧寶剛), Liu Yan (劉岩), Sun Mingqi (孫明琪), Gao Yuqing (高宇慶) and Yang Xiaolong (楊小龍)) and Hangzhou Songcheng Group Holding Co., Ltd. (杭州宋城集團控股有限公司) (the “Previous Shareholders of Huafang Technology”).

On July 27, 2015, the Previous Shareholders of Huafang Technology completed the transfers of all of their equity interests in Huafang Technology to Songcheng Performance and upon such share transfers, Huafang Technology became a wholly-owned subsidiary of Songcheng Performance. The then registered capital of Huafang Technology was RMB20 million. Songcheng Performance is a company incorporated in the PRC and listed on the Shenzhen Stock Exchange since December 9, 2010 (300144.SZ), which is principally engaged in investment, development and operation of theme parks, tourism, and cultural performances. According to the 2022 interim report issued by Songcheng Performance, as of June 30, 2022, Mr. Huang Qiaoling (黃巧靈), the director, controlling shareholder and actual controller of Songcheng Performance, together with the parties acting in concert with him, namely Huang Qiaolong (黃巧龍), Liu Ping (劉萍), Huang Qiaoyan (黃巧燕) and Dai Yinqin (戴音琴), directly and indirectly owned 45.96% shareholding of Songcheng Performance in aggregate. Save as Songcheng Performance’s indirect interests in our Group and the nomination of Mr. Chen Shengmin as a non-executive director of members of our Group by Songcheng Performance, there is no family, business, employment, financing, trust and shareholding relationships between Mr. Huang Qiaoling, together with the parties acting in concert with him, and our Group, other Shareholders, Directors and our senior management.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

In June 2018, Huafang Technology entered into a restructuring agreement with (1) Mijing Hefeng, (2) the then shareholders of Mijing Hefeng, which included Qihoo 360, Huajiao No. 1, Huajiao No. 2 and 12 other shareholders (collectively the “Mijing Hefeng’s Then Shareholders”), and (3) Songcheng Performance (the “Restructuring Agreement”), pursuant to which Huafang Technology agreed to issue 60% of its shares to the Mijing Hefeng’s Then Shareholders in return for the entire equity interest of Mijing Hefeng comprising of: (1) 19.96% of equity interest in Mijing Hefeng held by Huajiao No. 1 and Huajiao No. 2; and (2) 80.04% of equity interest in Mijing Hefeng held by the then remaining shareholders of Mijing Hefeng (the “Huajiao-6.cn Merger”). The consideration for the issuance of the shares of Huafang Technology under the Restructuring Agreement was determined based on arm’s lengths negotiations among the parties involved with reference to the valuation reports of Mijing Hefeng and Huafang Technology as of December 31, 2017 as appraised by an independent asset valuer. Such consideration was fully settled on April 29, 2019. The Huajiao-6.cn Merger has been accounted for as a reverse acquisition in accordance with IFRS 3 “Business Combinations”. The Huajiao-6.cn Merger was not a related party transaction. For the details of the accounting treatment of the Huajiao-6.cn Merger, see the section headed “Appendix I — Accountants’ Report.” An impairment loss of RMB1,777.7 million was recognized in 2020 for the goodwill arising from the Huajiao-6.cn Merger. Huafang Technology changed its name from Beijing 6.cn Technology Co., Ltd. (北京六間房科技有限公司) to Beijing Huafang Technology Co., Ltd. (北京花房科技有限公司) on December 17, 2020.

Our Board at the relevant time considered that the Huajiao-6.cn Merger would generate desired synergy, help us effectively grow our business and improve our financial performance. In particular, in terms of user traffic, as *Huajiao* as a mobile app and *6.cn* as a PC client acquire users through different channels, our Board at the relevant time considered that the user base of *Huajiao* and *6.cn* could complement each other, which could enable our Group to reach a broader and more diversified user base. In terms of host resources, the combination of the host resources of *Huajiao* and *6.cn* would improve our content ecosystem so as to enhance user acquisition, retention and engagement. Furthermore, the Huajiao-6.cn Merger accelerated *6.cn*’s expansion from PC clients to mobile apps to reach more users and achieve greater agility in meeting their demands. We believe that these business initiatives have paved the way for the sustained business performance of Huafang Technology.

Upon completion of the Huajiao-6.cn Merger on April 29, 2019, Mijing Hefeng became a wholly-owned subsidiary of Huafang Technology, and Huafang Technology was owned by (i) the Mijing Hefeng’s Then Shareholders as to 60%, including Huajiao No. 1 as to 7.98%, Huajiao No. 2 as to 3.99%, Qihoo 360 as to 27.1%, Jinhua Xuance Investment Management Co., Ltd. (金華萱策投資管理有限公司) (“Jinhua Xuance”) as to 1.82%, Jinhua Duanxuan Investment Management General Partnership (G.P.) (金華端萱投資管理合夥企業(普通合夥)) (“Jinhua Duanxuan”) as to 0.72%, Beijing Cultural Center Construction and Development Limited Partnership (L.P.) (北京市文化中心建設發展基金(有限合夥)) (“Beijing Cultural Center”) as to 3.99%, Mango Culture Creativity (Shanghai) Equity Investment Limited Partnership (L.P.) (芒果文創(上海)股權投資基金合夥企業(有限合夥)) (“Mango Culture”) as to 1.6%, Shenzhen Zhirun No. 1 Investment Limited Partnership (L.P.) (深圳致潤一號投資合夥企業(有限合夥)) (“Zhirun No. 1”) as to 1.36%, Shenzhen Zhirun No. 2 Investment Limited

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Partnership (L.P.) (深圳致潤二號投資合夥企業(有限合夥)) (“Zhirun No. 2”) as to 3.18%, Ningbo Meishan Free Trade Port Area Huabo Blooming Equity Investment Limited Partnership (L.P.) (寧波梅山保稅港區花播盛開股權投資合夥企業(有限合夥)) (“Ningbo Huabo”) as to 2.73%, Ningbo Meishan Free Trade Port Area Huajiao Equity Investment Limited Partnership (L.P.) (寧波梅山保稅港區花椒股權投資中心(有限合夥)) (“Ningbo Huajiao”) as to 1.82%, Shoujin Capital Management (Beijing) Co., Ltd. (首金聯合資本管理(北京)有限公司) as to 0.12%, Shanghai Huawei Equity Investment Limited Partnership (L.P.) (上海驊偉股權投資基金合夥企業(有限合夥)) (“Shanghai Huawei”) as to 0.4%, Great Chiliocosm (Kunshan) Cultural Investment Partnership (L.P.) (三千世界(昆山)文化產業投資合夥企業(有限合夥)) (formerly known as Zhongtuo Zhongcai (Kunshan) Game Industry Phase II Investment Partnership (Limited Partnership) (中投中財(昆山)遊戲產業二期投資合夥企業(有限合夥))) (“Great Chiliocosm”) as to 0.2% and Zhang Fa as to 2.99%, and (ii) Songcheng Performance as to 40% with a registered capital of RMB50 million.

In June 2019, Songcheng Performance transferred 0.47% of equity interest in Huafang Technology to Qihoo 360 at a consideration of RMB40,000,000, which was fully settled on June 28, 2019. The cash consideration paid for such transfer was determined based on arm’s length negotiations between Songcheng Performance and Qihoo 360. Upon completion of such share transfer, Huafang Technology was owned by (1) Qihoo 360, Huajiao No. 1 and Huajiao No. 2, in aggregate as to approximately 39.54%, (2) Songcheng Performance as to 39.53%, and (3) other shareholders as to 20.93%.

On November 10, 2020, the registered share capital of Huafang Technology was increased from RMB50,000,000 to RMB53,333,333 by way of capital contribution of RMB3,333,333 by Tianjin Huafang Feiteng Technology Center (L.P.) (天津花房飛騰科技中心(有限合夥)) (“Huafang Feiteng”), which was fully settled on November 27, 2020. Huafang Feiteng was a shareholding vehicle established by our employees on September 1, 2020. The general partner of Huafang Feiteng is Tianjin Yongsheng Technology Co., Ltd. (天津咏升科技有限責任公司), which is controlled by Ms. Li Rui (李蕊), our employee and the beneficial owners of Huafang Feiteng are employees of our Group including our senior management, namely Ms. YU Dan (于丹), Mr. TAO Sha (陶沙), Mr. JIAO Yang (焦陽), Mr. LIU Kaiyin (劉鏞寅), Mr. WANG Wangji (王望記) and Mr. TANG Geng (唐賡).

On November 16, 2020, Shoujin Capital Management (Beijing) Co., Ltd. (首金聯合資本管理(北京)有限公司) (“Shoujin Capital”) transferred 0.11% of equity interest in Huafang Technology to Qihoo 360 at a consideration of RMB9,350,000, which was fully settled on March 18, 2021. The cash consideration paid for such transfer was determined based on arm’s length negotiations between Shoujin Capital and Qihoo 360 after taking into consideration, among others, the comparable companies in the industry and their valuation and the growth prospects of our Group.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following table indicated the shareholding structure of Huafang Technology following a series of transfers of existing shares as further set out in the table below prior to the Reorganization:

Name of shareholders of Huafang Technology	Percentage of the equity interest in Huafang Technology
Qihoo 360 ⁽¹⁾	26.67%
Huajiao No. 1 ⁽¹⁾	7.69%
Huajiao No. 2 ⁽¹⁾	3.85%
Songcheng Performance	37.06%
Huafang Feiteng	6.25%
Beijing Siming Juncheng Technology Co., Ltd (北京思明駿程 科技有限公司) (“Siming Juncheng”) ⁽²⁾	3.85%
Zhirun No. 2 ⁽²⁾	3.07%
Zhang Fa (張發) ⁽³⁾	2.89%
Shanghai Zuosan Digital Technology Co., Ltd. (上海佐三數字 科技有限公司) (“Shanghai Zuosan”) ⁽²⁾	2.63%
Jinhua Xuance ⁽²⁾	1.75%
Mango Culture ⁽²⁾	1.54%
Zhirun No. 1 ⁽²⁾	1.31%
Jinhua Duanxuan ⁽⁴⁾	0.69%
Shanghai Huawei ⁽⁵⁾	0.38%
Great Chiliocosm ⁽⁶⁾	0.19%
Ningbo Huajiao ⁽⁷⁾	0.18%
Total	100%

(1) Qihoo 360 is a limited liability company incorporated in the PRC on May 4, 2009, which is principally engaged in providing internet and security services. Qihoo 360 is controlled by Beijing Qifei Xiangyi Business Consultancy Co., Ltd. (北京奇飛翔藝商務諮詢有限公司) (“Qifei Xiangyi”), which is ultimately controlled by Mr. Zhou since January 1, 2020, our controlling shareholder.

Huajiao No. 1 is a limited partnership incorporated in the PRC on September 13, 2016, which is principally engaged in investment holding. The general partner of Huajiao No. 1 is Beijing Qianqian Technology Co., Ltd. (北京千仟科技有限公司), which has been controlled by Mr. Zhou since October 18, 2019.

Huajiao No. 2 is a limited partnership incorporated in the PRC on September 13, 2016, which is principally engaged in investment holding. The general partner of Huajiao No. 2 is Beijing Qianqian Technology Co., Ltd., which has been controlled by Mr. Zhou since October 18, 2019.

(2) See “— Pre-IPO Investments” for details.

(3) Zhang Fa is an Independent Third Party.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (4) Jinhua Duanxuan is a limited partnership incorporated in the PRC on September 23, 2015. Jinhua Duanxuan is owned by 3 limited partners, Zhou Yanyun (周燕雲), Xie Meifang (謝美芳) and Guo Xiaomin (郭小敏), each an Independent Third Party, as to 7.62%, 7.14% and 4.76%, respectively. The general partner of Jinhua Duanxuan is Shen Meiyang (沈美英) holding 80.48% shareholding of Jinhua Duanxuan, an Independent Third Party.
- (5) Shanghai Huawei is a limited partnership incorporated in the PRC on December 8, 2015. The general partner of Shanghai Huawei is Shanghai Dunhong Assets Management Co., Ltd. (上海敦鴻資產管理有限公司), which is ultimately controlled by Yuan Guoliang (袁國良), an Independent Third Party. Shanghai Huawei is owned by 6 limited partners in aggregate as to approximately 99.73%, each holding ranging from approximately 0.53% to 40.00%.
- (6) Great Chiliocosm is a limited partnership incorporated in the PRC on May 26, 2016. The general partner of Great Chiliocosm is Beijing Great Chiliocosm Investment Management Partnership (Limited Partnership) (北京三千投資管理合夥企業(有限合夥)) which is ultimately controlled by Huang Huang (黃璜), an Independent Third Party. Great Chiliocosm is owned by 3 limited partners, Shenzhen CGS Fund Management Co., Ltd (深圳中證金葵花基金管理有限公司), Beijing World Star Technology Co., Ltd. (北京世界星輝科技有限責任公司) and Kunshan Three Thousand World Investment Management Co., Ltd. (昆山三千世界投資管理有限公司), as to 77.33%, 16.00% and 5.67%, respectively.
- (7) Ningbo Huajiao is a limited partnership incorporated in the PRC on April 14, 2017, which is principally engaged in investment holding. Ningbo Huajiao is owned by a limited partner, Li Jie (李潔), an Independent Third Party, as to 99.00%. The general partner of Ningbo Huajiao is Haoyue Capital Management Co., Ltd. (皓玥資本管理有限公司), which is owned by Ge Yajing (葛雅靜) as to 80% and by He Huifang (何惠芳) as to 20%. Both of them are Independent Third Parties.

As Ningbo Huajiao failed to pay the consideration for its investment of 1.53% equity interest in Huafang Technology, after the negotiation between Ningbo Huajiao and the other the shareholders of Huafang Technology, in order to eliminate the dilution effect on the other then shareholders' interest in Huafang Technology, in March 2021, Ningbo Huajiao transferred approximately 0.21%, 0.1%, 0.72%, 0.05%, 0.02%, 0.1%, 0.04%, 0.04%, 0.08%, 0.07%, 0.01%, 0.01% and 0.08% of equity interest in Huafang Technology to Huajiao No. 1, Huajiao No. 2, Qihoo 360, Jinhua Xuance, Jinhua Duanxuan, Siming Juncheng, Mango Culture, Zhirun No. 1, Zhirun No. 2, Shanghai Zuosan, Shanghai Huawei, Great Chiliocosm and Zhang Fa, respectively, at nil consideration.

2. Mijing Hefeng

Mijing Hefeng operates our mobile app *Huajiao* and is one of the principal operating entities of our Group during the Track Record Period and up to the date of this prospectus.

Previous Major Shareholding Changes of Mijing Hefeng

Mijing Hefeng was established on December 24, 2014 as a limited liability company in the PRC by Ou Sheng (歐勝) and Wang Dongpan (王東攀), Independent Third Parties, with an initial registered capital of RMB30,000.

After a series of share transfers and capital injections, as of December 7, 2016, Mijing Hefeng was owned by Jiaying Shoujian Yalong No. 16 Investment Partnership (L.P.) (嘉興首建樞樞十六號投資合夥企業(有限合夥)) ("Yalong No. 16") as to 70%, by Huajiao No. 1 as to 20% and by Huajiao No. 2 as to 10%, with a registered capital of RMB10,000,000. Yalong No.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

16 was deregistered on October 29, 2021. Immediately prior to the deregistration, the general partner of Yalong No. 16 was Shoujin Capital, which is ultimately controlled by Liu Chang (劉暢), a former supervisor at Mijing Hefeng from January 9, 2017 to April 6, 2019. Yalong No. 16 was owned by (1) Jiaxing Shoujian Yalong No. 6 Investment Partnership (L.P.) (嘉興首建樞樞六號投資合夥企業(有限合夥)), which was owned by Qifei Xiangyi as limited partner, as to 69.9970%, (2) Qihoo 360 as limited partner as to 26.9988%, (3) Jinhua Duanxuan as limited partner as to 2.5750%, and (4) Shoujin Capital as general partner as to 0.4292%. Qifei Xiangyi is a limited liability company incorporated in the PRC on August 17, 2012, which is principally engaged in investment holding.

In January 2017, the registered capital of Mijing Hefeng was increased from RMB10,000,000 to RMB12,300,000 with (1) RMB1,000,000 additional registered capital contributed by Beijing Cultural Center, which was ultimately controlled by Beijing State-owned Cultural Assets Supervision and Administration Office (北京市國有文化資產監督管理辦公室), at a consideration of RMB100,000,000, (2) RMB750,000 additional registered capital contributed by Beijing Ziqi Mining Technology Co., Ltd. (北京紫氣礦業科技有限公司) (“Ziqi Mining”), which was ultimately owned by seven Independent Third Party individuals, at a consideration of RMB75,000,000, (3) RMB400,000 additional registered capital contributed by Mango Culture, at a consideration of RMB40,000,000, (4) RMB100,000 additional registered capital contributed by Shanghai Huawei, at a consideration of RMB10,000,000, and (5) RMB50,000 additional registered capital contributed by Great Chilocosm at a consideration of RMB5,000,000 (“2016 First Round Capital Increase”). The aforementioned considerations were fully settled on January 19, 2017 and was determined based on arm’s length negotiations between Mijing Hefeng and the above investors of Mijing Hefeng after taking into consideration, among others, the comparable companies in the industry and their valuation and the growth prospects of Mijing Hefeng.

In December 2017, the registered capital of Mijing Hefeng was further increased from RMB12,300,000 to RMB15,033,300 with (1) RMB455,400 additional registered capital contributed by Jinhua Chaduan Investment Management Co., Ltd. (金華察端投資管理有限公司) (“Jinhua Chaduan”), which was ultimately owned by Lu Peng (盧鵬) and Zhou Yingxian (周穎仙), both Independent Third Parties, at a consideration of RMB100,000,000, (2) RMB684,000 additional registered capital contributed by Guangzhou Leichen Investment Consulting Co., Ltd. (廣州鑄晨投資諮詢有限公司) (“Guangzhou Leichen”), which was ultimately owned by He Wenqiang (何文強), Zhong Weiyuan (鐘偉源) and Zhou Weiwen (周偉文), all of which are Independent Third Parties, at a consideration of RMB150,000,000, (3) RMB455,400 additional registered capital contributed by Ningbo Huajiao, at a consideration of RMB100,000,000, (4) RMB341,300 additional registered capital contributed by Zhirun No. 1, at a consideration of RMB75,000,000, and (5) RMB797,200 additional registered capital contributed by Zhirun No. 2, at a consideration of RMB175,000,000 (“2017 Second Round Capital Increase”). The aforementioned considerations were fully settled on September 27, 2017 (except for Ningbo Huajiao’s failure to pay RMB90,000,000 out of RMB100,000,000 for its investment of 1.53% equity interest in Huafang Technology as mentioned in the section headed “— Our Corporate Development — 1. Huafang Technology”) and was determined based on arm’s length negotiations between Mijing Hefeng and the above investors of Mijing Hefeng after taking into consideration, among others, the comparable companies in the industry and their valuation and the growth prospects of Mijing Hefeng.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

In 2018, the then shareholders of Mijing Hefeng conducted the following share transfers (collectively, “2018 Share Transfers”):

- (1) in February 2018, as an intra-group transaction, Guangzhou Leichen transferred 4.55% of equity interest in Mijing Hefeng to its affiliate, Ningbo Huabo, at a consideration of RMB150,000,000;
- (2) in June 2018, as intra-group transactions, Yalong No. 16 transferred 46.56% in aggregate of equity interest in Mijing Hefeng to its limited partners, including Qihoo 360, Shoujin Capital and Jinhua Duanxuan, at the considerations of RMB250,500,000, RMB990,000 and RMB6,000,000, respectively;
- (3) in December 2018, as an intra-group transaction, Jinhua Chaduan transferred 3.03% of equity interest in Mijing Hefeng to its affiliate, Jinhua Xuance, at the consideration of RMB100,000,000; and
- (4) in December 2018, Ziqi Mining transferred 4.99% of equity interest in Mijing Hefeng to Zhang Fa (張發), at the consideration of RMB75,000,000.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following table sets forth details of the shareholding structure of Mijing Hefeng immediately before and after the completion of each round of the Pre-IPO Investments and share transfers.

Name of shareholders of Mijing Hefeng	Percentage of equity interest in Mijing Hefeng immediately before 2016 First Round Capital Increase	Percentage of equity interest in Mijing Hefeng immediately after 2016 First Round Capital Increase and immediately prior to 2017 Second Round Capital Increase	Percentage of equity interest in Mijing Hefeng immediately after 2017 Second Round Capital Increase and immediately prior to 2018 Share Transfers	Percentage of equity interest in Mijing Hefeng immediately after 2018 Share Transfers and immediately prior to the Huajiao-6.cn Merger
Yalong No. 16	70%	56.91%	46.56%	–
Qihoo 360	–	–	–	45.17%
Jinhua Duanxuan	–	–	–	1.20%
Shoujin Capital	–	–	–	0.19%
Huajiao No. 1	20%	16.26%	13.30%	13.30%
Huajiao No. 2	10%	8.13%	6.65%	6.65%
Beijing Cultural Center	–	8.13%	6.65%	6.65%
Ziqi Mining	–	6.10%	4.99%	–
Zhang Fa	–	–	–	4.99%
Mango Culture	–	3.25%	2.66%	2.66%
Shanghai Huawei	–	0.81%	0.67%	0.67%
Great Chiliocosm	–	0.41%	0.33%	0.33%
Jinhua Chaduan	–	–	3.03%	–
Jinhua Xuance	–	–	–	3.03%
Guangzhou Leichen	–	–	4.55%	–
Ningbo Huabo	–	–	–	4.55%
Ningbo Huajiao	–	–	3.03%	3.03%
Zhirun No. 1	–	–	2.27%	2.27%
Zhirun No. 2	–	–	5.30%	5.30%
Total	100%	100%	100%	100%

Upon completion of the Huajiao-6.cn Merger on April 29, 2019, Mijing Hefeng became a wholly-owned subsidiary of Huafang Technology. For details of the Huajiao-6.cn Merger, see “— Our Corporate Development — Huafang Technology” of this section.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Financial Investors' Indirect Interests in Qihoo 360 Following the Privatization

Our controlling shareholder, Mr. Zhou, is also the founder of Qihoo 360 Technology Co., Ltd. (“360 Technology”). 360 Technology was principally engaged in offering internet and mobile security products and providing users with secure access points to internet activities. 360 Technology became listed on the New York Stock Exchange in March 2011 (QIHU.NYSE).

Subsequently, in July 2016, 360 Technology was taken private by a consortium led by Tianjin Qixin Zhicheng Technology Co., Ltd. (天津奇信志成科技有限公司) (“Tianjin Qixin”) and other consortium members and delisted from the New York Stock Exchange. Tianjin Qixin was incorporated in December 2015 as one of the special purpose vehicles for the privatization of 360 Technology (the “Privatization”). In May 2016, Tianjin Qixin issued new shares to thirty-six consortium members (the “Buyer Group”) for the purpose of fund-raising for the Privatization. As such, Tianjin Qixin has been owned by Mr. Zhou as to approximately 17.38% and the Buyer Group as to approximately 82.62%. Immediately upon completion of the Privatization, 360 Technology was ultimately owned by (1) Tianjin Qixin as to 51.78%, (2) Mr. Zhou and Shanghai Guanying Corporate Management Partnership (L.P.) (上海冠鷹企業管理合夥企業(有限合夥)) (“Shanghai Guanying”), the general partner of which was controlled by Mr. Zhou, as to approximately 15.90% in aggregate, and (3) the Buyer Group, Mr. Qi Xiangdong (齊向東), Tianjin Juxin Equity Investment Limited Partnership (天津聚信股權投資合夥企業(有限合夥)) (“Tianjin Juxin”) and Tianjin Tianxin Equity Investment Limited Partnership (天津天信股權投資合夥企業(有限合夥)) (“Tianjin Tianxin”) (the Buyer Group, Mr. Qi Xiangdong, Tianjin Juxin and Tianjin Tianxin collectively as “Financial Investors”), as to approximately 32.32% in aggregate. Each of the Financial Investors is an Independent Third Party.

After the Privatization, 360 Technology underwent a series of reorganization of its business. In February 2018, the major business segment of 360 Technology was listed on the Shanghai Stock Exchange as 360 Security Technology Inc. (三六零安全科技股份有限公司) (stock code: 601360) by way of reverse takeover. Qihoo 360, one of the business segments not held by 360 Security Technology Inc. (三六零安全科技股份有限公司), held 26.6736% of equity interest in Huafang Technology prior to the Reorganization. The ultimate beneficial owners of Qihoo 360 are the same as those of 360 Technology immediately following the Privatization as mentioned above. Qihoo 360 was controlled by Qifei Xiangyi, which was owned by (1) Tianjin Qixin as to 51.78%, (2) Mr. Zhou and Shanghai Guanying, the general partner of which was controlled by Mr. Zhou, as to approximately 15.90% in aggregate, and (3) the Financial Investors, as to approximately 32.32% in aggregate.

Therefore, the Financial Investors' indirect interests in Qihoo 360 are also regarded as indirect passive investment in Mijing Hefeng. See “— Pre-IPO Investments” for details.

ACQUISITIONS DURING THE TRACK RECORD PERIOD

Holla Technology

Holla Technology (formerly known as Mizhi Technology) was established in the PRC with limited liability on July 22, 2016 and was engaged in virtual idol and virtual live-streaming business. Liu Yong (劉勇) was the sole director and chief executive officer of Holla Technology prior to the Group's acquisition of Holla Technology. Prior to the Group's acquisition of 82% equity interest in Holla Technology, Huafang Technology owned 18% equity interest in Holla Technology. Upon completion of the Group's acquisition of Holla Technology, Holla Technology's board of director consists of three members, namely Yu Dan (于丹), Tao Sha (陶沙) and Jiao Yang (焦陽). Tao Sha (陶沙) serves as the general manager of Holla Technology. See “— Directors and Senior Management” for details.

On April 8, 2020, Huafang Technology entered into a share transfer agreement with Ningbo Songcheng Performance Live Entertainment Investment Partnership (L.P.) (寧波宋城演藝現場娛樂投資合夥企業(有限合夥)) (“Ningbo Songcheng”), pursuant to which, Huafang Technology agreed to acquire 42.19% equity interest in Holla Technology from Ningbo Songcheng at a consideration of RMB31.5 million. The consideration was determined based on arm's lengths negotiations among the parties involved with reference to the valuation report of Holla Technology as of December 31, 2019 as appraised by an independent asset valuer. Such consideration was fully settled on May 13, 2020. Ningbo Songcheng is a limited partnership incorporated in the PRC on July 1, 2015, which is ultimately controlled by Songcheng Performance, our controlling shareholder.

On May 11, 2020, Huafang Technology entered into a share transfer agreement with Liu Yan (劉岩), Liu Yong (劉勇) and Gao Yuqing (高宇慶) pursuant to which, Huafang Technology agreed to acquire an aggregate of 39.81% equity interest in Holla Technology from (i) Liu Yan (劉岩), founder, one of previous shareholders and former director and chief executive officer of Huafang Technology, (ii) Liu Yong (劉勇), an Independent Third Party, and (iii) Gao Yuqing (高宇慶), a former vice president at Huafang Technology from February 2011 to December 2018, at nil consideration. Such nil consideration was determined based on arm's lengths negotiations among the parties involved and the fact that Liu Yan, Liu Yong and Gao Yuqing did not pay up the registered capital of Holla Technology. Save as disclosed above, to the best knowledge, information and belief of our Directors after having made all reasonable enquiries, none of Liu Yan (劉岩), Liu Yong (劉勇) and Gao Yuqing (高宇慶) has any past or present relationship with our Group. Upon completion of the share transfer, Huafang Technology fully paid up such registered capital of Holla Technology in the amount of RMB29,760,000. Upon completion of such equity transfer, Holla Technology became a wholly-owned subsidiary of our Company. There has been no change in the equity interest in Holla Technology since then. As of the Latest Practicable Date, Holla Technology was an indirect wholly-owned subsidiary of our Company.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Huafang Technology acquired Holla Technology as the Board considered that:

- (i) Holla Technology has created valuable content in terms of music, cartoon, live streaming and performance based on its copyrights of virtual character, which can support and complement the Group's entertainment live streaming business;
- (ii) upon three-year R&D and operation, Holla Technology had held seven patent applications with regards to motion capture, virtual live streaming, and performance; and
- (iii) Holla Technology's research and development capability in virtual content, especially virtual live streaming, virtual concert and short video production.

In December 2020, the Group's management considered that (1) the monetization potential for virtual celebrities and virtual live streaming businesses was not fully realized due to slower-than-expected development of virtual celebrity market which was not foreseeable at the time of the acquisition of Holla Technology; and (2) the virtual live streaming businesses incurred increasing R&D expenditure. After the Group adjusted strategic focus to entertainment live streaming and social networking services and balanced the profitability potential of virtual live streaming business and its heavy R&D spending, the virtual content business of Holla Technology was suspended. Due to such business suspension, our Group recognized full impairment loss of the goodwill arising from the acquisition of Holla Technology amounting to RMB65.5 million.

HOLLA Group

HOLLA Group includes a group of companies operated under EXU INC., including EXU (HK) LIMITED, Monkey, Inc., Chatwith, Inc., Oviedo Interactives Limited and Mitu Inc Limited, each of which is our subsidiary. EXU INC. was incorporated as a company with limited liability in the Cayman Islands on August 6, 2014. EXU INC. is the holding company of our overseas business, including *Holla* and *Monkey*.

On September 2, 2020, Huafang Technology entered into an acquisition agreement with (i) EXU INC., EXU (HK) LIMITED, Monkey, Inc., Chatwith, Inc., Oviedo Interactives Limited, Damo Yingshi (Beijing) Network Technology Co., Ltd. (達摩英時(北京)網絡科技有限公司) and Beijing Laksa Network Technology Co., Ltd. (北京拉克沙網絡科技有限公司) ("Laksa") (collectively as the "HOLLA Target Group"), as the target companies, (ii) Tao Sha (陶沙) and Dharma Initiatives Holdings Limited ("Dharma") (collectively as the "HOLLA Founder Sellers"), the founder of HOLLA Group and his special purpose vehicle, (iii) Masterywang Sailing Holding Limited, GGV Capital V L.P., GGV Capital V Entrepreneurs Fund L.P., Supernova Investment (HK) Limited, Giant Wisdom Limited, N5Capital Fund I, L.P. and Grandtech Limited, as the investors of HOLLA Group, together with their respective onshore holding vehicles or individuals, including Wang Gang (王剛), GGV Corporate Management Consulting (Shanghai) Co., Ltd. (紀威企業管理諮詢(上海)有限公司), Gongqingcheng Supernova Investment Management Partnership (L.P.) (共青城睿創投資管理

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

合夥企業(有限合夥)), Xinyu Heitao Giant Wisdom Investment Management Center (L.P.) (新余黑桃宏慧投資管理中心(有限合夥)), Liu Kun (劉坤) and Shanghai Guanmu Investment Management Partnership (L.P.) (上海觀目投資管理合夥企業(有限合夥)) (“HOLLA Investor Sellers”), pursuant to which, Huafang Technology agreed to acquire 100% shareholding of the HOLLA Target Group from the HOLLA Founder Sellers and the HOLLA Investor Sellers at a consideration of RMB16,600,000 in aggregate. The consideration was determined based on arm’s lengths negotiations among the parties involved with reference to the valuation report of HOLLA Group as of June 30, 2020 as appraised by Tongzhixinde (Beijing) Assets Appraisal Co., Ltd. (同致信德(北京)資產評估有限公司), an independent asset valuer. Such consideration was fully settled on December 9, 2020. Tao Sha is our chief innovation officer. Each of the HOLLA Investor Sellers is an Independent Third Party.

Pursuant to the above acquisition agreement, we acquired both 100% onshore and offshore interest of HOLLA Target Group upon the full settlement of the consideration. On November 6, 2020, Laksa, a wholly-owned subsidiary of Huafang Technology, entered into a nominee agreement with Dharma, a nominee shareholder of EXU INC. Dharma was wholly owned by Mr. Tao Sha (陶沙), our senior management.

Pursuant to the nominee agreement, Dharma agreed to hold all shares in EXU INC. on behalf of and for the benefit of Laksa and take all instructions from Laksa, including but not limited to the voting and disposal of shares (the “Nominee Arrangement”). Laksa shall enjoy the benefit, and bear the risk, of all distributions of income, dividends, cash or other property relating to its shares in EXU INC. Through the Nominee Arrangement, the Group would be able to enjoy the economic benefits and as such to consolidate the offshore interest of HOLLA Target Group since December 2020.

On June 9, 2021, in anticipation of the reorganization for the Listing, our Company acquired 100% shares in EXU INC. upon the completion of which the nominee agreement was terminated. According to our PRC Legal Advisor, no further government approvals in the PRC are required in material respects for our Company’s holding of shares in EXU INC.

According to the Measures for the Administration of Overseas Investment of Enterprises (the “ODI Measures”) issued by the NDRC, Huafang Technology must undertake overseas direct investment filings for its acquisition of rights and interests in EXU INC. with the relevant governmental authority. On August 18, 2022, our PRC Legal Advisor and the PRC Legal Advisor of the Joint Sponsors consulted with an official of the competent authority in charge of overseas investment activities. After being introduced with the Nominee Arrangement and informed that this arrangement had already been unwound, the official expressed that no penalties under the ODI Measures will be ordered against either Huafang Technology or any personnel in charge.

Therefore, based on the facts that (1) we have acquired 100% equity interest of EXU INC. immediately after the incorporation, as a result of which the Nominee Arrangement was terminated and the legal defect has been rectified, (2) throughout the acquisition of HOLLA Target Group and during the term of the Nominee Arrangement, there had been no unlawful

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- 3 Goodwill of HOLLA Group is calculated based on the consideration of RMB16.6 million minus the fair value of the net identifiable liabilities of HOLLA Group of RMB0.8 million on the acquisition date.
- 4 The data is based on the financial report issued by an independent accounting firm.
- 5 The data is based on the unaudited management account of HOLLA Group.
- 6 Please refer to the section “Financial Information — Key Components of Our Results of Operations — Impairment Loss of Goodwill” and note 13 of the Accountants’ Report as set out in Appendix I to this prospectus for further details regarding the goodwill impairment arising from the acquisitions.

Our Directors have confirmed that none of the applicable percentage ratios as defined under the Listing Rules in respect of the abovementioned acquisitions of Holla Technology and HOLLA Target Group exceeds 25%. Accordingly, the relevant pre-acquisition financial information of Holla Technology and HOLLA Target Group is not required to be disclosed pursuant to Rule 4.05A of the Listing Rules.

LINGDONG ACQUISITION AND DISPOSAL

Acquisition of Beijing Lingdong

On March 6, 2017, prior to the Huajiao-6.cn Merger, Huafang Technology entered into a share transfer agreement (the “Acquisition Agreement”) with Lanxi Runbo Investment Partnership (L.P.) (蘭溪潤博投資合夥企業(有限合夥)) (“Lanxi Runbo”), Lanxi Huachuang Investment Partnership (L.P.) (蘭溪華創投資合夥企業(有限合夥)) (“Lanxi Huachuang”), Oriental Fortune (Shanghai) Venture Capital Enterprise (L.P.) (東方富海(上海)創業投資企業(有限合夥)), Pingxiang Xinyue Investment Consulting Partnership (L.P.) (萍鄉市鑫悅投資諮詢合夥企業(有限合夥)) and Chengdu Zhengyue Technology Co., Ltd. (成都正越科技有限公司), pursuant to which Huafang Technology acquired 100% of equity interests in Beijing Lingdong Shikong Technology Co., Ltd. (北京靈動時空科技有限責任公司) (“Beijing Lingdong”) at a total consideration of RMB380,000,000 (“Acquisition of Beijing Lingdong”). Such consideration was determined with reference to the valuation report of Beijing Lingdong issued by an independent appraisal agency. The Acquisition of Beijing Lingdong was completed on March 10, 2017.

Pursuant to the Acquisition Agreement, Huafang Technology partially settled RMB255,246,000 of the consideration in cash. The aggregate amount of such remaining acquisition consideration of RMB75,744,090.88 and RMB49,009,909.12 payable to Lanxi Runbo and Lanxi Huachuang, respectively, had not been settled by Huafang Technology up to December 1, 2019 (being the date of the Disposal of Beijing Lingdong by Huafang Technology as further described below).

Beijing Lingdong was principally engaged in mobile game development and operation. Its founder, Fang Qi (方奇) (“Beijing Lingdong Founder”), was the controlling shareholder (indirectly holding the majority of equity interest in Beijing Lingdong), CEO and the legal representative of Beijing Lingdong before completion of the Acquisition of Beijing Lingdong. Beijing Lingdong Founder remained as director, CEO and legal representative of Beijing

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Lingdong, and continued to manage Beijing Lingdong's daily operations after the Acquisition of Beijing Lingdong. Based on publicly available information and to the best knowledge of our Company, save as disclosed above, Fang Qi served as the chairman of the board of director and manager of Beijing Bitu Technology Co., Ltd. (北京璧途科技有限責任公司) from March 2017 to January 2020 and the chairman of the board of director of Beijing A-one Sci&Tech Development Co., Ltd. (北京極品無限科技發展有限責任公司) from November 2011 to October 2016.

The Acquisition of Beijing Lingdong was made in light of the promising prospect of the gaming industry in 2017 with expectation from the then management of Huafang Technology that the Acquisition of Beijing Lingdong would bring potential synergy effect between gaming and live streaming businesses upon completion of the Acquisition of Beijing Lingdong with a view to materializing the conception of "Live Streaming + Game" and attracting higher user traffic.

Disposal of Beijing Lingdong

Principal Terms

After the Huajiao-6.cn Merger, the management of Huafang Technology reviewed the business performance of Beijing Lingdong and considered that the gaming business of Beijing Lingdong failed to achieve the desired synergy effect with the live streaming business of Huafang Technology as Beijing Lingdong had developed certain board & card game with the conception of "Live Streaming + Game" but Beijing Lingdong did not successfully launch such game due to the regulatory tightening of China's gaming industry in 2018, and therefore, Huafang Technology entered into another share transfer agreement (the "Disposal Agreement") with Lanxi Runbo, Lanxi Huachuang and Beijing Rongyu Technology Co., Ltd. (北京榮昱科技有限公司) ("Beijing Rongyu") on December 1, 2019, pursuant to which Huafang Technology sold 100% of equity interests in Beijing Lingdong to Lanxi Runbo, Lanxi Huachuang and Beijing Rongyu at the original consideration of the Acquisition of Beijing Lingdong, i.e. RMB380,000,000 (the "Disposal of Beijing Lingdong", together with Acquisition of Beijing Lingdong, the "Lingdong Transactions"). Such consideration was based on arm's length negotiations between Huafang Technology as seller (being represented by the former chief executive officer in the negotiation, who also negotiated the Acquisition of Beijing Lingdong on behalf of Huafang Technology) and Lanxi Runbo, Lanxi Huachuang and Beijing Rongyu as buyers (being represented by Beijing Lingdong Founder). The Disposal of Beijing Lingdong was legally completed on December 12, 2019.

Pursuant to the Disposal Agreement, the payment arrangement is set out below:

- (a) Huafang Technology agreed to transfer 19.8226% of equity interest in Beijing Lingdong to Lanxi Runbo at a consideration of RMB75,744,090.88, which was fully offset by the unpaid part of consideration (i.e. RMB75,744,090.88) payable to Lanxi Runbo for the Acquisition of Beijing Lingdong;

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (b) Huafang Technology agreed to transfer 12.8261% of equity interest in Beijing Lingdong to Lanxi Huachuang at a consideration of RMB49,009,909.12, which was fully offset by the unpaid part of consideration (i.e. RMB49,009,909.12) payable to Lanxi Huachuang for the Acquisition of Beijing Lingdong; and
- (c) Huafang Technology agreed to transfer 67.3513% of equity interest in Beijing Lingdong to Beijing Rongyu at a consideration of RMB255,246,000, which shall be paid in four installments, of which (i) RMB30,000,000 shall be paid on December 1, 2019, (ii) RMB75,082,000 shall be paid before December 31, 2020, (iii) RMB75,082,000 shall be paid before December 31, 2021, and (iv) RMB75,082,000 shall be paid before December 31, 2022.

Dividend Distribution

Pursuant to the Disposal Agreement, Beijing Lingdong also agreed to distribute dividend in the amount of RMB90,000,000 (the “Distributable Dividend”) to Huafang Technology (the “Dividend Distribution”), which was the distributable profit of Beijing Lingdong attributable to Huafang Technology during the period it held equity interest in Beijing Lingdong.

The Dividend Distribution was guaranteed by Beijing Lingdong Founder. In the event that Beijing Lingdong failed to make the Dividend Distribution, Beijing Lingdong Founder would make such payment to Huafang Technology and compensate for any losses arising therefrom.

Information of the buyers in the Disposal of Beijing Lingdong

Lanxi Runbo was a limited partnership incorporated in the PRC on December 26, 2016, which was principally engaged in investment holding. The general partner of Lanxi Runbo was Beijing Lingdong Founder. Lanxi Runbo was dissolved by deregistration on November 12, 2020. It was one of the selling shareholders under the Acquisition of Beijing Lingdong.

Lanxi Huachuang was a limited partnership incorporated in the PRC on December 26, 2016, which was principally engaged in investment holding. Lanxi Huachuang was dissolved by deregistration on November 12, 2020. It was one of the selling shareholders under the Acquisition of Beijing Lingdong. The general partner of Lanxi Huachuang was a former vice chairman of the board of directors of Beijing Lingdong.

Beijing Rongyu is a limited liability company incorporated in the PRC on November 18, 2019, which is a special investment vehicle established for the Disposal of Beijing Lingdong. Beijing Rongyu is wholly owned by a nominee, while, based on the understanding of the management of Huafang Technology, Beijing Lingdong Founder was

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

the actual controller of Beijing Rongyu and, no written nomination agreement was entered into between him and such nominee. Accordingly, the management of Huafang Technology recognized Beijing Lingdong Founder as the actual controller of Beijing Rongyu.

Default under the Disposal of Beijing Lingdong

On April 17, 2020, Beijing Rongyu paid RMB30,000,000 to Huafang Technology as the first installment of the consideration in accordance with the Disposal Agreement.

Pursuant to the Disposal Agreement, the second installment of RMB75,082,000 shall be settled by Beijing Rongyu before December 31, 2020. However, in November 2020, Beijing Rongyu formally informed Huafang Technology that it was unable to pay any of the remaining consideration of RMB225,246,000 in accordance with the Disposal Agreement and failed to settle the second installment within the deadline. As of the Latest Practicable Date, Lanxi Runbo and Lanxi Huachuang had no payment obligation, and Beijing Rongyu is still obligated to pay the remaining consideration for the Disposal of Beijing Lingdong in the amount of RMB225,246,000 (the “Outstanding Consideration”).

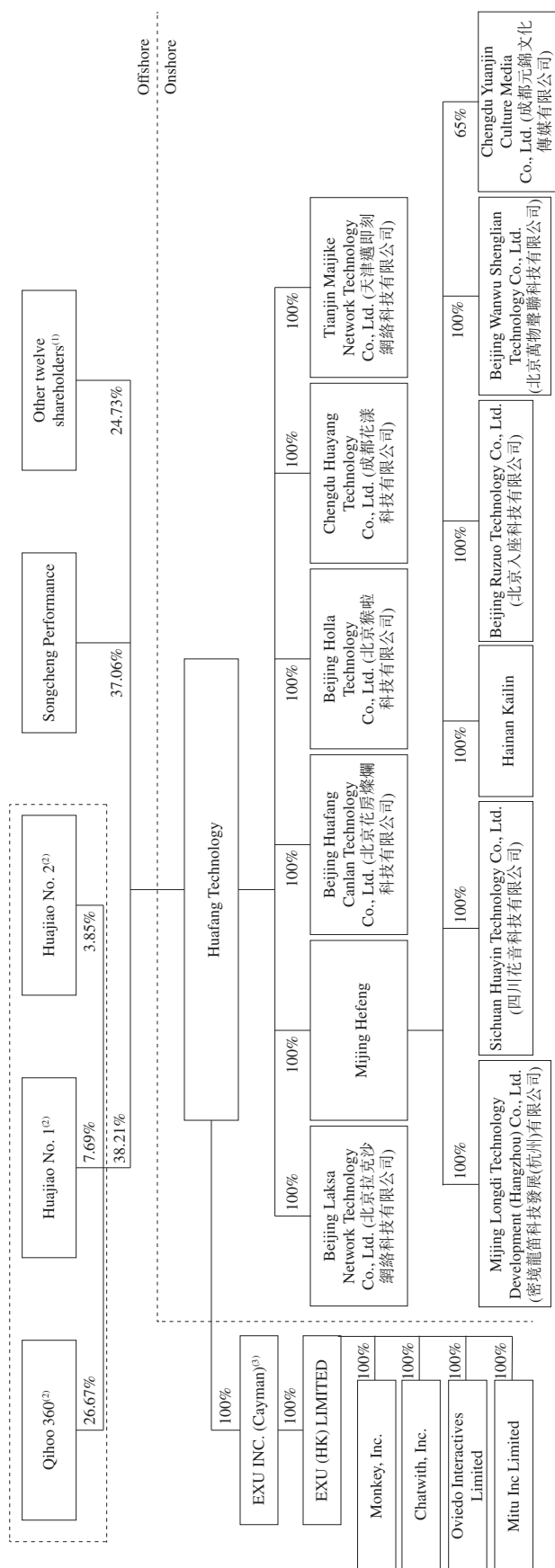
In addition, neither Beijing Lingdong nor Beijing Lingdong Founder (as the guarantor) had paid the Distributable Dividend (i.e. RMB90,000,000) to Huafang Technology in accordance with the Disposal Agreement. As of the Latest Practicable Date, both the Outstanding Consideration and the Distributable Dividend remain outstanding and unsettled.

Legal remedy

We have sought legal remedy against Beijing Rongyu, Beijing Lingdong and Beijing Lingdong Founder. See “Business — Legal Proceedings” for details.

OUR REORGANIZATION

Our corporate structure immediately prior to the Reorganization are set out as follows:



(1) Include approximately (i) 2.89% held by Zhang Fa, (ii) 6.25% held by Huafang Feiteng, (iii) 1.54% held by Mango Culture, (iv) 2.63% held by Shanghai Zuosan, (v) 0.69% held by Jinhua Duanxuan, (vi) 0.18% held by Ningbo Huajiao, (vii) 1.31% held by Zhirun No. 1, (viii) 3.07% held by Zhirun No. 2, (ix) 1.75% held by Jinhua Xuance, (x) 3.85% held by Siming Juncheng, (xi) 0.38% held by Shanghai Huawei, (xii) 0.19% held by Great Chillocosm. See “— Our Corporate Development — Huafang Technology” for details.

(2) Each of Qihoo 360, Huajiao No. 1 and Huajiao No. 2 is controlled by Mr. Zhou, our controlling shareholder.

(3) Our Group held 100% equity interests in EXU INC. through a nominee, Dharna, from December 31, 2020 to June 8, 2021. Our Group has directly owned 100% equity interests in EXU INC. since June 9, 2021. See “— Acquisitions During the Track Record Period — HOLLA Group” for details.

OUR REORGANIZATION

In anticipation of the Listing, we carried out the Reorganization, which included the following major steps:

Step 1: Establishment of offshore corporate structure

Our Company was incorporated under the laws of Cayman Islands as an exempted company with limited liability on June 1, 2021 to act as the holding company and listing vehicle of our Group. Upon incorporation, the authorized share capital of our Company was US\$50,000 divided into 500,000,000 shares of US\$0.0001 each. On the same day, one fully paid share of our Company with a par value of US\$0.0001 was transferred from the initial subscriber, an Independent Third Party, to Pepper Blossom Limited, an offshore holding company ultimately controlled by Mr. Zhou, our controlling shareholder.

Liuhua HK Limited (六花香港有限公司) (“Liuhua HK”) was incorporated under the laws of Hong Kong on June 10, 2021 and is wholly-owned by our Company.

Step 2: Establishment of certain onshore subsidiaries

Beijing Huafang Hongfa Technology Co., Ltd. (北京花房鴻發科技有限公司) (“**Beijing Hongfa**”) was established under the laws of the PRC on May 13, 2021 and was owned by Mr. Zhou as to 78.2974% and Zhang Fa as to 21.7026% upon incorporation.

Chengdu Huafang Online Technology Co., Ltd., our WFOE, was established under the laws of the PRC on June 28, 2021 as a wholly-foreign owned entity and a wholly-owned subsidiary of Liuhua HK.

On July 30, 2021, Mr. Zhou and Zhang Fa transferred 68.2974% and 21.7026% equity interest of Beijing Hongfa to Huafang Technology at nil consideration. On the same date, the registered capital of Beijing Hongfa was further increased from RMB100,000 to RMB 1,000,000 with RMB900,000 additional registered capital contributed by Huafang Technology. After the aforementioned share transfers and capital injections, as of the Latest Practicable Date, Beijing Hongfa was owned as to 99% by Huafang Technology and 1% by Mr. Zhou.

Step 3: Issuance of Shares to the shareholders of Huafang Technology

On June 1, 2021 and July 29, 2021, our Company allotted and issued an aggregate of 53,333,333 Shares to each of then existing shareholders of Huafang Technology or their respective affiliated designees on a *pro rata* basis at nominal consideration. After such allotment and issuance of Shares, the respective shareholdings of our Shareholders reflected the shareholdings of the shareholders in Huafang Technology.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The table below sets forth details of the Shareholders of our Company immediately after the allotment and issuance of Shares on July 29, 2021 as well as their corresponding shareholding in Huafang Technology immediately prior to the allotment and issuance of Shares.

Name of shareholders of Huafang Technology	Percentage of equity interest in Huafang Technology	Name of shareholders of our Company	Number of Shares	Percentage of the equity interest in our Company
Qihoo 360 ⁽¹⁾	26.67%	Pepper Blossom Limited ⁽¹⁾	20,380,418	38.21%
Huajiao No. 1 ⁽¹⁾	7.69%			
Huajiao No. 2 ⁽¹⁾	3.85%			
Songcheng Performance ⁽²⁾	37.06%	Global Bacchus Limited ⁽²⁾	19,764,706	37.06%
Huafang Feiteng ⁽³⁾	6.25%	Blossom Bliss Limited ⁽³⁾	3,333,333	6.25%
Zhirun No. 1 ⁽⁴⁾	1.31%	Sun Link Trade Limited ⁽⁴⁾	2,335,633	4.38%
Zhirun No. 2 ⁽⁴⁾	3.07%			
Siming Juncheng	3.85%	Siming Juncheng	2,051,501	3.85%
Zhang Fa ⁽⁵⁾	2.89%	JY Infinitas Ltd. ⁽⁵⁾	1,538,626	2.89%
Shanghai Zuosan ⁽⁶⁾	2.63%	AAPC NETWORK Ltd. ⁽⁶⁾	1,403,227	2.63%
Jinhua Xuance ⁽⁷⁾	1.75%	Three Birds Holdings Limited ⁽⁷⁾	934,253	1.75%
Mango Culture ⁽⁸⁾	1.54%	Mango Ningze Ltd. ⁽⁸⁾	820,600	1.54%
Jinhua Duanxuan ⁽⁹⁾	0.69%	Wingsound Technology Limited ⁽⁹⁾	369,886	0.69%
Shanghai Huawei	0.38%	Shanghai Huawei	205,150	0.38%
Great Chiliocosm	0.19%	Great Chiliocosm	102,575	0.19%
Ningbo Huajiao ⁽¹⁰⁾	0.18%	Myanmar Commercial Asset Management Company Limited ⁽¹⁰⁾	93,425	0.18%
		Total	<u>53,333,333</u>	<u>100%</u>

(1) Each of Qihoo 360, Huajiao No. 1 and Huajiao No. 2 has been controlled by Mr. Zhou, our controlling shareholder since January 1, 2020. Pepper Blossom Limited is a BVI company ultimately controlled by Mr. Zhou.

(2) Global Bacchus Limited is a BVI company wholly owned by Songcheng Performance.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (3) Blossom Bliss Limited is a BVI company wholly owned by Huafang Feiteng.
- (4) Sun Link Trade Limited is the affiliated designee of both Zhirun No. 1 and Zhirun No. 2.
- (5) JY Infinitas Ltd. is a BVI company wholly owned by Zhang Fa.
- (6) AAPC NETWORK Ltd. is the affiliated designee of Shanghai Zuosan.
- (7) Three Birds Holdings Limited is the affiliated designee of Jinhua Xuance.
- (8) Mango Ningze Ltd. is a BVI company wholly owned by Mango Culture.
- (9) Wingsound Technology Limited is the affiliated designee of Jinhua Duanxuan.
- (10) Myanmar Commercial Asset Management Company Limited is the affiliated designee of Ningbo Huajiao.

Step 4: Restructuring of Our Business and Subsidiaries

Beijing Laksa Network Technology Co., Ltd. was established in the PRC with limited liability on December 12, 2014 by EXU (HK) LIMITED, a wholly-owned subsidiary of EXU INC. In order to streamline our corporate structure, Beijing Laksa Network Technology Co., Ltd. was voluntarily dissolved by deregistration on October 18, 2021 due to its non-operating nature. Beijing Laksa Network Technology Co., Ltd. was solvent at the time of its deregistration.

Mijing Longdi Technology Development (Hangzhou) Co., Ltd. was established in the PRC with limited liability on June 19, 2017 and was an indirect wholly-owned subsidiary of Huafang Technology. In order to streamline our corporate structure, Mijing Longdi Technology Development (Hangzhou) Co., Ltd. was voluntarily dissolved by deregistration on July 30, 2021 due to its non-operating nature. Mijing Longdi Technology Development (Hangzhou) Co., Ltd. was solvent at the time of its deregistration.

Beijing Wanwu Shenglian Technology Co., Ltd. was established in the PRC with limited liability on January 15, 2020 and was an indirect wholly-owned subsidiary of Huafang Technology. In order to streamline our corporate structure, Beijing Wanwu Shenglian Technology Co., Ltd. was voluntarily dissolved by deregistration on July 27, 2021 due to its non-operating nature. Beijing Wanwu Shenglian Technology Co., Ltd. was solvent at the time of its deregistration.

Step 5: Establishment of Contractual Arrangements

On October 18, 2021 and September 8, 2022, in order to comply with relevant foreign investment restrictions in the PRC and maintain effective control over the operation of our Consolidated Affiliated Entities, our WFOE entered into the Contractual Arrangements with the Consolidated Affiliated Entities and its registered shareholders, providing our Group with effective control over, and to consolidate all economic benefits arising from our Consolidated Affiliated Entities into our Group. See “Contractual Arrangements” for details.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

COMPLIANCE WITH PRC LAWS AND REGULATIONS

Our PRC Legal Advisor has confirmed that we have obtained or made all requisite approvals or filings in accordance with PRC laws and regulations in material respects regarding our Reorganization as set out above and the Reorganization complies with the relevant PRC laws and regulations.

CAPITALIZATION ISSUE AND GLOBAL OFFERING

Subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the Offer Shares pursuant to the Global Offering, our Directors are authorized to allot and issue a total of 900,666,667 Shares credited as fully paid at par value to the Shareholder whose name appears on the register of members of our Company at the close of business on the date immediately preceding the date on which the Global Offering becomes unconditional (or as it may direct) by way of capitalization of the sum of US\$90,006.6667 standing to the credit of the share premium account of our Company. The Shares allotted and issued pursuant to the above Capitalization Issue will rank *pari passu* in all respects with the existing issued Shares.

PRE-IPO SHARE OPTION SCHEME

Our Company has conditionally adopted the Pre-IPO Share Option Scheme on November 21, 2022. For more details of the Pre-IPO Share Option Scheme, see the section headed “Statutory and General Information — D. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus.

PRE-IPO INVESTMENTS

Our Company underwent the following pre-IPO Investments:

- (i) the Financial Investors’ indirect interests in Qihoo 360 following the Privatization. For details see “— Our Corporate Development — 2. Mijing Hefeng — Financial Investors’ Indirect Interests in Qihoo 360 Following the Privatization” of this section;
- (ii) previous investment and transfers of equity interests in Mijing Hefeng; and
- (iii) previous transfers of equity interests in Huafang Technology.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Principal terms of the pre-IPO Investments

Name of Investors	Offshore entities directly or indirectly holding interests in our Company	Date of agreement	Date of Settlement	Consideration	Post-money valuation ⁽¹⁾	Total Shares held upon the Listing ⁽²⁾	Cost per Share	Discount to the Offer Price ⁽³⁾
Financial Investors' Indirect Interests in Qihoo 360 Following the Privatization⁽⁴⁾								
The Buyer Group ⁽⁵⁾	Blossom Leadings Limited and Blossom Pathway Limited	December 18, 2015	July 15, 2016	N/A	N/A	N/A	N/A	N/A
Qi Xiangdong	Total Wisdom Ventures Limited	December 18, 2015	July 15, 2016	N/A	N/A	N/A	N/A	N/A
Tianjin Juxin	Blossom Leadings Limited	December 18, 2015	July 15, 2016	N/A	N/A	N/A	N/A	N/A
Tianjin Tianxin	Blossom Leadings Limited	December 18, 2015	July 15, 2016	N/A	N/A	N/A	N/A	N/A
Previous Investment in Mijing Hefeng								
2016 First Round Capital Increase								
Siming Juncheng ⁽⁶⁾	Siming Juncheng	October 25, 2016	January 19, 2017	RMB100,000,000	RMB1,230 million ⁽⁷⁾	36,696,225	RMB2.73	N/A ⁽⁸⁾
Mango Culture	Mango Ningze Ltd.	October 25, 2016	November 11, 2016	RMB40,000,000	RMB1,230 million ⁽⁷⁾	14,678,483	RMB2.73	N/A ⁽⁸⁾
Shanghai Huawei	Shanghai Huawei	October 25, 2016	November 11, 2016	RMB10,000,000	RMB1,230 million ⁽⁷⁾	3,669,621	RMB2.73	N/A ⁽⁸⁾
Great Chilocosm	Great Chilocosm	October 25, 2016	November 11, 2016	RMB5,000,000	RMB1,230 million ⁽⁷⁾	1,834,811	RMB2.73	N/A ⁽⁸⁾
2017 Second Round Capital Increase								
Jinhua Xuance ⁽⁹⁾	Three Birds Holdings Limited	April 28, 2017	September 27, 2017	RMB100,000,000	RMB3,210 million ⁽¹⁰⁾	16,711,451	RMB5.98	N/A ⁽⁸⁾
Ningbo Huajiao	Myanmar Commercial Asset Management Company Limited	April 28, 2017	June 6, 2017	RMB10,000,000	RMB3,210 million ⁽¹⁰⁾	1,671,140	RMB5.98	N/A ⁽⁸⁾
Zhirun No. 1 and Zhirun No. 2	Sun Link Trade Limited	April 28, 2017	August 31, 2017	RMB250,000,000	RMB3,210 million ⁽¹⁰⁾	41,778,636	RMB5.98	N/A ⁽⁸⁾

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of Investors	Offshore entities directly or indirectly holding interests in our Company	Date of agreement	Date of Settlement	Consideration	Post-money valuation ⁽¹⁾	Total Shares held upon the Listing ⁽²⁾	Cost per Share	Discount to the Offer Price ⁽³⁾
Transfer of Equity Interests in Mijing Hefeng in 2018								
Zhang Fa ⁽¹¹⁾	JY Infinitas Ltd.	December 10, 2018	December 18, 2018	RMB75,000,000	N/A	27,522,173	RMB2.73 ⁽¹²⁾	N/A ⁽⁸⁾
Jinhua Duanxuan ⁽¹³⁾	Wingsound Technology Limited	June 20, 2018	January 13, 2021	RMB6,000,000	N/A	6,616,336	RMB0.91 ⁽¹³⁾	68.56%
Transfer of Equity Interests in Huafang Technology in 2021								
Shanghai Zuosan ⁽¹⁴⁾	AAPC NETWORK Ltd.	February 18, 2021	February 22, 2021	RMB150,000,000	N/A	25,100,224	RMB5.98	N/A ⁽⁸⁾

(1) Post-money valuation reflects the then valuation of Huafang Technology or Mijing Hefeng and its respective subsidiaries at the time of the investment.

(2) It represents the number of Shares held by and/or the shareholding of the investor or its affiliate or overseas investment platform in the Company immediately after completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option or any option granted under the Pre-IPO Share Option Scheme is not exercised). See the table under the section headed “— Our Reorganization — Step 3: Issuance of Shares to the shareholders of Huafang Technology” for details of the corresponding relationship between the investors and the respective offshore shareholding entities.

The Financial Investors do not directly hold any Share and will hold certain beneficial interests of our Company through their indirect interests in Pepper Blossom Limited.

(3) The discount to the Offer Price is calculated based on the assumption that the Offer Price is HK\$3.20 per Share, being the mid-point of the indicative Offer Price range of HK\$2.80 to HK\$3.60 per Share, and based on the number of Shares in issue upon the completion of the Capitalization Issue and the Global Offering, assuming the Over-allotment Option or any option granted under the Pre-IPO Share Option Scheme is not exercised.

(4) The information of consideration, post-money valuation, cost per Share and discount to the Offer Price are not meaningfully available as to the Financial Investors’ indirect interests in Qihoo 360 following the Privatization, because the total consideration of such investment was based on the then valuation of 360 Technology at the time of the Privatization instead of the valuation of Mijing Hefeng.

(5) The Buyer Group includes the following entities.

a) Zhejiang Haining Guoan Ruiwei Investment Partnership (Limited Partnership) (浙江海寧國安睿威投資合夥企業(有限合夥)) holding 5.25% of equity interest in Tianjin Qixin. Its general partner is Tibet Guoan Ruibo Private Fund Management Co., Ltd. (西藏國安睿博私募基金管理有限公司), which is controlled by CITIC Guoan Information Industry Co., Ltd. (中信國安信息產業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000839). Its limited partner is Shanghai Muyun Information Technology Investment Co., Ltd. (上海沐雲信息技術投資有限公司).

b) Shenzhen Ping An Real Estate Investment Co., Ltd. (深圳市平安置業投資有限公司) holding 4.20% of equity interest in Tianjin Qixin. It is ultimately controlled by Ping An Insurance (Group) Company of China, Ltd. (中國平安保險(集團)股份有限公司), a company listed on the Stock Exchange (stock code: 2318) and Shanghai Stock Exchange (stock code: 601318).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- c) Sunshine Life Insurance Company Ltd. (陽光人壽保險股份有限公司) holding 2.23% of equity interest in Tianjin Qixin. It is controlled by Sunshine Insurance (Group) Company Limited (陽光保險集團股份有限公司), which is owned by 34 shareholders. Its largest shareholder is Shenzhen Linfeng Investment Holdings Co., Ltd. (深圳市霖峰投資控股有限公司), which holds 10.36% of equity interest and is controlled by Wang Xiu'e (王秀娥).
- d) Nanjing Ruilian No. 1 Investment Center (Limited Partnership) (南京瑞聯一號投資中心(有限合夥)) holding 3.28% of equity interest in Tianjin Qixin. Its general partner is Jiangsu Ruilian Investment Fund Management Co., Ltd. (江蘇瑞聯投資基金管理有限公司), which is ultimately owned by Chen Zhijie (陳志傑) as to 49.36% and Zhang Tong (章童) as to 28.24%. It is owned by 13 limited partners in aggregate as to 99.97%, each holding ranging from approximately 0.02% to 69.63%. Its principal limited partner holding more than 20% of equity interest is Bosera Capital Management Co., Ltd. (博時資本管理有限公司).
- e) Yantai Minhe Haohu Investment Center (Limited Partnership) (煙台民和吳虎投資中心(有限合夥)) holding 1.71% of equity interest in Tianjin Qixin. Its general partner is Yixing Financial Holding Investment Co., Ltd. of Lhasa Economic and Technological Development Zone (拉薩經濟技術開發區亦興金控投資有限公司), which is controlled by Han Bing (韓冰). It is owned by seven limited partners in aggregate as to 96.62%, each holding ranging from approximately 1.64% to 43.24%. Its principal limited partners holding more than 20% of equity interest include Beijing Yizhuang International Emerging Industry Investment Center (Limited Partnership) (北京亦莊國際新興產業投資中心(有限合夥)) and Pu Zhongjie (蒲忠傑).
- f) SIP Oriza Chongyuan M&A Fund Partnership (Limited Partnership) (蘇州工業園區元禾重元併購股權投資基金合夥企業(有限合夥)) holding 0.66% of equity interest in Tianjin Qixin. Its general partner is SIP Chongyuan M&A Equity Investment Management Center (Limited Partnership) (蘇州工業園區重元併購股權投資管理中心(有限合夥)), which is ultimately owned by Ru Huajie (茹華傑) as to 38.10%, Yao Hua (姚驊) as to 38.10% and Meng Aimin (孟愛民) as to 23.81%. It is owned by two limited partners, China Merchants Wealth Asset Management Co., Ltd. (招商財富資產管理有限公司) and Suzhou Oriza Holding Co., Ltd. (蘇州元禾控股股份有限公司), as to 66.52% and 33.26%, respectively.
- g) Suzhou Taiping Guofa Tongrong No. 2 Investment Enterprise (Limited Partnership) (蘇州太平國發通融貳號投資企業(有限合夥)) holding 1.31% of equity interest in Tianjin Qixin. Its general partner is Suzhou Guofa Asset Management Co., Ltd. (蘇州國發資產管理有限公司), which is ultimately controlled by Suzhou Finance Bureau (蘇州市財政局). It is owned by seven limited partners in aggregate as to 99.99%, each holding ranging from approximately 2.50% to 40.00%. Its principal limited partner holding more than 20% of equity interest is Ningbo Rongbao Asset Management Co., Ltd. (寧波榮寶資產管理有限公司).
- h) Shanghai Sailing Boda Kedian Investment Management Center (Limited Partnership) (上海賽領博達科電投資管理中心(有限合夥)) holding 1.31% of equity interest in Tianjin Qixin. Its general partner is Qiyuan (Shanghai) Enterprise Management Center (Limited Partnership) (旗源(上海)企業管理中心(有限合夥)), which is ultimately controlled by James Xiaodong Liu. It is owned by three limited partners in aggregate as to 99.91%, each holding ranging from approximately 19.98% to 39.96%. Its principal limited partners holding more than 20% of equity interest include Sailing Yongchu Equity Investment (Shanghai) Co., Ltd. (賽領永初股權投資(上海)有限公司) and Hangzhou Sailing Daolin Investment Management Partnership (Limited Partnership) (杭州賽領道麟投資管理合夥企業(有限合夥)).
- i) Mango Culture Creativity (Shanghai) Equity Investment Limited Partnership (L.P.) (芒果文創(上海)股權投資基金合夥企業(有限合夥)) holding 1.31% of equity interest in Tianjin Qixin. See “— Pre-IPO Investments” for details.
- j) Qiancai NO. 1 Equity Investment Limited Partnership Enterprise (Limited Partnership) (千採壹號(象山)股權投資合夥企業(有限合夥)) holding 0.39% of equity interest in Tianjin Qixin. Its general partner is Shanghai Qiancai Investment Management Co., Ltd. (上海千採投資管理有限公司), which is ultimately controlled by Wei Ying (韋影). It is owned by three limited partners, Zhejiang Jinghua Investment Co., Ltd. (浙江景錘投資有限公司), Xinzhou Group Co., Ltd. (新洲集團有限公司) and Zhou Xin (周鑫), as to 45.58%, 33.68% and 20.69%, respectively.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- k) Zhujiang Life Insurance Co., Ltd. (珠江人壽保險股份有限公司) holding 1.31% of equity interest in Tianjin Qixin. It is owned by (i) Guangdong Zhujiang Investment Holding Group Co., Ltd. (廣東珠江投資控股集團有限公司) as to 30.15%, which is ultimately controlled by Zhu Weihang (朱偉航), (ii) Guangdong Zhuguang Group Co., Ltd. (廣東珠光集團有限公司) as to 20%, which is ultimately controlled by Xie Bingzhao (謝炳釗), and (iii) Hengyang Hechuang Real Estate Development Co., Ltd. (衡陽合創房地產開發有限公司) as to 18.96%, which is ultimately owned by Huang Li (黃莉), Zhu Jiehou (朱介侯), Zhu Jiewen (朱介文), Zeng Guokui (曾國魁), Zhu Pengli (朱蓬麗), Zhu Fengfu (朱逢富) and Zhu Fengcai (朱逢才).
- l) Hengdian Group Holdings Limited (橫店集團控股有限公司) holding 1.31% of equity interest in Tianjin Qixin. It is ultimately controlled by Dongyang Hengdian Community Economic Enterprise Federation (東陽市橫店社團經濟企業聯合會).
- m) Shanghai Greenlinton Investment Partnership (Limited Partnership) (上海綠廬創舸投資合夥企業(有限合夥)) holding 1.31% of equity interest in Tianjin Qixin. Its general partner is Greenland Sustainable Wealth Investment Management Co., Ltd. (綠地永續財富投資管理有限公司), which is ultimately controlled by Greenland Holdings Corporation Ltd. (綠地控股集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600606). It is owned by seven limited partners in aggregate as to 99.85%, each holding ranging from approximately 0.86% to 30.25%. Its principal limited partners holding more than 20% of equity interest include Jiaying Xingran Investment Partnership (Limited Partnership) (嘉興興然投資合夥企業(有限合夥)) and Beijing Heyuan Rongqi Equity Investment Center (Limited Partnership) (北京合源融企股權投資中心(有限合夥)).
- n) China Merchants Wealth Asset Management Co., Ltd. (招商財富資產管理有限公司) holding 1.31% of equity interest in Tianjin Qixin. It is ultimately owned by China Merchants Bank Co., Ltd. (招商銀行股份有限公司), a company listed on the Stock Exchange (stock code: 3968), and China Merchants Securities Co., Ltd. (招商證券股份有限公司), a company listed on the Stock Exchange (stock code: 6099).
- o) Ruijin City Huarong Ruize No. 1 Investment Center (Limited Partnership) (瑞金市華融瑞澤一號投資中心(有限合夥)) holding 1.71% of equity interest in Tianjin Qixin. Its general partner is Huarong Ruize Investment Management Co., Ltd. (華融瑞澤投資管理有限公司), which is ultimately controlled by China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司), a company listed on the Stock Exchange (stock code: 2799). It is owned by four limited partners, China Economic (Tianjin) Asset Management Center (Limited Partnership) (中經(天津)資產管理中心(有限合夥)), Hunan Television Media Co., Ltd. (湖南電廣傳媒股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000917), Liu Fengqin (劉鳳琴) and Tang Xianhong (唐先洪), as to 61.54%, 22.86%, 7.91% and 3.85%, respectively.
- p) Golden Brick Silk Road (Yinchuan) Equity Investment Partnership (Limited Partnership) (金磚絲路(銀川)股權投資合夥企業(有限合夥)) holding 3.28% of equity interest in Tianjin Qixin. Its general partner is Tianjin Huixin Jiahua Technology Co., Ltd. (天津匯新嘉華科技有限公司), which is owned by (i) Tianjin Haikai Xinchuang Industry Development Co., Ltd. (天津海開信創產業發展有限公司), which is ultimately controlled by Management Committee of Tianjin Binhai High-tech Industrial Development Zone (天津濱海高新技術產業開發區管委會), (ii) Xinzhou Group Co., Ltd. (新洲集團有限公司), which is ultimately controlled by Zhang Aijuan (張愛娟), and (iii) Xihu Zhongbao Co., Ltd. (新湖中寶股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600208). It is owned by eight limited partners in aggregate as to 99.90%, each holding ranging from 5.77% to 28.86%. Its principal limited partner holding more than 20% of equity interest is Tianjin Haikai Xinchuang Industry Development Co., Ltd. (天津海開信創產業發展有限公司).
- q) Golden Brick Silk Road (Shenzhen) Equity Investment Partnership (Limited Partnership) (金磚絲路(深圳)股權投資合夥企業(有限合夥)) holding 1.31% of equity interest in Tianjin Qixin. Its general partner is Golden Brick Silk Road Capital Holdings (Shenzhen) Co., Ltd. (金磚絲路資本控股(深圳)有限公司), which is ultimately controlled by Yue Shunxi (岳舜璽). It is owned by three limited partners, Beijing Xinrui Wuyuan Equity Investment Management Center (Limited Partnership) (北京鑫瑞物源股權投資管理中心(有限合夥)), Shenzhen Tianlong Equity Investment Partnership (Limited Partnership) (深圳天隆股權投資合夥企業(有限合夥)) and Yinchuan Jintianlun Investment Management Co., Ltd. (銀川金天倫投資管理有限公司), as to 77.01%, 16.59% and 5.40%, respectively.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- r) CICC Jiali (Tianjin) Investment Center (Limited Partnership) (中金佳立(天津)投資中心(有限合夥)) holding 0.66% of equity interest in Tianjin Qixin. Its general partner is CICC Capital Operation Co., Ltd. (中金資本運營有限公司), which is controlled by China International Capital Corporation Limited (中國國際金融股份有限公司), a company listed on the Stock Exchange (stock code: 3908) and Shanghai Stock Exchange (stock code: 601995). Its limited partner is CICC Jiatai (Tianjin) Equity Investment Fund Partnership Enterprise (L.P.) (中金佳泰(天津)股權投資基金合夥企業(有限合夥)), holding approximately 99.43% of equity interest in it.
- s) Shenzhen Huasheng Lingyou Private Equity Fund Investment (Limited Partnership) (深圳華晟領優股權投資合夥企業(有限合夥)) holding 2.36% of equity interest in Tianjin Qixin. Its general partner is Tianjin Huafeng Asset Management Partnership (Limited Partnership) (天津鐸峰資產管理合夥企業(有限合夥)), which is ultimately owned by Zheng Yi (鄭熠) and Xin xin (辛欣). It is owned by 11 limited partners in aggregate as to 99.95%, each holding ranging from 3.21% to 24.06%. Its principal limited partner holding more than 20% of equity interest is Shanghai Xinyin Investment Management Center (上海莘胤投資管理中心).
- t) Ningbo Borui Weisen Equity Investment Partnership (Limited Partnership) (寧波博睿維森股權投資合夥企業(有限合夥)) holding 2.63% of equity interest in Tianjin Qixin. Its general partners are (i) Shanghai Xinkun Investment Management Co., Ltd. (上海鑫琨投資管理有限公司), which is ultimately controlled by Xie Yunyan (謝雲燕), (ii) Shenzhen Ivy Capital Management Co., Ltd. (深圳常春藤資本管理有限公司), which is ultimately controlled by Pan Shiming (潘世明), and (iii) Ningbo Yanghua Enterprise Management Consulting Partnership (Limited Partnership) (寧波仰華企業管理諮詢合夥企業(有限合夥)), which is ultimately controlled by Sun Kai (孫凱). It is owned by five limited partners in aggregate as to 99.95%, each holding ranging from 3.40% to 34.88%. Its principal limited partners holding more than 20% of equity interest are Hengtai Pioneer Investment Co., Ltd. (恒泰先鋒投資有限公司) and Guizhou Railway First Phase I Equity Investment Fund Center No. 2 (Limited Partnership) (貴州鐵路壹期貳號股權投資基金中心(有限合夥)).
- u) Yi Capital Qiyuan Fund, L.P. (寧波執一奇元股權投資中心(有限合夥)) holding 1.31% of equity interest in Tianjin Qixin. Its general partner is Ningbo Zhiyi Qiyuan Investment Management Co., Ltd. (寧波執一啟元投資管理有限公司), which is controlled by Chen Wenjiang (陳文江). It is owned by seven limited partners in aggregate as to 99.88%, each holding ranging from 0.12% to 24.94%. Its principal limited partners holding more than 20% of equity interest are Fan Kangqi (范康麒) and Tibet Haoxuan Investment Co., Ltd. (西藏皓軒投資有限公司).
- v) Ningbo Jianhu Qirong Equity Investment Partnership (Limited Partnership) (寧波建虎啟融股權投資合夥企業(有限合夥)) holding 1.31% of equity interest in Tianjin Qixin. Its general partner is Zhuhai Jianrong Venture Capital Co., Ltd. (珠海建融創業投資有限公司), which is ultimately controlled by Zhu Xiaodong (朱曉東). It is owned by eight limited partners in aggregate as to 99.98%, each holding ranging from 3.12% to 34.37%. Its principal limited partner holding more than 20% of equity interest is Qingdao Jingbei Minerals Co., Ltd. (青島京北礦產有限公司).
- w) Jiaxing Yingfei Investment Center (Limited Partnership) (嘉興英飛投資中心(有限合夥)) holding 0.59% of equity interest in Tianjin Qixin. Its general partner is Beijing Dade Hongtao Asset Management Co., Ltd. (北京大得宏濤資產管理有限公司), which is ultimately controlled by Zhao Xiaoling (趙曉玲). It is owned by three limited partners, Zhao Yufei (趙宇飛), Beijing Fenxin Investment Management Co., Ltd. (北京奮信投資管理有限公司) and Beijing Guotian Technology Development Co., Ltd. (北京國田科技發展有限公司), as to 79.60%, 16% and 4%, respectively.
- x) Jiaxing Yunqi Net Plus Venture Capital Partnership (Limited Partnership) (嘉興雲啟網加創業投資合夥企業(有限合夥)) holding 0.59% of equity interest in Tianjin Qixin. Its general partner is Jiaxing Yunqi Venture Capital Partnership (Limited Partnership) (嘉興雲啟創業投資合夥企業(有限合夥)), which is controlled by Mao Chengyu (毛丞宇). It is owned by two limited partners, Shanghai Jingang Longchen Investment Partnership (Limited Partnership) (上海景盎隆琛投資合夥企業(有限合夥)) and Jiang Lixia (蔣麗霞), as to 34.44% and 34.13%, respectively.
- y) Beijing Kaijin Alpha Assets Management Center (Limited Partnership) (北京凱金阿爾法資產管理中心(有限合夥)) holding 0.66% of equity interest in Tianjin Qixin. Its general partner is Beijing Keywise Capital Management Co., Ltd. (北京凱思博投資管理有限公司), which is controlled by Zheng Fang (鄭方) and Zheng Wen (鄭文). It is owned by three limited partners, Zheng Fang (鄭方), Ningbo Meishan

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- Free Trade Port Area Shifa Equity Investment Partnership Enterprise (Limited Partnership) (寧波梅山保稅港區世發股權投資合夥企業(有限合夥)) and Gaoli Holdings Group Co., Ltd. (高力控股集團有限公司), as to 37.59%, 37.44% and 24.96%, respectively.
- z) Ningbo Zhixin Phase I Equity Investment Partnership (Limited Partnership) (寧波摯信一期股權投資合夥企業(有限合夥)) holding 1.18% of equity interest in Tianjin Qixin. Its general partner is Ningbo Zhixin Investment Management Partnership (Limited Partnership) (寧波摯信投資管理合夥企業(有限合夥)), which is controlled by Li Shujun (李曙軍). Its limited partner is Shenzhen Zhongheng Xingguang Financial Holdings Co., Ltd. (深圳中恒星光金融控股有限公司), holding 99.68% of equity interest in it.
- aa) Langtai Chuanfu Investment (Shenzhen) Partnership (Limited Partnership) (朗泰傳富投資(深圳)合夥企業(有限合夥)) holding 0.66% of equity interest in Tianjin Qixin. Its general partner is Langtai Junde Investment Management Phase I (Shenzhen) Partnership (Limited Partnership) (朗泰峻德投資管理一期(深圳)合夥企業(有限合夥)), which is ultimately controlled by Chen Xueliang (陳學梁), Wang Liangtao (王良韜) and Zhang Wei (張煒). It is owned by seven limited partners in aggregate as to 97.07%, each holding ranging from 3.17% to 31.86%. Its principal limited partner holding more than 20% of equity interest is Cai Shaohong (蔡少紅).
- bb) Jinhua City Puhua Baichuan Start-up Investment Partnership (Limited Partnership) (金華市普華百川創業投資合夥企業(有限合夥)) holding 0.66% of equity interest in Tianjin Qixin. Its general partner is Zhejiang Puhua Tianqin Equity Investment Management Co., Ltd. (浙江普華天勤股權投資管理有限公司), which is controlled by Shen Qinhua (沈琴華). It is owned by five limited partners in aggregate as to 99.73%, each holding ranging from 0.54% to 70.27%. Its principal limited partners holding more than 20% of equity interest are Lanxi Puhua Juli Equity Investment Partnership (Limited Partnership) (蘭溪普華聚力股權投資合夥企業(有限合夥)) and Deqing Pengyu Enterprise Management Partnership (Limited Partnership) (德清鵬裕企業管理合夥企業(有限合夥)).
- cc) Huizhen Capital Management (Shenzhen), L.P. (匯臻資本管理(深圳)合夥企業(有限合夥)) holding 2.63% of equity interest in Tianjin Qixin. Its general partner is Chuangzhan Capital Management (Shenzhen) Co., Ltd. (創展資本管理(深圳)有限公司), which is controlled by Peng Shuqi (彭書棋). It is owned by six limited partners in aggregate as to 99.64%, each holding ranging from 9.32% to 28.45%. Its principal limited partners holding more than 20% of equity interest are Beijing Hongyuan Taichang Sports Development Co., Ltd. (北京弘源泰昌體育發展有限公司) and Zheng Yanhua (鄭燕華).
- dd) Tianjin Xinxin Qiyuan Investment Limited Partnership (天津信心奇緣股權投資合夥企業(有限合夥)) holding 6.85% of equity interest in Tianjin Qixin. Its general partner is Tianjin Qiyuan Equity Investment Management Co., Ltd. (天津奇緣股權投資管理有限公司), which is owned by Huo Quansheng (霍全生), Feng Dehua (馮德華) and Wang Ye (王擘). It is owned by 28 limited partners in aggregate as to 97.94%, each holding ranging from 0.42% to 17.94%. None of its limited partners hold more than 20% of equity interest.
- ee) Tianjin Xinxinsheng Equity Investment Partnership (Limited Partnership) (天津欣新盛股權投資合夥企業(有限合夥)) holding 13.13% of equity interest in Tianjin Qixin. See “— Pre-IPO Investments” for details.
- ff) Beijing Rongjia Huineng Investment Management Center (Limited Partnership) (北京融嘉匯能投資管理中心(有限合夥)) holding 1.97% of equity interest in Tianjin Qixin. Its general partner is Riverhead Capital Investment Management Co., Ltd. (陽光融匯資本投資管理有限公司), which is owned by (i) Beijing Fitch Capital Equity Investment Management Center (Limited Partnership) (北京惠譽達股權投資管理中心(有限合夥)), which is ultimately controlled by Zhang Wenwen (張文雯), Wang Dexiao (王德曉) and Yuan Tao (袁濤), (ii) Sunshine Asset Management Co., Ltd. (陽光資產管理股份有限公司), which is ultimately controlled by Sunshine Insurance (Group) Corporation Limited (陽光保險集團股份有限公司), and (iii) Tibet Shengbo Enterprise Management Co., Ltd. (西藏晟博企業管理有限公司), which is owned by Fu Ting (付婷) and Zhang Wenwen (張文雯). It is owned by six limited partners in aggregate as to 98%, each holding ranging from 3.85% to 59.54%. Its principal limited partner holding more than 20% of equity interest is Beijing River Head Sunshine Emerging Industry Investment Management Center (Limited Partnership) (北京融匯陽光新興產業投資管理中心(有限合夥)).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- gg) Ruipu Wenhua (Tianjin) Investment Center (Limited Partnership) (銳普文華(天津)投資中心(有限合夥)) holding 1.05% of equity interest in Tianjin Qixin. Its general partner is Ruipu Jinse (Tianjin) Asset Management Partnership (Limited Partnership) (銳普錦瑟(天津)資產管理合夥企業(有限合夥)), which is owned by (i) Li Lin (李琳), (ii) Zhang Han (張涵), (iii) Zhang Mingchen (張鳴晨), and (iv) Ruipu Huida (Tianjin) Asset Management Co., Ltd. (銳普匯達(天津)資產管理有限公司), which is controlled by Wang Hongsheng (王鴻生). It is owned by four limited partners, Shanghai Guotai Junan Technology Investment Center (Limited Partnership) (上海國泰君安科技投資中心(有限合夥)), Tibet Dazhunchunxin Ansheng Investment Center (Limited Partnership) (西藏達孜淳信安晟投資中心(有限合夥)), Zhang Han (張涵) and Beijing Chunxin Hongtu Investment Management Co., Ltd. (北京淳信宏圖投資管理有限公司), as to 29.25%, 24.89%, 24.17% and 21.54%, respectively.
- hh) Shanghai Yongzheng Investment Management Co., Ltd. (上海永掙投資管理有限公司) holding 1.05% of equity interest in Tianjin Qixin. It is ultimately controlled by Wang Liangping (王良平).
- ii) Beijing Sequoia Yiyuan Equity Investment Center (Limited Partnership) (北京紅杉懿遠股權投資中心(有限合夥)) holding 8.80% of equity interest in Tianjin Qixin. Its general partner is Beijing Sequoia Kun Tak Investment Management Center (Limited Partnership) (北京紅杉坤德投資管理中心(有限合夥)), which is ultimately controlled by Zhou Kui (周逵). It is owned by three limited partners, China Merchants Wealth Asset Management Co., Ltd. (招商財富資產管理有限公司), Beijing Sequoia Huiyuan Equity Investment Center (Limited Partnership) (北京紅杉薈遠股權投資中心(有限合夥)) and Beijing Sequoia Zhangyuan Equity Investment Center (Limited Partnership) (北京紅杉濂遠股權投資中心(有限合夥)), as to 64.27%, 26.48% and 9.25%, respectively.
- jj) Hangzhou Yiyang Investment Management Limited Partnership (Limited Partnership) (杭州以盈投資管理合夥企業(有限合夥)) holding 1.31% of equity interest in Tianjin Qixin. Its general partner is Jinsheng Future Investment Management Co., Ltd. (金生未來投資管理有限公司), which is ultimately controlled by China Minsheng Bank Trade Union Committee (中國民生銀行工會委員會). Its limited partner is Shanghai Jiayue Investment Management Center (Limited Partnership) (上海嘉岳投資管理中心(有限合夥)), holding 99.99% of equity interest in it.

Items (a) to (ee) of the Buyer Group indirectly hold interests in our Company through Blossom Pathway Limited and items (ff) to (jj) of the Buyer Group indirectly hold interests in our Company through Blossom Leadings Limited. Each of the members of the Buyer Group is an Independent Third Party.

- (6) Beijing Cultural Center was one of the investment vehicles participating in 2016 First Round Capital Increase. As an intra-group transaction, in February 2021, Beijing Cultural Center transferred 3.74% of equity interest in Huafang Technology to its subsidiary, Siming Juncheng.
- (7) The post-money valuation of 2016 First Round Capital Increase was determined based on parties' arm's length negotiation with reference to (i) the experience of Mijing Hefeng's management team; (ii) the growth of cumulative registered users since the launch of *Huajiao* in May 2015 and the number of *Huajiao*'s cumulative registered users as of September 30, 2016 amounting to approximately 41.0 million; (iii) the then estimated revenue for the year ended December 31, 2016; (iv) the growth prospects of Mijing Hefeng and the rapid growth of live streaming market in China; and (v) the comparable companies in the industry and their valuation.
- (8) The discount to the Offer Price for the 2016 First Round Capital Increase is not applicable as the cost per Share of the 2016 First Round Capital Increase is higher than the Offer Price.

The discount to the Offer Price for the 2017 Second Round Capital Increase is not applicable as the cost per Share of the 2017 Second Round Capital Increase is higher than the Offer Price.

The discount to the Offer Price for Zhang Fa under the transfer of equity interests in Mijing Hefeng in 2018 is not applicable as the cost per Share of the transfer of equity interests in Mijing Hefeng in 2018 is higher than the Offer Price.

The discount to the Offer Price for the transfer of equity interests in Huafang Technology in 2021 is not applicable as the cost per Share of the transfer of equity interests in Huafang Technology in 2021 is higher than the Offer Price.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (9) Jinhua Chaduan was one of the investment vehicles participating in 2017 Second Round Capital Increase. As an intra-group transaction, in December 2018, Jinhua Chaduan transferred 3.03% of equity interest in Mijing Hefeng to its affiliate, Jinhua Xuance.
- (10) The post-money valuation of 2017 Second Round Capital Increase was determined based on parties' arm's length negotiation with reference to (i) the experience of Mijing Hefeng's management team; (ii) the growth of cumulative registered users since the date of 2016 First Round Capital Increase and the number of *Huajiao's* cumulative registered users as of March 31, 2017 amounting to approximately 79.5 million, which almost doubled the number as of September 30, 2016; (iii) the then estimated revenue for the year ended December 31, 2017; (iv) the growth prospects of Mijing Hefeng and the rapid growth of live streaming market in China; and (v) the comparable companies in the industry and their valuation. The post-money valuation after 2017 Second Round Capital Increase increased by approximately 161% as compared to the post-money valuation after 2016 First Round Capital Increase, which was mainly due to the facts that: (i) the number of *Huajiao's* cumulative registered users was 84.4 million as of April 30, 2017, representing an increase of approximately 40.7% as compared to *Huajiao's* accumulated registered users of around 62 million as of December 31, 2016, (ii) the revenue generated from Mijing Hefeng in 2017 was RMB2,418.6 million, representing an increase of approximately 126% as compared to the revenue of RMB1,070.3 million generated from Mijing Hefeng in 2016, and (iii) the rapid growth of live streaming market in China in 2017.
- (11) Ziqi Mining was one of the investors participating in 2016 First Round Capital Increase. In December 2018, Zhang Fa acquired 4.99% of equity interest in Mijing Hefeng from Ziqi Mining.
- (12) In December 2018, Ziqi Mining transferred 4.99% of equity interest in Mijing Hefeng to Zhang Fa at the consideration of RMB75 million (the "Transfer to Zhang Fa"), which was the original cost of Ziqi Mining's investment in 2016 First Round Capital Increase. The Company was not involved in the negotiations of the investors.
- (13) In June 2018, as intra-group transactions, Yalong No. 16 transferred 46.56% in aggregate of equity interest in Mijing Hefeng to its limited partners, including Qihoo 360, Shoujin Capital and Jinhua Duanxuan. Based on the information provided by Jinhua Duanxuan, the equity transfer agreement entered into between Yalong No. 16 and Jinhua Duanxuan did not provide any payment deadline for the consideration of RMB6 million, and Jinhua Duanxuan's settlement in January 2021 did not breach any obligation under such equity transfer agreement given the nature of the intra-group transaction of the Transfer to Jinhua Duanxuan.

The Company was not involved in the negotiations of the investors. Based on the information provided by Jinhua Duanxuan, the cost per share for the transfer of equity interest in Mijing Hefeng from Yalong No. 16 to Jinhua Duanxuan (the "Transfer to Jinhua Duanxuan") was relatively low because the Transfer to Jinhua Duanxuan was an intra-group transaction, where Yalong No. 16 transferred all of its equity interest in Mijing Hefeng to its three limited partners (including Qihoo 360, Shoujin Capital and Jinhua Duanxuan) at a relatively low price as the limited partners who previously held indirect interests in Mijing Hefeng through Yalong No. 16 intended to directly hold interests in Mijing Hefeng.

- (14) Guangzhou Leichen was the original investment vehicle for 2017 Second Round Capital Increase. As an intra-group transaction, in February 2018, Guangzhou Leichen transferred 4.55% of equity interest in Mijing Hefeng to its affiliate, Ningbo Huabo. In February 2021, Shanghai Zuosan acquired 2.56% of equity interests in Huafang Technology from Ningbo Huabo.

The consideration for the pre-IPO investments were determined based on arm's length negotiation between (1) Huafang Technology/Mijing Hefeng and the pre-IPO investors or (2) the transferors and transferees in the pre-IPO investments, after taking into consideration of, among others, the timing of investments, and the business performance and prospect of Huafang Technology/Mijing Hefeng. See "— Our Corporate Development" for further details, including basis of the consideration for each investment, the respective equity interests held by pre-IPO investors after each investment and respective settlement date of the consideration for each investment.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The premium of the Company's market capitalization upon the Listing, as compared to its post-money valuation after 2016 First Round Capital Increase, has taken into account the significant growth of our business and financial performance as well as the difference in risks taken by the pre-IPO investors in 2016 First Round Capital Increase by investing in a private company as contrary to public investors. In particular, the number of *Huajiao's* cumulative registered users (excluding *Naitang's* operating results) was 215.0 million as of December 31, 2021, representing an increase of approximately 246.8% as compared to *Huajiao's* accumulated registered users (excluding *Naitang's* operating results) of around 62.0 million as of December 31, 2016. The revenue generated by our Group increased from approximately RMB1,090 million in 2016 to RMB4,600 million in 2021 at a CAGR of 33.37%.

Our Directors are of the view that we would benefit from the additional capital injected by the pre-IPO investors' investments in our Group, their business resources, knowledge and experience, and potential business opportunities and benefits that may be provided by them.

Lock-up Period

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

As of the Latest Practicable Date, Blossom Bliss Limited, being our employee shareholding ownership platform, has also executed a lock-up undertaking, and undertaken that, it will not, at any time during the period commencing from the date of the lock-up undertaking and ending on the date falling 9 months after the Listing Date, transfer any Shares or any interest in such Shares directly or indirectly held by it in the Company without prior written consent of the Joint Global Coordinators and the Joint Sponsors.

For the shareholding of the shareholders of the Company prior to the Global Offering, please refer to the paragraph "— Our Reorganization — Step 3: Issuance of Shares to the shareholders of Huafang Technology".

Special Rights of the Pre-IPO Investors

All of our pre-IPO investors are currently bound by the terms of the currently effective memorandum and articles of association of the Company, which will be replaced by our Memorandum and Articles effective upon the completion of the Capitalization Issue and the Global Offering. Pursuant to the shareholders agreement of Huafang Technology dated June 27, 2018 and its supplemental agreement dated October 18, 2021 (the “Shareholders Agreement”) entered into, among others, by our Company, Huafang Technology, WFOE, the Registered Shareholders and the shareholders of our Company, our pre-IPO investors (other than the Financial Investors) were granted certain special rights in relation to the Company, including:

- (i) *pre-emptive rights* – In the event the Company proposes to increase its registered capital, subject to customary exceptions, the shareholders of the Company will have a pre-emptive right to subscribe for such increased registered capital on the same terms under the proposed increase of registered capital by the Company;
- (ii) *rights of first refusal* – In the event any shareholder of the Company proposes to directly or indirectly sell or dispose its shares of the Company in whole or in part, the other shareholders of the Company will have a right of first refusal to purchase such shares in whole or in part on the same terms under the proposed transfer by such shareholder;
- (iii) *information rights* – In the event that the shareholders of the Company request the Company to provide financial information for their financial reporting purposes, the Company shall make its best efforts to cooperate; and
- (iv) *liquidation rights* – In the event that (i) the Company is liquidated, dissolved, bankrupted or merged, or (ii) more than 50% of the shares of the Company have been sold, or (iii) the Company has sold substantially all of its assets, or (iv) the Company has transferred or exclusively grant the license of all or the vast majority of its intellectual property rights, the shareholders of the Company is entitled to be distributed the assets of the Company legally available for distribution on a pro rata basis.

The divestment rights of our Company under the Shareholders Agreement have been terminated immediately prior to the first submission of the listing application form to the Stock Exchange for the purpose of the Global Offering. All other aforementioned special rights under the pre-IPO investments shall cease to be effective and be discontinued upon the Listing in accordance with the terms of the Shareholders Agreement.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Public Float

Upon the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option or any option granted under the Pre-IPO Share Option Scheme is not exercised), the shares held by certain of our existing Shareholders who are, or are indirectly controlled by, our core connected persons, will not be counted towards the public float. Details of these Shareholders and their controllers are set out below:

- (1) the shares held by Pepper Blossom Limited will not be considered as part of the public float because it is under the control of Mr. Zhou, our controlling shareholder and non-executive Director; and
- (2) the shares held by Global Bacchus Limited will not be considered as part of the public float because it is under the control of Songcheng Performance, our controlling shareholder.

Save as disclosed above, no other Shareholder is a core connected person of the Company, as defined in the Listing Rules. Therefore, the Shares held by the other Shareholders will count towards the public float. The expected public float percentage of our Company immediately following the Capitalization Issue and the Global Offering is approximately 28.19% (assuming the Over-allotment Option or any option granted under the Pre-IPO Share Option Scheme is not exercised).

Use of Proceeds from the Pre-IPO Investments

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

Information of Principal Pre-IPO Investors

The following sets forth information of the existing pre-IPO investors each holding, directly or indirectly, 1% or above of our total issued and outstanding Shares immediately after the Capitalization Issue and the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any shares which may be issued upon the exercise of any option granted under the Pre-IPO Share Option Scheme).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Mango Culture is a limited partnership incorporated in the PRC on December 11, 2015, which is principally engaged in technology development. Mango Culture is owned by 14 limited partners in aggregate as to approximately 99.94%, each holding ranging from approximately 0.65% to 16.66%. The general partner of Mango Culture is Yize Capital Management Co., Ltd. (易澤資本管理有限公司), which is owned (1) as to 40% by Mango Media Co., Ltd. (芒果傳媒有限公司), which is wholly owned by Hunan Broadcasting System (湖南廣播電視台), an Independent Third Party, and (2) as to 40% by Shanghai Dunhui Enterprise Consultancy Management Centre (L.P.) (上海敦惠企業諮詢管理中心(有限合夥)), the general partner of which is Shanghai Lubai Enterprise Management and Consultancy Co., Ltd. (上海麓柏企業管理諮詢有限公司), which is owned as to 60% by Huang Guoxiong (黃國雄) and as to 40% by Yuan Guoliang (袁國良). Both of them are Independent Third Parties.

Siming Juncheng is a limited liability company incorporated in the PRC on August 3, 2018, which is principally engaged in technology development. Siming Juncheng is owned as to 90.625% by Beijing Cultural Center. The general partner of Beijing Cultural Center is Beijing Cultural Center Construction Development Fund Management Co., Ltd. (北京市文化中心建設發展基金管理有限公司), which is wholly-owned by Beijing Cultural Investment Development Group Co., Ltd. (北京市文化投資發展集團有限責任公司). Beijing Cultural Investment Development Group Co., Ltd. (北京市文化投資發展集團有限責任公司) is wholly owned by Beijing State-owned Cultural Assets Supervision and Administration Office (北京市國有文化資產監督管理辦公室).

Shanghai Zuosan is a limited liability company incorporated in the PRC on December 3, 2020, which is principally engaged in technology development. Shanghai Zuosan is wholly owned by Shanghai Junzuo Electronic Technology Co., Ltd. (上海均佐電子科技有限公司), which is owned by Zhang Zuo (張作) as to 99% and Chen Zhuozhi (陳焯枝) as to 1%. Both of them are Independent Third Parties.

Zhirun No. 1 is a limited partnership incorporated in the PRC on August 17, 2017, which is principally engaged in investment holding. Zhirun No. 1 is owned by two limited partners, Shenzhen Hongrun No. 5 Investment Partnership (L.P.) (深圳泓潤五號投資合夥企業(有限合夥)) and Shenzhen Zhongzhou Hongyun Investment Partnership (L.P.) (深圳中洲泓運投資合夥企業(有限合夥)), as to 98.90% and 1.08%, respectively. The general partner of Zhirun No. 1 and Shenzhen Hongrun No. 5 Investment Partnership (L.P.) is Shenzhen Qianhai Junxin Investment Holdings Co., Ltd. (深圳市前海君信投資控股有限公司), which is owned by Huang Zhuguang (黃珠光) as to 98% and Chen Yejia (陳業佳) as to 2%. Both of them are Independent Third Parties.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Zhirun No. 2 is a limited partnership incorporated in the PRC on August 17, 2017, which is principally engaged in investment holding. The general partner of Zhirun No. 2 and Shenzhen Hongrun No. 5 Investment Partnership (L.P.) is Shenzhen Qianhai Junxin Investment Holdings Co., Ltd. (深圳市前海君信投資控股有限公司), which is owned by Huang Zhuguang (黃珠光) as to 98% and Chen Yejia (陳業佳) as to 2%. Both of them are Independent Third Parties. Zhirun No. 2 is owned by two limited partners, Shenzhen Hongrun No. 5 Investment Partnership (L.P.) (深圳泓潤五號投資合夥企業(有限合夥)) and Shenzhen Zhongzhou Hongyun Investment Partnership (L.P.) (深圳中洲泓運投資合夥企業(有限合夥)), as to 98.87% and 1.12%, respectively.

Jinhua Xuance is a limited liability company incorporated in the PRC on April 10, 2015, which is principally engaged in investment holding. Jinhua Xuance is wholly owned by Jinhua Jiujiu Information Technology Co., Ltd. (金華玖玖信息技術有限公司), which is owned by Fu Zhengjun (傅政軍) as to 98% and Fu Yanchang (傅延長) as to 2%. Both of them are Independent Third Parties.

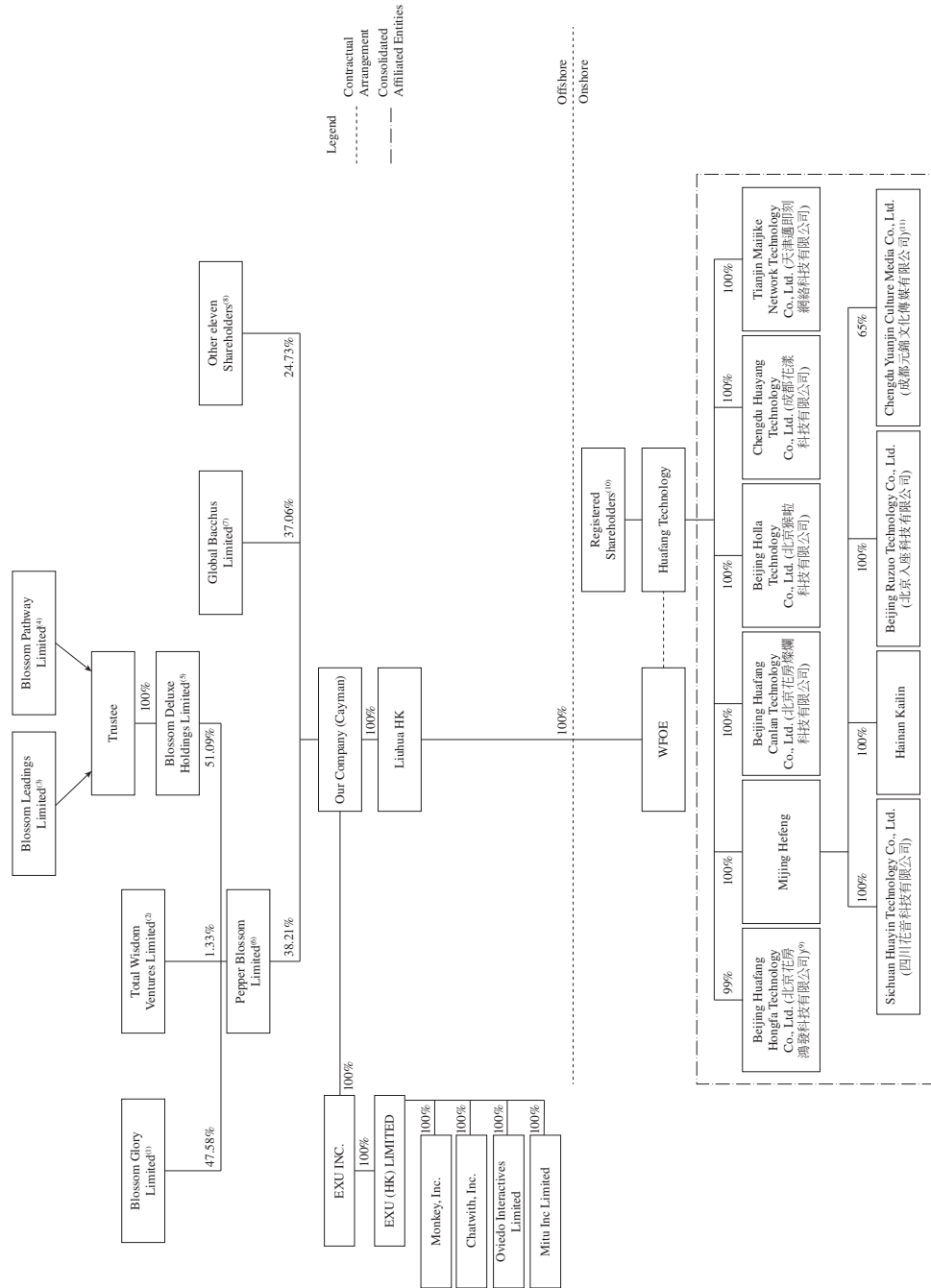
Tianjin Xinxinsheng Investment Limited Partnership (天津欣新盛股權投資合夥企業(有限合夥)), one member of the Buyer Group, is a limited partnership incorporated in the PRC on November 23, 2015, which is principally engaged in investment holding. The general partner of Tianjin Xinxinsheng Investment Limited Partnership is Tianjin Qihu Xincheng Technology Co., Ltd. (天津奇虎欣盛科技有限公司), which is ultimately controlled by Li Qinglu (李慶璐), an Independent Third Party. It is owned by 13 limited partners in aggregate as to 98.80%, each holding ranging from 0.59% to 32.41%.

COMPLIANCE WITH INTERIM GUIDANCE AND GUIDANCE LETTERS

Based on the documents provided by the Company relating to the pre-IPO Investments, the Joint Sponsors confirm that the pre-IPO Investments are in compliance with Guidance Letter HKEX-GL29-12 issued by the Stock Exchange in January 2012 and updated in March 2017, Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012 and updated in July 2013 and March 2017 and Guidance Letter HKEX-GL44-12 issued by the Stock Exchange in October 2012 and updated in March 2017.

OUR CORPORATE STRUCTURE

The following chart illustrates our corporate structure as of the Latest Practicable Date and immediately prior to the Global Offering:



- (1) Blossom Glory Limited is owned by (i) Blossom Eternity Limited as to approximately 71.94%, (ii) Blossom Growth Limited as to approximately 21.84%, and (iii) Wingsound Technology Limited and Three Birds Holdings Limited as to approximately 6.22%. Each of Blossom Eternity Limited and Blossom Growth Limited is wholly owned by Mr. Zhou, our controlling shareholder. Therefore, Blossom Glory Limited is owned by Mr. Zhou as to approximately 93.78% and ultimately controlled by Mr. Zhou.
- Zhejiang Genfan Investment Management Co., Ltd. (浙江亘凡投资管理有限公司) is a limited partner of Huajiao No. 2, holding 29.4194% interests in Huajiao No. 2. Wingsound Technology Limited and Three Birds Holdings Limited are offshore entities holding the equity interests of Blossom Glory Limited for and on behalf of Zhejiang Genfan Investment Management Co., Ltd. (浙江亘凡投资管理有限公司) to reflect its interests in Huajiao No. 2 as a limited partner prior to the Reorganization.
- The general partner of Huajiao No. 2 is Beijing Qianqian Technology Co., Ltd., which has been controlled by Mr. Zhou since October 18, 2019.
- (2) Total Wisdom Ventures Limited is wholly owned by Mr. Qi Xiangdong, an individual investor and an Independent Third Party.
- (3) Blossom Leadings Limited is wholly owned by Beijing Qifei Xiangyi Business Consultancy Co., Ltd. which is ultimately controlled by Mr. Zhou and represent certain Financial Investors' interest in our Company. Please refer to "Principal terms of the pre-IPO Investments" for the details of the Financial Investors.
- (4) Blossom Pathway Limited is wholly owned by Beijing Feixiang Qiyi Management Consulting Partnership (Limited Partnership) (北京飛翔奇藝管理諮詢合夥企業(有限合夥)). The general partner of Beijing Feixiang Qiyi Management Consulting Partnership (Limited Partnership) is Boneng Nuohu (Beijing) Technology Co., Ltd. (博能諾和(北京)科技有限公司), which is owned by Wang Jie (王潔) as to 50% and Zhang Hongyan (張紅艷) as to 50%. Both of them are Independent Third Parties. The limited partners of this partnership represent certain Financial Investors' interest in our Company. Please refer to "Principal terms of the pre-IPO Investments" for the details of the Financial Investors.
- (5) Blossom Leadings Limited and Blossom Pathway Limited as joint settlors established a discretionary trust (the "Trust") with Tricor Equity Trustee Limited as trustee (the "Trustee"). The Trustee holds 51.10% of the equity interest of Pepper Blossom Limited through a holding company, Blossom Deluxe Holdings Limited, for the benefit of the beneficiaries of the Trust. The beneficiaries of the Trust are Blossom Leadings Limited and Blossom Pathway Limited. The Trustee follows the voting instructions of the beneficiaries of the Trust. The economic interest enjoyed by the Trust shall be distributed to its beneficiaries pursuant to the terms of the Trust, and the beneficiaries would further distribute to their respective ultimate beneficial owners. For the background of Blossom Leadings Limited and Blossom Pathway Limited, please refer to the paragraph (3) and (4) above. Blossom Deluxe Holdings Limited has entered into a voting proxy with Blossom Glory Limited to entrust 42.69% voting rights held by Blossom Deluxe Holdings Limited in Pepper Blossom Limited to Blossom Glory Limited, which enables Blossom Glory Limited to exercise 90.26% of voting rights at the general meeting of Pepper Blossom Limited. To the best knowledge of the Company, as certain ultimate beneficial owners of Blossom Leadings Limited did not express their views on whether to entrust their voting rights in Pepper Blossom Limited to Blossom Glory Limited, Blossom Deluxe Holdings Limited keeps its remaining 8.41% voting rights in Pepper Blossom Limited and Blossom Deluxe Holdings Limited will exercise the remaining 8.41% voting rights in Pepper Blossom Limited in accordance with the instruction of such ultimate beneficial owners of Blossom Leadings Limited. Each of such ultimate beneficial owners of Blossom Leadings Limited is an Independent Third Party. To the best knowledge of the Company, there is not acting-in-concert arrangement among such ultimate beneficial owners of Blossom Leadings Limited.
- (6) Pepper Blossom Limited is ultimately controlled by Mr. Zhou, our controlling shareholder.
- (7) Global Bacchus Limited is wholly owned by Songcheng Performance, our controlling shareholder.
- (8) See "— Our Reorganization — Step 3: Issuance of Shares to the shareholders of Huafang Technology" for details.

- (9) Beijing Hongfa was established by Mr. Zhou and Zhang Fa on May 13, 2021 as a limited liability company in the PRC with an initial registered capital of RMB100,000. As of the Latest Practicable Date, Beijing Hongfa was owned by Huaifang Technology as to 99% and by Mr. Zhou as to 1%.
- (10) The Registered Shareholders refer to the registered shareholders of Huaifang Technology. Huaifang Technology was owned as to 26.67% by Qihoo 360 Software (Beijing) Co., Ltd. (奇虎三六零軟件(北京)有限公司), 7.69% by Tianjin Huajiao No. 1 Technology Limited Partnership (天津花椒壹號科技合夥企業(有限合夥)), 3.85% by Tianjin Huajiao No. 2 Technology Limited Partnership (天津花椒貳號科技合夥企業(有限合夥)), 37.06% by Songcheng Performance Development Co., Ltd. (宋城演藝發展股份有限公司), 1.75% by Jinhua Xuance Investment Management Co., Ltd. (金華壹策投資管理有限公司), 0.69% by Jinhua Duanxuan Investment Management General Partnership (G.P.) (金華端壹投資管理合夥企業(普通合夥)), 3.85% by Beijing Siming Juncheng Technology Co., Ltd. (北京思明駿程科技有限公司), 1.54% by Mango Culture Creativity (Shanghai) Equity Investment Limited Partnership (L.P.) (芒果文創(上海)股權投資基金合夥企業(有限合夥)), 1.31% by Shenzhen Zhirun No. 1 Investment Limited Partnership (L.P.) (深圳致潤一號投資合夥企業(有限合夥)), 3.07% by Shenzhen Zhirun No. 2 Investment Limited Partnership (L.P.) (深圳致潤二號投資合夥企業(有限合夥)), 2.63% by Shanghai Zuosan Digital Technology Co., Ltd. (上海佐三數字科技有限公司), 0.18% by Ningbo Meishan Free Trade Port Area Huajiao Equity Investment Limited Partnership (L.P.) (寧波梅山保稅港區花椒股權投資中心(有限合夥)), 0.38% by Shanghai Huawei Equity Investment Limited Partnership (L.P.) (上海驊偉股權投資基金合夥企業(有限合夥)), 0.19% by Great Chiliocosm (Kunshan) Cultural Investment Partnership (L.P.) (三千世界(昆山)文化產業投資合夥企業(有限合夥)), 2.89% by Zhang Fa and 6.25% by Tianjin Huafang Feiteng Technology Center (L.P.) (天津花房飛騰科技中心(有限合夥)) as of the Latest Practicable Date.
- (11) Chengdu Yuanjin Culture Media Co., Ltd. (成都元錦文化傳媒有限公司) is owned as to 65% by Mijing Hefeng and as to 35% by Miao Lijie (苗李杰), an Independent Third Party.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

REGULATORY REQUIREMENTS OF CHINA

According to the Regulations for Merger with and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”) jointly issued by MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, the SAIC and SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (1) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (2) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (3) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (4) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for the listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the Listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

Our PRC Legal Advisor is of the opinion that, based on its understanding of the current PRC laws and regulations, MOFCOM and CSRC approvals for the Global Offering under the M&A Rules are not required because (1) WFOE was not established through a merger or acquisition of equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules that are the beneficial owners of our Company, and (2) no provision in the M&A Rules clearly classifies contractual arrangements as a type of transaction subject to the M&A Rules.

SAFE REGISTRATION IN CHINA

Pursuant to the Circular of SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知) (the “SAFE Circular 37”), issued by SAFE and effective on July 4, 2014, (1) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the “Overseas SPV”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (2) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among others, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be restricted from making profit distributions to the offshore parent and from carrying out subsequent

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Pursuant to the Circular of SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知), issued by SAFE and effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interests in the domestic entity are located.

As advised by our PRC Legal Advisor, Mr. Zhou Hongyi, Mr. Zhang Fa and Mr. Qi Xiangdong, who are PRC residents, have completed the foreign exchange registration under the SAFE Circular 37.

BUSINESS

OVERVIEW

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

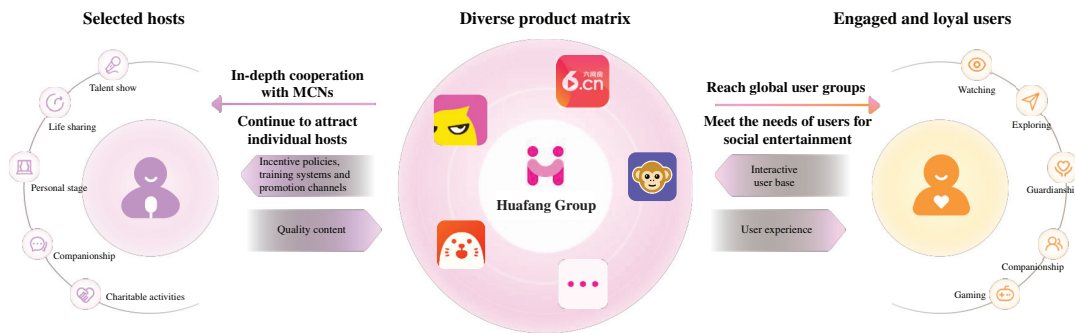
We focus on the sphere of online social entertainment, with a business portfolio from live streaming to a suite of multi-faceted video- and audio-based social networking products and services. We believe we have crafted our platforms to meet the needs and interests of users in China and selected overseas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

We have continued to capture user needs and industry trends to refine our products and services. Capitalizing on our know-how and experience accumulated through the operations of our flagship products, *Huajiao* and *6.cn*,⁽²⁾ we are a popular destination for entertainment live streaming experience. According to the iResearch Survey, we have established *Huajiao* as a well-known and popular product among entertainment live streaming platforms, with more than 67% respondents recognizing our brand first among other entertainment live streaming platforms. We have also introduced our audio-based social entertainment and networking apps, in addition to our investment in or incubation of various specialty social networking services in scenarios such as social discovery, social networking and group chat. As of the Latest Practicable Date, we launched products and services to cover various media channels,

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

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

including mobile apps and PC clients, content expressions, including live streaming, short videos and audio communications, and service genres, including general entertainment and social networking, in order to reach and engage a broad user base.



The viability of our content ecosystem is critical to our success. We provide opportunities that transform beginner hosts into influencers, enabling them to gain proficiency and popularity and to develop with us professionally. On the supply side, we collaborate with talent agencies to facilitate a smooth supply of hosts to stream and perform on our platform. We have developed a talent fostering system to identify, develop, and train hosts, with execution plans on host training and promotion, content production and monitoring. We have aggregated a large number of viable individual hosts, leveraging our brand, career advancement opportunities and favorable collaboration policies. On the demand side, leveraging our technological capability, we connect users with relevant content, creating a cycle evolving around the positive interaction between our content production and user base.

We have cultivated an online user community that demands for quality content to foster a sense of diversity and inclusiveness in their pursuit of happiness, companionship and satisfaction. We believe we offer satisfactory user experience, utilizing technologies in the pertinent fields to ensure streaming quality on both mobile apps and PC clients. We leverage our AI video special-effect technology and 3D engine technology to create a sense of participation and immersion among our users. We also apply our data processing and AI technologies to optimize our operations, which allows us to meet user demands with customized services. With the user experience we deliver, backed by our user-centric feedback mechanism and customer service, we can effectively retain our users, as evidenced by our paying user retention rate of 72.2% and 67.9% for *Huajiao* and *6.cn* in the five months ended May 31, 2022, respectively.

We have continued to explore opportunities in the overseas market to launch products and services centered on social discovery. Leveraging our rich experience in product development and operations, we have introduced regional products and services, embodying the local trends and cultural elements, to meet the demands of overseas users. Our overseas social networking products for video-based social networking, including *HOLLA* and *Monkey*, have attracted a growing user community, with approximately 97.3 million and 112.7 million registered users as of December 31, 2021 and May 31, 2022, respectively.

BUSINESS

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

COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed to our success and differentiated us from our competitors. We also plan to thrive on the following competitive strengths that can differentiate us from our industry peers to maintain our competitiveness in the market.

One of the leading online entertainment live streaming platforms in China

We are an internet company in China, offering video- and audio-based live entertainment and social networking services to our users. We operate one of the leading online entertainment live streaming platforms in China. We ranked among the top two online entertainment live streaming platforms in terms of monthly active users and monthly paying users from apps and websites on mobile and PC, as well as WeChat mini programs, and monthly usage time on mobile apps and PC clients in 2021, according to the iResearch Report. According to the same source, we ranked third among all online entertainment live streaming platforms in China in terms of revenue generated from apps and websites on mobile and PC, as well as WeChat mini programs in 2021, accounting for approximately 13.1% of total revenue of China’s entertainment live streaming platforms and approximately 0.9% of total revenue of China’s video and audio social entertainment market in 2021.

We have established our position in the market since the inception of our business. Tracing back to their origins in 2010 and 2015, respectively, our flagship products, *6.cn* and *Huajiao* have generated market appeal and brand influence. The Huajiao-6.cn Merger in 2019 has allowed us to combine the advantages of mobile apps and PC clients, through the exchange and sharing of experiences and resources in various business aspects, including product operations, events planning, content creation, host management and regulatory compliance. For example, our operational experience in user interactions through *6.cn* has substantially

BUSINESS

enhanced the variety of the content and activities generated on *Huajiao*. Despite the differentiated brand cultures and user cohorts, the integration of operational experiences and resources has created synergies to facilitate the overall user attraction and engagement. As of May 31, 2022, we had 221.2 million and 80.9 million registered users on *Huajiao* and *6.cn*, respectively. Our average MAUs were 45.5 million, 50.1 million, 59.4 million and 58.6 million in 2019, 2020, 2021 and the five months ended May 31, 2022, respectively. *Huajiao*'s revenue increased at a CAGR of 26.6% from RMB2,165.7 million in 2019 to RMB3,469.2 million in 2021, and by 9.8% from RMB1,360.5 million in the five months ended May 31, 2021 to RMB1,493.2 million in the five months ended May 31, 2022. *Huajiao*'s gross profit increased at a CAGR of 39.5% from RMB423.2 million in 2019 to RMB823.7 million in 2021, and by 5.8% from RMB343.2 million in the five months ended May 31, 2021 to RMB363.0 million in the five months ended May 31, 2022. *6.cn*'s revenue increased by 19.5% from RMB843.7 million in 2020 to RMB1,007.9 million in 2021, and by 30.9% from RMB403.2 million in the five months ended May 31, 2021 to RMB527.8 million in the five months ended May 31, 2022. *6.cn*'s gross profit increased by 7.0% from RMB320.6 million in 2020 to RMB343.1 million in 2021, and by 3.1% from RMB143.1 million in the five months ended May 31, 2021 to RMB147.5 million in the five months ended May 31, 2022.

Our operational experiences have also enabled the rollout of a cluster of video- and audio-based social networking products and services, including our audio-based app *Naitang* in May 2019. Leveraging the rapid development of “Ear Economy,” our audio-based products have developed rapidly. We generated revenue from our audio-based live streaming services of RMB193.0 million, RMB523.1 million, RMB1,106.4 million, RMB376.7 million and RMB565.6 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively, accounting for 6.8%, 14.3%, 24.7%, 21.4% and 28.0% of our total revenue generated from live streaming services for the same periods, respectively.

We nurture viable hosts and quality content to build our brand recognition, cultivate a unique community culture, and attract a large number of users. Through user participation in our online community, we have fostered a sense of diversity and inclusiveness among them, which in turn represents significant value propositions for our hosts to produce more quality content and attract more users with greater spending power to our platform, forming a positive flywheel effect.

We have demonstrated our ability to sustain secular growth in China's highly competitive entertainment live streaming industry, as platforms competed more vigorously for user time and viable hosts, and new players, including major internet companies in China, continued to enter into the entertainment live streaming industry. Against such backdrop of the intense competition, we were able to achieve net profit position in 2021 and further increase our profitability, as evidenced by the growth in net profit margin from 7.6% in the five months ended May 31, 2021 to 8.5% in the five months ended May 31, 2022.

Expanding ecosystem of quality content

We have cultivated an expanding ecosystem of quality content, through which we deliver real-time entertainment to our users. As of May 31, 2022, our content library covered 14 major categories of content, such as music, dance, talk shows, outdoor activities and gaming, and more than 40 sub-categories of streaming programs. We believe that our catalogue enables users to conveniently locate their favorite content, which improves users' reviewing experience and helps us improve user retention.

We have assembled a troupe of hosts to deliver a wide range of performance in our virtual live streaming rooms and audio chat rooms, which forms part and parcel of our repertoire of quality content. We value our collaboration with talent agencies, including many influential MCNs in China. We have gained in-depth insights into the demands of talent agencies and tailored our management tools and collaboration policies to help such partnered talent agencies grow with us. We have maintained stable collaborative relationships with most major talent agencies in China, who desire to supply talents and recommend quality user resources to our platform and improve the development and monetization of the hosts they manage. We believe that the collaboration with talent agencies is instrumental to the sustainable supply of quality content on our platform, which in turn generates user traffics. In the five months ended May 31, 2022, 467 of our top 500 hosts were associated with talent agencies. In this way, we attract beginner hosts to our platform and facilitate their growth to achieve personal fulfillment and career advancement. Our actual revenue-sharing ratio with hosts and talent agencies in 2021 and the five months ended May 31, 2022 was 67.1% and 68.6%, respectively, which was higher than the industry average and that of major short video and live streaming platforms, according to the iResearch Report. We believe that our competitive revenue-sharing ratio has enabled us to attract new hosts and talent agencies and increase the stickiness of existing hosts and talent agencies to our platform, which in turn help attract new users and retain existing ones.

We have established a talent fostering system to evaluate hosts with the potential to become influencers, and we customize our training and management strategies to individual hosts and hosts associated with talent agencies. We offer onboarding support to beginner hosts and newly partnered talent agencies to facilitate the production of quality content and enable them to advance professionally with us. For example, we hosted the online contest in collaboration with popular variety shows, such as the *Voice of China* (中國好聲音) and *Miss World* (世界小姐), and recommended suitable hosts to participate in the castings of TV shows and movies. With the career advancement opportunities we offer, we enable people to discover and demonstrate their talents on our platform, creating an additional source of livelihood for nearly one million young people in China.

We strive to facilitate host growth by co-developing professionally generated content with our hosts. Our professional content development team is committed to creating high-quality official online programs for hosts, covering variety shows, talent competitions and talent shows, among others, enriching our ecosystem of quality content. For example, one of our Group's self-developed online programs, *Dramatic Actors* (戲精請就位) combines role-playing and game interaction. Six hosts on our platform dressed in different roles and performed in

various scenarios such as royal family conflict and romance. *Shining Nova* (閃耀新星), another self-developed online program of our Group, gathered new hosts with the potential to become popular hosts on our platform and even celebrities in the entertainment industry to compete with each other in rounds of talent shows. Their performances were evaluated by judges and our users. Our Group's self-developed online programs also include *Blossom Winner* (花落大贏家), an online program where hosts discussed insights into personalities and relationships, *Beep Beep Debate* (嗶嗶戰嗆嗆), an online stand-up and debate program, and *Limitless Dance* (舞出極限), an online program where hosts performed dances with different culture and styles. We believe our self-developed online programs could further support our hosts and partnered talent agencies to facilitate the production of quality content and enable them to advance professionally with us.

Our content distribution system enables instant recommendation of relevant content to our users. We combine in-house professional editors with AI algorithms to match users with the relevant content, which in turn serves to retain existing users, attract new users and increase user engagement. Additionally, we have built an AI-powered content curation system based on user interests and content quality with a wide range of content categories and tags, which allows our users to easily locate the content that matches their interests and bond with other like-minded users. We also select the highlights of a streaming session to produce short videos for repeated viewing and dissemination to facilitate viewership and enrich our content library. We have also hosted a series of online and offline activities, such as the “*prettiest*” (最美) series and the “*pinnacle*” (巔峰) series on *Huajiao* and karaoke contests on *6.cn*, to deepen content dimension, strengthen host influence and enhance user engagement. Furthermore, we continue to capture market trends, such as virtual social discovery and wedding services, to satisfy the expansive user demands for meaningful social networking opportunities, especially during a time of restricted mobility during the COVID-19 pandemic.

We have helped hosts gain more followers and produce more content, which allows us to continuously expand our content library and deepen our talent pool. As of May 31, 2022, the number of registered hosts on our platform was 11.0 million, and average daily live streaming time per active host for each product exceeded 240 minutes in the five months ended May 31, 2022.

Community of engaged and loyal users with demand for quality content

Users come first to everything we do. With our quality content and diverse social interaction functions, we have cultivated a vibrant online user community. We continue to experience a steady growth in our user base and engagement. Attracted by the quality content and interactive functions of our platform, Generation Z users have become our core user cohort, and accounted for approximately 61.3% of our average MAUs and 59.3% of paying users on *Huajiao* in the five months ended May 31, 2022, respectively, based on information provided by our users. In the five months ended May 31, 2022, our average MAUs were 58.6 million, and our paying user retention rate for *Huajiao* and *6.cn* was 72.2% and 67.9%,

BUSINESS

respectively. According to the iResearch Report, we ranked among the top two online entertainment live streaming platforms in terms of MAUs and monthly paying users from apps and websites on mobile and PC, as well as WeChat mini programs in 2021.

We have fostered a vibrant online community. Over the years, the accumulation of users has also strengthened the bond within our user community and facilitated user acquisition. We believe that Generation Z users have keen desires for self-expression and companionship through meaningful interactions to socialize and gain a sense of recognition. They also, in large and growing numbers, participate in the creation, sharing and promotion of quality content. As such, not only do we satisfy the user needs for personalized leisure and entertainment through quality content, but we also satisfy their desires for social interaction, companionship, satisfaction and recognition through a variety of interactive experiences to form an interconnected user community. At the same time, users and hosts spontaneously knit together a multilateral social relationship network among themselves, making it an integral part of their life to further cement user engagement and loyalty.

We make every effort to attract and retain valued users on our platform. We have established *Huajiao Club*, which is an exclusive community where users with high cumulative spending can enjoy complementary personalized services, such as birthday gift, top-up assistant, dedicated account manager, among others. Membership of *Huajiao Club* is free of charge, and as of the date of this prospectus, *Huajiao Club* has approximately 8,500 members. *Huajiao Club* is supported by a specialized in-house service teams who strive to provide excellent user experience for *Huajiao Club* members. We have implemented similar member program for *6.cn*, which has approximately 4,500 members as of the date of this prospectus. We believe that we are well-positioned to build a trust-based relationship with our valued users and enhance stickiness of these users to our platform. We also believe that these exclusive communities help us maintain favorable monthly ARPPU for *Huajiao* and *6.cn*. In the five months ended May 31, 2022, the monthly ARPPU for *Huajiao* and *6.cn* was RMB293 and RMB580, respectively. According to the iResearch Survey, we ranked among the top two entertainment live streaming platforms in terms of viewing frequency.

We cherish the experience of every user. Guided by our user-centric feedback mechanism and customer service, we strive to deliver user experience that exceeds their expectations, which we believe further enhances user engagement and retention. We continue to improve product designs and service strategies based on user feedback to optimize user experience. To this end, we have formulated a monthly product feedback mechanism to have our product design team leader communicate with users to ensure timely processing of their feedback. In addition, we also provide users with professional customer service, with members to respond to user demands promptly and ensure that all the demands can be solved in a satisfactory and timely manner.

We execute multi-brand approach to user acquisition, which allows us to provide social entertainment and networking products and services that appeal to a wide spectrum of users. We have also launched *Naitang*, an audio-based product to capture the growing online audio social entertainment market. By positioning relevant brands to each user segment, we are able to reach a greater number of users.

The social networking experience and community atmosphere we have nurtured inspire our users to actively interact on our platform. In response, we offer users opportunities to facilitate interaction, with our diversified virtual gifting options. Users can purchase virtual items on our platform as gifts to their favorite hosts to show their affection or support and also interact with or gain peer recognition among users. As of May 31, 2022, we offered approximately 970 and 820 types of virtual gifts on *Huajiao* and *6.cn*, respectively, with a range of special effects and prices, to meet the dynamic user needs for virtual gifting and interactions. As we continue to upgrade our virtual gifting system, we are able to further improve user engagement and participation, solidify community culture, and reinforce the foundation of our growing user base.

Expanding global presence supported by rich overseas operational capability

We actively seek to expand into the global markets, as we believe that people's needs for social entertainment are persistent and universal, transcending all cultures and borders. Leveraging our operational experience, we believe we can launch products and services in social networking and entertainment to serve a global user community. The global Generation Z users have strong social entertainment needs and diverse preferences exclusive to their age cohort, which has not been fully addressed by traditional social media products, and due to the different culture and user habits, there are notable variations in the social entertainment needs of Generation Z users in different geographical regions, including North America, Europe, Far East and MENA, representing ample opportunities for innovative social networking products and services in each local market.

Our overseas business team is experienced in international operations. Benefiting from their extensive operational experiences and overseas background, we have developed an understanding of the local cultures, values and market dynamics of our target markets, which allows us to accurately appreciate the preferences of local users and design customized products and services through localization strategies. We have launched various products and services focusing on social discovery, such as *HOLLA* and *Monkey*, which quickly won praise in their respective markets. In the second half of 2020, *Monkey* ranked among top five in the U.S. free social networking app rankings by Apple's App Store. Our overseas products for video-based social networking, including *HOLLA* and *Monkey*, have attracted a growing user community, with approximately 97.3 million and 112.7 million registered users as of December 31, 2021 and May 31, 2022, respectively. Our revenue generated from overseas products increased by 86.5% from RMB35.6 million in the five months ended May 31, 2021 to RMB66.4 million in the five months ended May 31, 2022.

Strong technological capability to ensure user experience

Our strong technological capability is the foundation for the user experience we offer. According to the iResearch Report, in 2016, *Huajiao* became the first platform in the live streaming industry to utilize H.265 technology on an industrial scale, which significantly improved its on-screen quality and reduced network transmission costs. Our AI video special-effect technology has also allowed us to improve user experience. According to the iResearch Report, we are the first platform in the world to use “Mengyan,” a form of real-time facial filter, in live streaming. We have also developed in-house virtual background features, special effect recognition features for screen gestures such as “heart” and “like,” expression transfer features, and “hand puppet” and “finger heart” features to enhance the interactive and immersive experience of both users and hosts during live streaming sessions. For our 3D engine technology, we have developed avatar guardian gifts, 3D gifts and avatars customizable for each user to allow them to deepen their sense of participation and immersion, and at the same time, amplify the fun of live streaming. We also utilize data processing to efficiently match users with their favorite content.

We keep abreast of cutting-edge technologies, maintain strategic partnerships with universities, and collaborate with technology companies in terms of resource exchange and joint development. We also seek to advance our technologies in the fields of virtual reality and their potential application to our business operations. We value innovation and continue to invest in research and development efforts. To this end, we have assembled a research and development team of 254 members as of May 31, 2022.

Visionary and experienced management team

We benefit from the foresight and rich experience of our senior management team. Our chairman, Mr. ZHOU Hongyi, is a pioneer of China’s internet industry, a well-known investor and a respected entrepreneur. He has rich experience in the industry of internet services, information security and related investment fields, which provides guidance on our operations. Our Chief Executive Officer, Ms. YU Dan, has more than 10 years of experience in China’s internet and technology industries. Most of the other members of our senior management team have previously worked with well-known internet companies, with a focus on the relevant online social entertainment market. They have expertise and extensive experience in technology, product design, business operations and financial management, and they also pay close attention to the research and development trends of technology and changes in user needs.

Our management team is enthusiastic and equipped with in-depth industry insights. We have a relatively young management team, and most the members of our management team are under the age of 40, acutely aware of the interests and needs of younger generation. They are unwavering in their adherence to a “users foremost” mindset and a “simple but reliable” corporate culture, which has guided us in navigating this rapidly changing industry.

GROWTH STRATEGIES

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

Further expand products and services to reach more users and optimize our ecosystem

We believe that the popularity of mobile network has diversified people's social entertainment demands. We will continue to invest in the development of new services and features to meet the online social and entertainment demands of different user groups and further drive the growth in our user base. To this end, we plan to further enhance our talent fostering system to recruit, support and train viable hosts to further improve content quality and diversify our products and services. For example, we plan to establish our own host training teams consisting of 200 to 220 staff in the next two to three years to provide hosts with training on live streaming operations, content creation, communication techniques and performance skills. We also plan to incubate two to three in-house MCNs to groom potential talents. In addition, as we believe that video-based social entertainment products have great monetization potential, especially in certain overseas markets, such as North America and Europe, we are committed to exploring select overseas markets with favorable online entertainment environment and high growth potential. To this end, we plan to establish our overseas operation teams to support our market expansion and explore market opportunities in the growing social entertainment live streaming industry. We will continue to customize our products and services based on factors such as local cultures, regulatory requirements and user needs, implement our multi-brand strategy, and explore a variety of social entertainment forms, including gaming companionship, to achieve sustained future growth in such overseas markets.

Additionally, we will continue to explore the needs of users in different regions and the opportunities arising from the rapidly iterating audio and video technologies, which will allow us to continue to innovate our products and services to cover a wider range of regions and user cohorts. We will also leverage our brand recognition and market appeal to attract a diverse user base through marketing efforts and brand promotion to enhance our brand value. We will continue to match our product system to align with the growing diversification in our user base and improve our social entertainment ecosystem, and at the same time, continue to meet user needs and enrich their experience with us.

Further improve our content ecosystem and strengthen our core competitiveness

A rich and diverse ecosystem of quality content is the cornerstone of our sustainable development. We believe that the improvement of people's standards of living will lead to the consumption upgrade in social entertainment content. As such, we will collaborate with more partners to establish more comprehensive incentive mechanics and talent fostering system to provide more opportunities to hosts and inspire them to produce more quality content and deliver the content to users more efficiently. We intend to enrich our content library through constantly introducing innovative products such as audio-based social networking and discovery products and gaming companionship products.

Through years of operations and development, we believe we have nurtured a refined community culture which distinguishes us from other platform operators. We also aim to stimulate the growth of our user engagement and enhance user retention by constantly introducing new features and products that are appealing to potential users, such as professionally created content tailored to popular trends, interest-based feeds and content recommendation. We will continue to cement our cultural foundation and further improve our content ecosystem. At the same time, we will continue to enhance our monetization capability by improving our overall service system.

In addition, we will use our data processing and AI technologies to continuously optimize our operations, which has improved our ability to recommend relevant content to users and enhance user engagement. We will continue to leverage the unique advantages of the industry, coordinate the available industry resources, and assist in the supply of content featuring popular public interests and poverty alleviation and other charitable causes to assume more corporate social responsibilities and broaden our social influence.

Further improve user experience and loyalty and achieve more diversified monetization channels

We are devoted to making *Huafang* an interactive and attractive online social entertainment platform. We will continue to develop diversified features and interactive methods to enhance user experience and increase user engagement and loyalty. As our users and hosts share a common pursuit of quality social entertainment content, they resonate with each other through social interactions on our platform, forming emotional bonds that cross cultural and geographical boundaries.

As the user sense of identity, belonging and immersion in the community we fostered continues to grow, user needs will naturally arise in our ecosystem, which will continue to create ample monetization opportunities. We will further expand our products and services, strengthen and refine our operations, increase and diversify our sources of monetization, and optimize the functionality of our existing products. We will also attract users with a variety of paid products and services to increase the number of paying users and enhance our monetization capabilities as we continue to enhance the sense of participation and recognition among our users.

Further enhance our technological capability

We will continue to invest in technologies to better serve users and maintain our competitive advantages. We will continue to strengthen technological capability in various key aspects of our operations, including customized content recommendation and content and data analytics, to improve user experience and enhance user engagement. We will also utilize new technologies to ensure targeted exposure to user groups to help professional hosts generate more income and beginner hosts overcome the barriers of achieving success.

BUSINESS

Additionally, we will further utilize our data processing and AI technologies to improve our operations so we can scout more high-potential hosts, match them with our users, and continue to improve our AI content screening and review process to ensure content quality and regulatory compliance. We will also apply these technologies to deliver more customized products and services to users and business partners.

Furthermore, we will continue to maintain strategic partnerships with universities and technology companies to further enhance our technological capability. We will continue to explore the cutting-edge technologies required to build a virtual universe through in-house research and third-party collaboration, and develop multi-terminal content presentation capability to allow users to enjoy more immersive and diverse social experience on real-time basis.

Further expand our business through selective investment and acquisitions

We will selectively seek strategic alliances, investments and acquisitions to complement and improve our current business, expand our user base and broaden our products and services. Additionally, we will seek to collaborate with business partners to improve our ecosystem, enhance our user experience and strengthen our technological capability so we can provide users with more diversified and better quality products and services. Furthermore, we will seek potential expansion opportunities in certain emerging markets with high growth potential. When selecting potential investment targets, we will consider various criteria, including (1) their synergy with or complement to our business, (2) R&D capabilities in technologies relevant to our existing business, such as 3D engine and augmented reality, (3) locations in or proximity to our target markets, (4) past operating results and growth potentials, (5) financial performance, and (6) background of the management team. Specifically, we are primarily interested in investing in emerging companies with 50 to 100 employees, that satisfy our investment criteria and are complementary to our existing business. When considering potential acquisition targets, in addition to the aforementioned criteria, we will also require such acquisition targets to achieve annual revenue of no less than RMB200 million. We believe that through horizontal or vertical collaborations or acquisitions, we can further consolidate our market leadership and achieve success in the new market or field that we elect to enter. As of the Latest Practicable Date, we had not identified any target nor entered into any binding commitment for any strategic investments and acquisitions.

OUR PLATFORM

We offer live entertainment and video- and audio-based social networking services through our flagship products *Huajiao* and *6.cn*. We also offer social discovery and video-based chatroom services through our overseas social entertainment and networking products under HOLLA Group. Our platform enables users to interact with their favorite hosts and other like-minded people in the online space, so they can chat, sing, play and connect with other users.

Huajiao

Launched in May 2015, *Huajiao* is our mobile app flagship product, which offers a stage for people who aspire to show their talents and share their skills, experience and lifestyles through interactive and entertaining experience delivered in live streaming sessions.

Users have easy access to our live streaming features, which allow them to watch, follow and explore content that interest them and chat with hosts and other users on a real-time basis. The interactive atmosphere and our user-centric feedback mechanism have created an open community for users to interact with their preferred hosts and fellow users, via a variety of features, including virtual gift giving, live chat and comment.

Leveraging the fast-growing “Ear Economy,” we have also introduced a variety of audio contents, such as audio live streaming, podcasts, music and talk shows on *Huajiao* since 2018. In 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, we generated revenue of RMB193.0 million, RMB506.7 million, RMB889.1 million, RMB328.9 million and RMB451.7 million from our audio-based live streaming products on *Huajiao*, respectively.

As of May 31, 2022, the number of *Huajiao*’s registered users reached approximately 221.2 million. In 2019, 2020, 2021 and the five months ended May 31, 2022, the average MAUs for *Huajiao* were 23.6 million, 27.4 million, 29.9 million and 30.6 million, respectively, and the average MPUs for *Huajiao* were approximately 802,000, 742,000, 935,000 and 1.0 million, respectively. *Huajiao* had approximately 10.4 million registered hosts as of May 31, 2022 and approximately 178,000 average monthly active hosts in the five months ended May 31, 2022.

Naitang

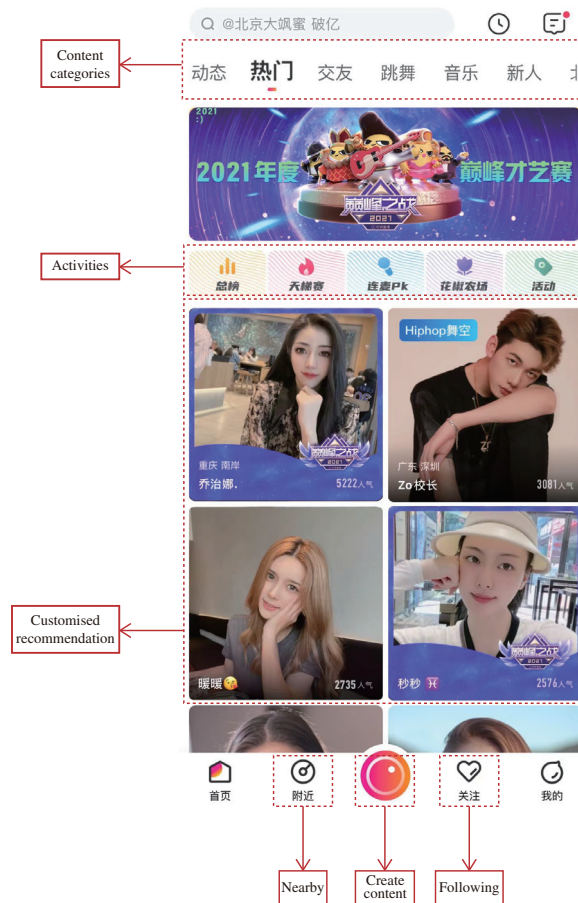
Unlike real-time video interaction, audio live streaming does not require hosts to reveal their appearance online, which provides greater privacy and protection against identity leak in real life, offering a less stressful streaming experience for some hosts. The nature of audio live streaming alleviates privacy concerns, which helps to expand the talent pool for hosts of our audio products. Further, as voice is the main perceivable identification in audio products and can be readily altered by voice changing software, one can assume separate persona in different scenarios, which create a sense of mystery and help evoke imagination among audience, as compared to video live streaming. Unlike video live streaming which typically has one host leading the streaming session, audio live streaming tends to involve many hosts in a streaming session, which encourages more active interactions among participants. In addition, audio live streaming enables users to use fragmented time and enjoy entertainment in a wider application scenarios, such as smart wearable devices, smart home devices and in-vehicle devices, since users can connect with hosts and listen to audio content at any time without paying close attention on screen. This new interactive mode subverts traditional video-based social interaction and has become increasingly popular among Generation Z users. Riding on the popularity of audio contents offered on *Huajiao*, we launched *Naitang* (formerly known as *Huazhi* until the official change of name in August 2022) in May 2019, which is an audio-based

BUSINESS

product aiming to capture the growing online audio social entertainment market. *Naitang* enables users to create, edit, store and share audio contents to showcase their vocal talent. *Naitang* primarily provides group audio chat rooms and other audio contents, such as podcasts and audio live streaming covering a broad range of topics, including lifestyle, music radio and virtual idol performance. In 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, we generated revenue of nil, RMB16.4 million, RMB217.3 million, RMB47.8 million and RMB113.9 million from *Naitang*, respectively, representing nil, 0.6%, 6.3%, 3.5% and 7.6% of the revenue generated from *Huajiao* during the same period, respectively.

Witnessed the popularity of audio content on *Huajiao*, we developed *Naitang*, initially utilizing substantially the same underlying technologies and product development philosophy as that of *Huajiao*. Since its launch, *Naitang* has been managed under the same senior management team as that of *Huajiao*. Due to the similar operations of *Naitang* and *Huajiao*'s audio content, as well as the relatively small size of *Naitang* in terms of revenue and operation scale, we have included the operating and financial results of *Naitang* in that of *Huajiao*. *Naitang* and *Huajiao*'s audio content offer substantially the same audio-based live streaming functions. However, we believe that these two products do not directly compete with each other, primarily because they target different user groups. In particular, as an audio-based product that does not include any video live streaming content, *Naitang* primarily targets the user group with strong demand for audio content or those who are interested in listening to audio content at any time without paying close attention to the screen. *Huajiao*, as a video- and audio-based live streaming product, primarily provides video content to its users, targeting the user group interested in video live streaming. *Huajiao* provides audio content to its users mainly as an extension of its offerings, satisfying from time to time the demand of its users for such alternative mode of interaction. Therefore, we expect that these two products could complement each other and enlarge our user base of audio-based live streaming as a whole.

The following screenshot illustrates the key features of *Huajiao*:



6.cn

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

At *6.cn*, hosts can form streaming clans and fan bases and compete against one another in karaoke and dancing contests, debates and gameplays, fostering a competitive environment that encourages user engagement. PC-based hosts are more likely to attract a large pool of dedicated users with a high level of engagement and form a close community with their fans. We believe that the competitive features of *6.cn* have helped us attract an engaged user base. As of May 31, 2022, *6.cn* accumulated 0.5 million registered hosts and 80.9 million registered users. In 2021, more than one-third of paying users of *6.cn* had been using *6.cn* for more than

three years. For 2019, 2020, 2021 and the five months ended May 31, 2022, the average MAUs for 6.cn were 21.9 million, 22.7 million, 24.6 million and 23.3 million, respectively, and the average MPUs for 6.cn were 121,000, 166,000, 175,000 and 182,000, respectively.

The following screenshot illustrates the key features of 6.cn:



Key Interactive Functions on Our Platform

Our PC clients feature an enlarged chat interface, which displays more chat content among hosts and users than our mobile apps. Our mobile apps have a voice chat function to enable fast chat inputs, which allows our users to chat without obstructing the live streaming interface. In addition, our PC clients primarily target users with relatively longer live streaming watching time. According to the iResearch Report, users who tend to watch live streaming via PC, which provides better watching experience, generally have a longer watching time.

Virtual Gifting

The synchronicity and interactivity of live streaming enable users to co-experience and immerse themselves through their participation in live streaming. While there are many fun and entertaining ways for them to participate in live streaming, it is popular for users to purchase virtual items offered by live streaming platforms and send them to hosts as gifts to show their affection or support to the hosts and gain peer recognition among other users. All of our products, including our audio-based products, feature a virtual gifting function, which enables viewers to purchase virtual items with user tokens. These virtual gifts mimic real-life goods and luxuries ranging from flowers to yachts and rockets to differentiate their rarity and value. These virtual gifts float across the screen of the streaming room with special visual and/or sound effects, which makes gifting performative and entertaining. We offer these virtual items

on our platform at different price points. As of the Latest Practicable Date, the price of virtual items on our platform ranged from RMB0.05 to RMB3,000. Our selection of lower-priced virtual items makes it easy for users with different spending power to show appreciation, and helps them familiarize themselves with the virtual gifting function. Gifting changes the one-way input from a host to the two-way interaction by the host and many users. The gifting of one user would entertain the fellow users in the same live streaming room and entice them to gift or perform together. We frequently release virtual items related to current events and popular culture trends to enhance their entertainment value.

Besides the virtual items which can be gifted anytime during a live streaming session, we also offer users the opportunities to show their support for hosts and gain peer recognition through our avatar guardianship system, which provides an avatar that exclusively accompanies the host for a specific period of time. We have also incorporated gaming elements into our avatar guardianship system, such as avatars with fighting statistics that can be improved through virtual items, and quest mechanism that award status and special effects for successfully completing various fighting quests. Users may also use avatars to compete with other users who have already become the guardian of a host. The wining avatar would be shown on the screen and exclusively accompany the host for a specific period of time, which can be extended by more virtual gifting. We believe the exclusive status and competitive elements of our avatar guardianship system help facilitate user engagement and their willingness to pay for virtual items.

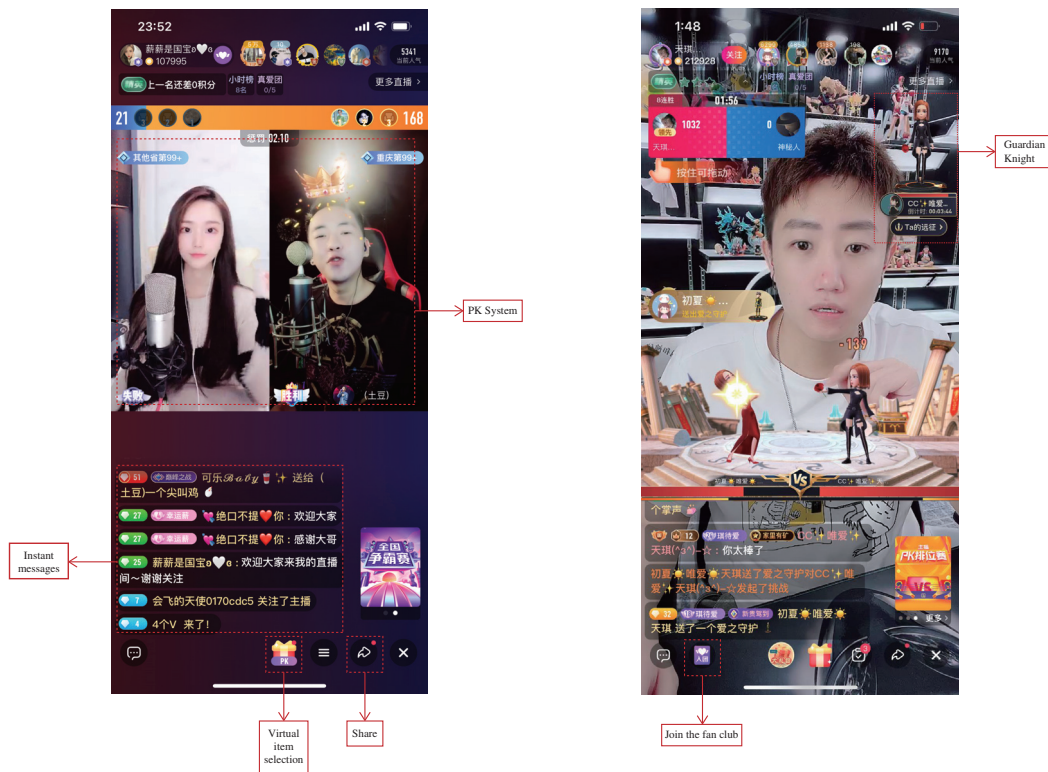
The following screenshot illustrates some of our virtual items:



PK System

We offer real-time PK functions, which enable hosts to connect their live streaming rooms and compete against each other in a rich variety of games, such as karaoke contests, talk shows and debates. The host who receives more virtual items in terms of aggregated value at the end of the session would win the PK battle, and the losing host will accept PK punishment, such as spoof special effects, to increase the entertainment value of PK. We believe that the competitive environment induced by PK battles encourages user engagement and virtual gifting, as users tend to actively interact with hosts and fellow users during the PK battle. Our PK functions offer hosts the opportunity to demonstrate their talents and perform for users in a competitive environment, which further encourages them to generate premium quality content in order to win support from their audience and expand their fan base. Beginner hosts may also PK with more experienced and established hosts to benefit from their user traffic and popularity so they can cultivate their own fan base more cost-effectively.

The following screenshots illustrate our PK functions:



Moments, Comments and Likes

We offer other online interactive functions that help attract users to and facilitate user interaction on our platform, which primarily revolve around live streaming and video and audio content, where users can share similar interests and bond with each other on a real-time basis. We also offer an array of purpose-built interactive features such as likes, user and host moments, fan clubs and comments, so that our users and hosts can form a vibrant and engaged

social community by interacting with each other anytime and anywhere. For examples, users can support specific content or host by sending a “heart” or “like,” or share interesting or useful content with others on their moments. Users can leave comments to the posts of fellow users to share their reactions and communicate with other users who have similar interests and needs. Similarly, hosts can set up their own fan club pages and regularly provide updates about their lives, and interact with their fans by replying to fan comments. Fans of the same host can join the fan club of that specific host by making monthly/annual subscription. Members within the fan club can interact with each other and the host, and enjoy exclusive nameplate for members, exclusive virtual items, membership levels, among others. Such fan club feature is not available for our overseas social networking products. We believe that these interactive features contribute to enjoyable user experience, foster our engaged community and encourage users to spend more time on our platform.

Multiparty Streaming

Our multiparty streaming feature can support multiple streamers to host in the same live streaming room and interact and socialize with each other, which provides users with more entertaining and diverse quality content, such as group discussions, debates, group performance and talent contests.

Overseas Social Networking Products

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

BUSINESS

such user for chatting-time-based fees. For our overseas social networking products, we only engage hosts sourced from talent agencies. In general, such hosts are based overseas, different from the hosts of our live streaming products, most of whom are based in China.

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

As of May 31, 2022, our overseas social networking products had approximately 112.7 million registered users. In the five months ended May 31, 2022, our average MAUs and average MPUs for our overseas social networking products were approximately 4.6 million and 354,000, respectively.

Key Operating Metrics

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

	As of/for the year ended			As of/for the	
	December 31,			five months ended	
	2019*	2020	2021	2021	2022
Cumulative registered users					
(in thousands)					
<i>Huajiao**</i>	175,939	195,968	214,971	204,676	221,223
<i>6.cn</i>	68,587	73,468	78,858	75,941	80,897
<i>Overseas social networking products</i>	N/A	N/A	97,288	73,941	112,744
<i>Group</i>	244,526	269,436	391,117	354,558	414,864
Increase in users (in thousands)					
<i>Huajiao**</i>	19,945	20,029	19,004	8,708	6,252
<i>6.cn</i>	68,587	4,881	5,390	2,473	2,039
<i>Overseas social networking products</i>	N/A	N/A	97,288	73,941	15,455
<i>Group</i>	88,532	24,910	121,682	85,122	23,746
Average MAUs (in thousands)					
<i>Huajiao**</i>	23,604	27,379	29,878	29,247	30,626
<i>6.cn</i>	21,908	22,709	24,619	24,724	23,345
<i>Overseas social networking products</i>	N/A	N/A	4,936	5,034	4,601
<i>Group</i>	45,512	50,088	59,433	59,005	58,571

BUSINESS

	As of/for the year ended			As of/for the	
	December 31,			five months ended	
	2019*	2020	2021	2021	2022
Average MPUs (in thousands)					
<i>Huajiao**</i>	802	742	935	911	1,018
<i>6.cn</i>	121	166	175	176	182
<i>Overseas social networking products</i>	N/A	N/A	290	186	354
<i>Group</i>	923	908	1,400	1,274	1,555
Monthly ARPPU (RMB)					
<i>Huajiao**</i>	273	350	310	298	293
<i>6.cn</i>	682	436	482	460	580
<i>Overseas social networking products</i>	N/A	N/A	36	39	38
Average daily viewing time per user (minutes)					
<i>Huajiao</i>	36	39	43	43	48
User acquisition cost (RMB)					
<i>Huajiao**</i>	14.0	17.1	19.9	18.0	22.6
<i>6.cn</i>	13.9	14.0	14.2	19.9	10.4
<i>Overseas social networking products</i>	N/A	N/A	0.4	0.9	1.5
<i>Group</i>	14.0	16.5	7.6	7.9	7.8
Number of paying users by the size of their total payments for the year/period indicated (in thousands)					
<i>Paying users with annual payments between RMB0.05 to RMB500</i>	2,607	2,471	8,793	4,816	3,326
<i>Paying users with annual payments between RMB500 and RMB5,000</i>	137	143	423	143	208
<i>Paying users with annual payments above RMB5,000</i>	55	58	127	33	67

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

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

During the Track Record Period, our results of operations generally moved in an upward direction, primarily due to our commitment to attract users and hosts to our inclusive online community, and as a result of our continuous efforts to improve our operation capability and promote our brand recognition. The increases in users for *Huajiao* maintained at the relatively stable level of approximately 19.0 million from 2019 to 2021. The spike in increases users on *6.cn* in 2019 was partially due to the Huajiao-6.cn merger. The increases in users on *6.cn* in 2020 and 2021 were mainly as a result of our increased spending on user referral channels to introduce new users to *6.cn*. In addition, after the acquisition of HOLLA Group, we attracted

BUSINESS

a larger number of users from overseas market, and drove the growth in total increase in users of our Group, which increased from 24.9 million in 2020 to 121.7 million in 2021. The increase in users slightly slowed down for *Huajiao* during the five months ended May 31, 2022 as compared to that during the five months ended May 31, 2021, primarily because we focused more on improving existing users' willingness to pay for our services, as evidenced by the increase in *Huajiao*'s average MPUs during the relevant periods. For the same reason, the increase in users for *6.cn* experienced a slight slow-down during the five months ended May 31, 2022 as well. The spike in increase in users for our overseas social networking products during the five months ended May 31, 2021 was primarily due to the acquisition of HOLLA Group.

During the Track Record Period, our Group's average MAUs steadily grew in general, primarily due to our operational initiatives to enhance product function and user experience, our introduction of audio contents, and our platform-wide events to promote new hosts and attract new users. The conversion ratio from MAU to MPU of *Huajiao* remained relatively stable at 3.4%, 2.7%, 3.1% and 3.3% in 2019, 2020, 2021 and the five months ended May 31, 2022, respectively, which was consistent with industry average, according to the iResearch Report. The conversion ratio from MAU to MPU of *6.cn* ranged from 0.6% to 0.8% during the same periods, primarily because the MAU to MPU conversion ratio of PC-client live streaming platforms tends to be lower than that of mobile-based live streaming platforms due to difference in viewing and payment channels. According to the iResearch Report, users have become accustomed to mobile payment, and it is less convenient for PC users to top-up through PC clients, which led to a relatively lower MAU to MPU conversion ratio for PC-client platform.

The monthly ARPPU of *Huajiao* increased from RMB273 in 2019 to RMB350 in 2020 but decreased to RMB310 in 2021, primarily because *Huajiao* adopted an operational strategy to attract and retain users with smaller spending on virtual gifts through platform-wide events that expand consumption scenarios and experience for such users in 2019, which was temporarily suspended in 2020 and resumed in 2021. The monthly ARPPU of *Huajiao* remained relatively stable in the five months ended May 31, 2021 and 2022. The monthly ARPPU of *6.cn* decreased from RMB682 in 2019 to RMB436 and RMB482 in 2020 and 2021, respectively, mainly because (1) the COVID-19 pandemic had disproportionately greater effect on PC-based live streaming due to the government mandated mobility restrictions which could impede access to streaming studios, resulting in a general decline in the streaming quality of PC-based hosts, which became less attractive to users, especially top users, and (2) *6.cn* has focused on user traffic referrals and operational strategies that target users with smaller spending on virtual gifts since 2020. The monthly ARPPU of *6.cn* increased significantly from RMB460 in the five months ended May 31, 2021 to RMB580 in the five months ended May 31, 2022, primarily because we focused more on improving existing users' willingness to pay for our services. In particular, our strategy to engage more hosts associated with talent agencies has enabled us to provide high-quality live streaming services at *6.cn*, which led to an increase in the revenue generated from hosts associated with talent agencies as a percentage of our total revenue from 69.9% in the five months ended May 31, 2021 to 86.5% in the five months ended May 31,

BUSINESS

2022. The monthly ARPPUs of *Huajiao* and *6.cn* were relatively lower than industry average during the Track Record Period, which was mainly due to our operational strategies to attract users with relatively limited spending power.

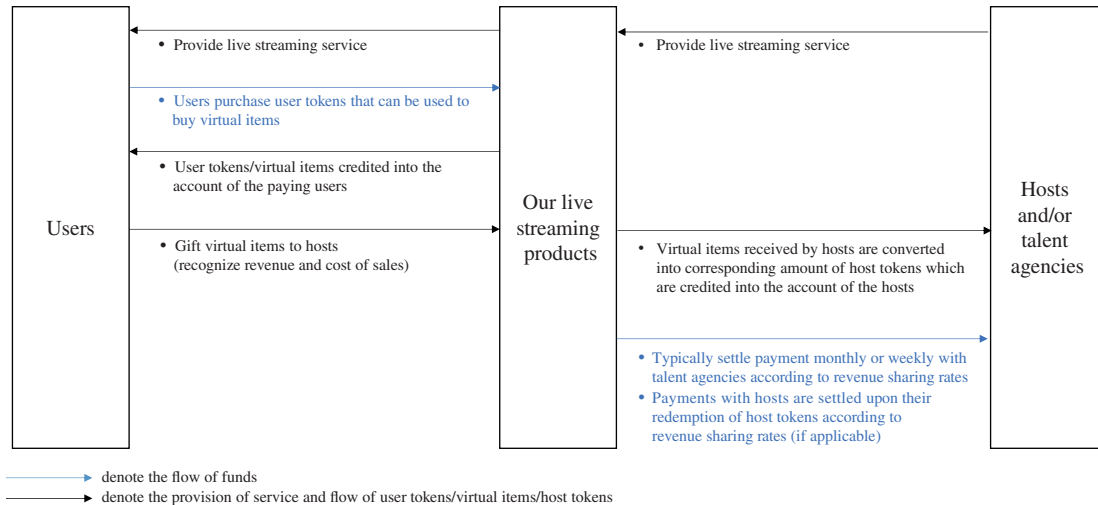
MONETIZATION CHANNELS AND REVENUE GENERATION

The size and vibrancy of our user community provide us with monetization capability. During the Track Record Period, we generated substantially all of our revenue from the sales of user tokens used to redeem virtual items and other services on our video and audio live streaming products. For example, users can purchase *Huajiao* beans, *6.cn* coins and *Naitang* beans, the user tokens of *Huajiao*, *6.cn* and *Naitang*, respectively, from our mobile apps and PC clients using Alipay, WeChat Pay, Apple Pay and other third-party payment channels to purchase virtual items and gift them to their preferred hosts during live streaming sessions. During the Track Record Period and up to the Latest Practicable Date, there was no minimum purchase requirement for virtual items on our platform. Users may also use these user tokens to purchase value-added services on a pay-as-you-use basis including, for example, more viewing and matching options on our products with social discovery functions, or membership of fan clubs of their favorite hosts. Once the paying users purchase our user tokens, their accounts will be credited immediately. The user tokens are not redeemable.

We share a portion of revenue generated from the virtual items received by hosts with such hosts and their associated talent agencies. Each virtual item is worth a certain amount of the host tokens, which can be exchanged into cash at a pre-determined ratio. When hosts receive virtual items, we will automatically convert the virtual items into the corresponding amount of host tokens, which will be credited into the accounts of the hosts and can be exchanged into Renminbi under the revenue sharing arrangements among us, hosts and their affiliated talent agencies, if any. Talent agencies can receive their portion of revenue-sharing payment based on the pre-determined ratio, which may be adjusted by the aggregate performance metrics of the hosts affiliated with them. The aggregate performance metrics include the length of streaming sessions and active streaming days in a given month, which may be adjusted by us from time to time to incentivize hosts to stream on our platform. During the Track Record Period, we recorded the sales of virtual items gifted to hosts as our revenue, and recorded our revenue shared with hosts and/or their associated talent agencies as cost of sales. We typically settle the aggregate payments with talent agencies on a monthly or weekly basis. Payments with hosts are settled when they redeem the host tokens. For each of our live streaming products, the conversion ratio of user token and host token is one to one.

BUSINESS

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



We determine the revenue sharing ratio as a percentage of the gross billings from the sales of virtual items attributed to hosts based on our standard platform policies, which set out the applicable revenue sharing ratios based on the value of the virtual items received by the hosts, and the aggregate billings from the sales of virtual items attributed to the related talent agencies, among others. For example, individual hosts will achieve higher earning if they record higher gross billing, or if they belong to talent agencies that record higher gross billing, in a particular month. Our pre-determined revenue sharing ratio for individual hosts is 40% and we provide additional cash rewards ranging from RMB350 to RMB20,000 for hosts on *6.cn* with higher gross billings. Talent agencies typically agree to adhere to our standard platform policies by signing up their hosts or streamer associations with our platform. Our pre-determined revenue sharing ratio for talent agencies is tiered based on the aggregate gross billings attributed to their affiliated hosts or streamer associations. Pursuant to our agreement with hosts and/or talent agencies, we share a portion of the gross billings from the sales of virtual items attributed to the hosts and/or their associated talent agencies based on a pre-determined ratio as stipulated in our platform-wide revenue-sharing policies effective at the time, which varied from 40% to 83% for *Huajiao*, from 40% to 70% for *6.cn*, and from 40% to 85% for *Naitang*, as of the Latest Practicable Date. In 2019, 2020, 2021 and the five months ended May 31, 2022, the actual revenue-sharing ratio with hosts and talent agencies was (1) approximately 73.5%, 71.0%, 71.5% and 71.6%, respectively, on *Huajiao*; (2) approximately 50.0%, 52.0%, 58.1% and 66.1%, respectively, on *6.cn*; and (3) approximately nil, 82.5%, 83.2% and 82.7%, respectively, on *Naitang*. As for talent agencies, the pre-determined revenue-sharing ratio is adjusted by the gross billing generated by their affiliated hosts, and the actual revenue sharing amount may vary among talent agencies. In general, talent agencies that have a greater number of hosts who generate higher gross billings during their contractual terms tend to enjoy higher revenue-sharing ratio. We determine and make adjustment to such pre-determined ratio, as appropriate, after considering the prevailing industry practice. Our pre-determined revenue sharing ration remained relatively stable during the Track Record

BUSINESS

Period. In addition, *6.cn* offers additional revenue-sharing if hosts satisfy performance requirement as part of our revenue-sharing policy, which we may adjust from time to time. For example, *6.cn* offers an additional 2.0% in revenue-sharing ratio if hosts streamed for more than 60 hours during each month in 2022. See “— Cooperation Agreements with Hosts and Talent Agencies.” According to the iResearch Report, our standard and actual revenue-sharing ratios during the Track Record Period were in line with industry practice.

Virtual Gifting and Value-added Services

We price virtual items based on factors such as the variety and duration of the special effects. The broad price range of virtual items on our various platforms offers a wide of options for users with different budgets. Our diverse selection of lower-priced virtual items makes it easy for users to show appreciation and support through small gifts, while higher-priced virtual items have special effects that enable users to win peer recognition during live streaming sessions. Designing virtual gifts is a core part of our operations. We constantly review and update our virtual items according to users’ demands and release new items or create new special effects that reflect the influence of current events and popular trends. Virtual items are usually gifted to hosts immediately upon purchase. During the discount period, users may also make advance purchases, in which case the purchased virtual items are deposited in user’s account inventory. The inventory item will expire after a specified period, and we do not refund the user tokens for any expired items. Our virtual items are not transferable. As of the Latest Practicable Date, the price of virtual items on our platform ranged from RMB0.05 to RMB3,000.

In addition to the virtual gifts, we also offer value-added services that can be purchased by user tokens, including upgrade and decoration of personal avatar, fan club membership and additional social discovery functions. For our fan club membership function, users may purchase monthly or annual fan club membership which grants additional privileges and differentiates fans from other users in the live streaming room.

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

BUSINESS

<u>Rank</u>	<u>Host</u>	<u>Associated talent agency</u>	Actual revenue-sharing ratio of associated talent agency <i>(%)</i>	Value of virtual gifts received <i>(RMB'000)</i>
<i>For the year ended December 31, 2019</i>				
1	Host A	Supplier A	83.0	34,691
2	Host B	Supplier C	83.0	24,854
3	Host C	Talent agency A	83.0	24,289
4	Host D	Supplier F	83.0	21,610
5	Host E	Talent agency B	82.7	20,444
6	Host F	Supplier F	83.0	17,857
7	Host G	Supplier A	83.0	17,601
8	Host H	Supplier E	82.8	14,729
9	Host I	Talent agency C	83.0	13,794
10	Host J	Supplier F	83.0	12,691
Total				202,559

<u>Rank</u>	<u>Host</u>	<u>Associated talent agency</u>	Actual revenue-sharing ratio of associated talent agency <i>(%)</i>	Value of virtual gifts received <i>(RMB'000)</i>
<i>For the year ended December 31, 2020</i>				
1	Host K	Supplier J	55.5	61,822
2	Host L	Supplier A	81.3	44,469
3	Host D	Supplier F	81.3	38,501
4	Host J	Supplier F	81.3	32,208
5	Host M	Supplier H	81.6	29,536
6	Host B	Talent agency D	81.2	27,712
7	Host N	Talent agency E	79.1	27,400
8	Host O	Talent agency F	81.4	26,545
9	Host P	Talent agency G	81.1	24,424
10	Host Q	Supplier F	81.3	24,394
Total				337,009

BUSINESS

<u>Rank</u>	<u>Host</u>	<u>Associated talent agency</u>	Actual revenue-sharing ratio of associated talent agency <i>(%)</i>	Value of virtual gifts received <i>(RMB'000)</i>
<i>For the year ended December 31, 2021</i>				
1	Host R	Supplier J	53.5	62,334
2	Host S	Supplier J	53.5	54,522
3	Host T	Talent agency H	62.7	44,120
4	Host D	Supplier F	82.7	43,825
5	Host U	Supplier K	50.8	43,177
6	Host V	Talent agency I	80.0	41,272
7	Host W	Talent agency I	80.0	36,605
8	Host X	Talent agency H	62.7	35,292
9	Host Y	Supplier J	53.5	30,835
10	Host Z	Talent agency J	83.0	29,797
Total				421,779

<u>Rank</u>	<u>Host</u>	<u>Associated talent agency</u>	Actual revenue-sharing ratio of associated talent agency <i>(%)</i>	Value of virtual gifts received <i>(RMB'000)</i>
<i>For the five months ended May 31, 2022</i>				
1	Host AA	Supplier N	81.3	87,539
2	Host T	Supplier M	75.0	59,872
3	Host BB	Supplier M	75.0	48,344
4	Host CC	Talent agency K	60.8	28,576
5	Host DD	Talent agency L	65.9	28,090
6	Host EE	Supplier M	75.0	26,711
7	Host FF	Talent agency M	77.0	23,422
8	Host GG	Supplier L	75.3	21,885
9	Host HH	Talent agency N	80.2	19,933
10	Host II	Supplier I	81.4	19,051
Total				363,423

BUSINESS

We entered into tripartite exclusive cooperation agreements, which limit hosts' ability to stream on other entertainment live streaming platforms, with six, five, one and three of our top ten hosts and their associated talent agencies, in 2019, 2020, 2021 and the five months ended May 31, 2022, respectively. We entered into exclusive streaming service agreements with four of our top ten hosts in 2019 and 2020, respectively, seven top hosts in 2021, and seven top hosts in the five months ended May 31, 2022. For top ten hosts subject to the exclusive clause, we constantly monitor their compliance with such clause by looking into whether certain hosts with declined streaming time have streamed on other competing platforms, and we did not find any of them streaming on competing platforms during the Track Record Period. Among our top ten hosts in 2019, all, nine and eight of them continued to stream on our platform in 2020, 2021 and 2022, respectively, seven and five of our top ten hosts in 2020 streamed on our platform in 2021 and 2022, respectively, and nine of our top ten hosts in 2021 streamed on our platform in 2022. The composition of our major hosts changed every year during the Track Record Period, as hosts typically experience popularity life cycle in every few years. In addition, in order to promote the diversity of content on our platform, we will strategically recommend hosts with different talents and specialties from time to time. During the Track Record Period, all of our top ten hosts in terms of value of virtual gifting received are hosts associated with talent agencies, and 22 of such host are affiliated with certain of our largest suppliers during the Track Record Period. See “— Suppliers.” The majority of top ten hosts during the Track Record Period specialize in the performance of talk show, music and dancing.

OUR USERS

Users are the largest group of participants of our ecosystem. They interact with hosts through virtual gifting and communicate with hosts and fellow users. Users also occasionally create content themselves or become hosts. As of May 31, 2022, we accumulated 414.9 million registered users, and our average MAUs reached 58.6 million in the five months ended May 31, 2022.

We have developed a young user base with a strong demand for quality live content and innovate ways to socialize, stay connected and be entertained. As of May 31, 2022, a significant portion of our users were Generation Z users, based on the information provided by our users. We believe they are typically technology-savvy and are willing to pay for access to quality content and expansion of their social circle. Based on information available to us, the majority of our active users are from first- and second-tier cities in China, who are in pursuit of quality content, social interaction and companionship, and we believe our users have strong spending power, representing monetarization potential for our platform. During the Track Record Period, we attracted users primarily through marketing activities, including placing advertisements and engaging user traffic referral channels, which may involve placing news feed advertisements on various media channels, search engines and app stores, engaging mobile pre-installment campaigns, and collaborating with influencers and sponsoring their participation on our live streaming and social networking products in China and overseas. During the Track Record Period, we did not have any material disputes with our users.

BUSINESS

The following table sets forth the percentages of revenue contributed by users who had provided their age information (“Respondent Users”) by different age groups for *Huajiao* during the Track Record Period.

**Percentages of revenue contributed by Respondent Users by different age groups
(*Huajiao*)⁽¹⁾⁽²⁾**

Year of Birth	For the year ended December 31,			For the five months ended May 31,
	2019	2020	2021	2022
	(%)			
Before 1980	35.8	34.5	25.3	21.7
1980-1989	40.1	35.6	39.6	34.6
Generation Z (born since				
1990)	24.1	29.9	35.1	43.8
<i>1990-1995</i>	<i>17.1</i>	<i>17.8</i>	<i>20.0</i>	<i>22.5</i>
<i>1996-2000</i>	<i>6.1</i>	<i>10.4</i>	<i>12.4</i>	<i>17.1</i>
<i>After 2000</i> ⁽³⁾	<i>0.9</i>	<i>1.6</i>	<i>2.7</i>	<i>4.2</i>

(1) Included users accessed *Naitang* during the relevant period.

(2) Calculated by dividing the revenue generated from Respondent Users of an indicated age group during a given period by the total revenue generated from Respondent Users during that period.

(3) During the Track Record Period, no revenue was generated from users aged below 18 for our live streaming products based on our records. See “Business — Risk Management and Internal Control — Minor Protection and Virtual Gifting Management .”

We believe that Generation Z users form the core user group for our platform, as they are keen to express themselves and have highly active online presence. Based on information provide by users, approximately 61.3% of our average MAUs and 59.3% of our paying users on *Huajiao*, were Generation Z users, and 43.8% of total revenue of *Huajiao* for the five months ended May 31, 2022 were contributed by Generation Z users. The percentage of revenue contributed by Generation Z also continued to increase from 24.1% in 2019 to 29.9% in 2020, and further to 35.1% in 2021. In the five months ended May 31, 2022, the percentage of revenue contributed by Generation Z users had a significant increase and reached 43.8%. During the Track Record Period, no revenue was generated from users aged below 18 for our live streaming products based on our records. We require users to confirm that they have reached the age of 18 in user agreements of our live streaming platform. We have also adopted measures to prevent minor from gifting through the account of others, and will promptly refund any verified minor gifting. See “Business — Risk Management and Internal Control — Minor

Protection and Virtual Gifting Management.” Although we value our diverse user group, we believe that Generation Z users would remain as a key cohort of our user community that drives our revenue growth as they become more mature and established.

We plan to attract more Generation Z users to our platform by recruiting and training a younger generation of hosts who share common interest with, and are more relatable and reachable to Generation Z users. In particular, we will encourage hosts to focus on popular topics among Generation Z users, such as popular music, TV and variety shows, and other trending contents, and cooperate with hosts and talent agencies specialized in audio contents. In addition, we plan to enhance cooperation with user traffic channels that are more popular among Generation Z users, such as Instagram, TikTok and Douyin, to more effectively capture the targeted user traffic. Furthermore, we will introduce new iteration of virtual gifts, platform-level social games, and online and offline professionally generated content that we believe can boost our engagement with Generation Z users and improve user stickiness, based on the user profile analysis conducted by our PRC and overseas operation teams.

User Engagement

We continue to stimulate user engagement through gaming mechanics and special activities, such as designing novice tasks, providing new user guides and user gift packages, and creating daily tasks that provide user tokens, user experience and virtual items.

We use game mechanisms that are integrated into every aspect of the platform to mobilize user interest. We continue to invent platform-level social games, such as Grand Voyage, Play for Fun and Huajiao Farm, to leverage fragmented user time and increase user engagement. For example, players of Grand Voyage may earn Voyage Coins from their fleets, which can be used to purchase and upgrade fleets and generate more Voyage Coins. We set ports at the live streaming room of every host, and by virtual gifting, users will receive the rights to anchor their fleets at the port of a specific host, which increases the speed of Voyage Coins generation. We design such gameplay mechanics to motivate users to stay longer in the live streaming room and increase their willingness to gift virtual items. Users may also play microgames and earn PK points to support their favorite hosts. We continue to update our game portfolio to introduce new and creative games to improve user engagement. We also create avatars using 3D engine, allowing users to shape their own images to create a sense of immersion in our online community. The interaction with avatars is also conducive to narrowing the distance between users and hosts, thereby increasing intimacy in the streaming experience. In addition to live streaming and various gaming mechanics, we also maintain a catalogue of communication interfaces, such as user and host moment, group chats and comment functions, so which allows users to more frequently interact on our platform and enjoy our warm and inclusive community culture.

HOSTS AND TALENT AGENCIES

We pride ourselves on our collaboration with a comprehensive league of talent agencies, such as streamer associations and MCNs, as well as talented individual hosts. We believe they are the key to our rich and entertaining content. We offer sustainable and favorable collaboration policies to hosts streaming and performing on various platforms, and are invested in their professional development.

Hosts

Our hosts include streamers who regularly stream virtual live streaming rooms, broadcasters who host broadcasting and audio-based live streaming sessions for our audio channels and audio-based apps, and other performers who regularly attend and host chatrooms of our overseas social networking products. Many of our hosts are musicians, singers, dancers and performing artists. They are the primary sources of the quality content generated on our platform. They provide a wide range of performance in virtual live streaming rooms, where they can display their talents, showcase their skills and personalities, and share their life stories and experiences. We believe we offer attractive value propositions to hosts, by providing them with ample opportunities to express themselves and engage with a wide audience base, with the added benefit of generating income from what they enjoy doing. In addition, through active user participation in our online community, we have fostered a sense of diversity and inclusiveness among them, which in turn attract hosts who enjoy the interactive nature and the warm and welcoming atmosphere of our online community. We also offer hosts the opportunities to gain peer recognition, become influencers and enter into the entertainment industry. This in turn supports their roles as content creators and encourages them to spend more time on our platform and create more and better content.

We have a massive base of diverse, young and active hosts. We verify the identity and age of our hosts before they can register on our platform. As of May 31, 2022, we had 11.0 million registered hosts on our platform. As of the same date, the majority of our registered hosts came from the first- and second-tier cities and were aged 35 and below. During the Track Record Period, we attracted hosts to perform on our platform primarily through user conversion and referrals from talent agencies. We believe that users who enjoy the rich content and interactive community culture as a viewer may choose to express him or herself by becoming a host on our platform. In 2019, 2020, 2021 and the five months ended May 31, 2022, 1.9%, 1.8%, 1.1% and 1.2%, of novice hosts on *Huajiao* were converted from new users in the respective year/period, and 1.1%, 0.8%, 0.2% and 0.4% of novice hosts on *6.cn* were converted from new users, respectively. The user to novice host conversion rate on our platform generally decreased during the Track Record Period, as the entertainment live streaming market has become more mature, and more novice hosts and interested viewers would begin their hosting careers under affiliation with talent agencies. Benefiting from our collaboration with talent agencies, we also acquire hosts through talent agencies, which often refer viable hosts to our platform for our stable revenue-sharing policy and exposure to our active user base.

BUSINESS

We have established a talent fostering system to identify, develop and train hosts, with execution plans on host training and promotion, content production and monitoring. We focus on providing opportunities that transform beginner hosts into influencers, enabling them to gain proficiency and popularity, which in turn help foster a close collaboration relationship between us and our host community.

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

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

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

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

In 2020, 2021 and the five months ended May 31, 2022, we focused on cooperating with talent agencies and viable hosts, and devoted more resources on training and recruiting hosts associated with talent agencies. As such, we experienced a decline in the number of new hosts registered on our platform in 2021 and the five months ended May 31, 2022, as compared to that in 2020 and the five months ended May 31, 2021, respectively, since fewer novice hosts or those stream on a freelance basis registered with our platform. For the same reason, average monthly active hosts also experienced decreases during the Track Record Period. However, there was a general growth in the number of talent agencies and hosts associated with talent agencies, as well as the number of hosts receiving virtual items valued more than RMB10,000 during the Track Record Period. In addition, as we have primarily focused on cooperation with more established talent agencies with viable hosts since 2019, we gradually ceased cooperation with talent agencies that no longer refer active and viable hosts to us. As a result, the total number of talent agencies associated with active hosts experienced general decreases during the Track Record Period.

Talent Fostering System

We actively identify and train beginner hosts that have great potential and help them develop their skills. We offer easy access for users to sign up and become hosts, and design training course to enable new hosts to quickly adapt to our platform. Our professional operation team continues to analyze host performance, live streaming environment, real-time audience control capability, and interaction ability. We then allocate user traffic which matches to the live streaming styles of hosts based on our assessment of their talents, communication styles and streaming content. We contact promising hosts and provide them with customized trainings and encourage them to stimulate and involve their viewers to maximize user engagement and produce entertaining user-generated content. For example, our general entertainment hosts may hold a karaoke contest among their viewers during live streaming sessions, and viewers will vote for winners through awarding virtual items. Similarly, our gaming hosts may hold a tournament with other gaming hosts, and viewers can send gifts to determine winner of the match.

We have a track record of tapping into the potential of novice hosts and transforming them into viable hosts. We conduct talent search via various online and offline channels, such as identifying potential hosts via social media platform, live streaming sessions on our various products, placing online and offline recruitment advertisements, and referrals from talent agencies or established hosts.

We invest resources in incubating and training viable hosts, offering a series of online and offline training sessions on live streaming operations, content creation, and communication techniques and manners, delivered by both our in-house streamer associations or third-party streamer associations or MCNs. In addition, our operational staff continuously impart their knowledge and experience accumulated during the course of their daily work to hosts through “on-the-job” training, and they may also pair more experienced hosts to novice hosts for one-on-one training sessions, so that these novice hosts can hone their live streaming skills. During our training courses, we seek to help them draw out their personality traits, establish self-confidence and further their understanding of the live streaming industry. Once we determine that a novice host has potential to accumulate his or her own fan base, we will help refer user traffic to such hosts, through increasing platform-wide exposure and designing tailored content suitable for such host’s personal trait and streaming style. All of our services to hosts are complementary.

Case Studies

Our platform offers various advancement opportunities for people who are passionate about streaming to become influencers. One of our hosts nicknamed Miao Miao (秒秒) has realized her dream of becoming a full-time singer through streaming on *Huajiao*. Miao Miao has always been interested in singing and has attended many local and regional singing contests. In 2019, out of her love for music, she fully devoted herself to live streaming on *Huajiao*. Since then, she has won many accolades, including the 2019 *Huajiao Musician*, the most popular host in 2019 *Huajiao Karaoke Night*, the champion of the *Huajiao 2020 Battle for the Pinnacle*, and the ten most popular hosts of *Huajiao* in 2020. Miao Miao has now become one of the better-known music hosts on *Huajiao* and realized her music dream through live streaming.

We enable hosts to improve their lives during the challenges brought by COVID-19 pandemic. A host nicknamed Latte Girl (拿鐵女孩) had been a fitness host prior to the pandemic. During the pandemic, she was quarantined in a hotel, during which she continued to stream to illustrate fitness techniques without equipment, allowing her to garner more viewers and supporters and become a popular host. Although peoples' lives have been disrupted by the pandemic, they were able to explore other opportunities and improve their livelihoods through streaming on our platform.

We also provide a channel for people living in China's underdeveloped areas to show their hometowns to the world. A host nicknamed E Yatou (娥丫頭) at *6.cn* is from the mountainous area of Guizhou. In 2018, she started using *6.cn* and learned about the positive impact of live streaming. E Yatou started streaming at *6.cn*, with the original intention to show the natural scenery and ethnic customs of Guizhou to our users. At the same time, she also intended to use live streaming to attract public attention and provide assistance to left-behind children and lonely elderly people living in the mountainous areas of Guizhou.

Host Retention

We provide favorable collaboration policies to strengthen our relationship with hosts to improve host retention rate, content production and streaming time on our platform. For example, our revenue-sharing policy provides various incentives that encourage hosts to increase their streaming time and fan interactions. We design various incentive mechanism, such as the host leveling system, to reward our user tokens to hosts who accomplish certain streaming tasks, comply with our streaming policies and consistently provide quality and superior content. We provide a promising advance channel for hosts to reach a wider audience and accomplish their career goals. For example, we have held online contests in collaboration with the Voice of China and Miss World and recommended suitable hosts to participate in the castings of many TV shows and movies.

BUSINESS

Our top hosts demonstrated a high level of loyalty and engagement during the Track Record Period. For example, 392 of our top 500 hosts at *Huajiao* and *6.cn* in 2020 remained with us in 2021. During the Track Record Period, the average streaming time per day per active host was approximately 220 minutes. More importantly, we believe that the success and viability of our business model are underpinned by our ability to continuously collaborate with and retain viable hosts and top-tier talent agencies, which was made possible by our proven and comprehensive talent fostering system and our stable collaboration policies. During the Track Record Period, the average monthly active host retention rate of *Huajiao* was 58.1%, 56.9%, 58.9% and 60.0%, respectively, while the average monthly active host retention rate of *6.cn* was 65.8%, 65.3%, 64.7% and 66.3%, respectively. During the Track Record Period, we did not suffer material losses or negative financial impact on our revenues due to the departure of any top hosts.

We typically enter into an exclusive cooperation agreement with viable and influential hosts, which stipulates the exclusive period during which such hosts shall not stream on other platforms and the contractual liability for such breach. We typically use uniform community policies and form service contracts when collaborating with hosts and their associated talent agencies. For hosts that are particularly valuable to us, we may adjust the contractual terms or make flexible adjustments to maintain a reciprocal relationship with these hosts, in particular with respect to performance-based incentives such as user traffic reference and promotion. If any disputes arises during the course of our collaboration with hosts or talent agencies, we would settle our disputes in accordance with the dispute resolution and/or arbitration clauses contained in the respective service and cooperation agreements.

In order to provide incentive for hosts to stay with us, we provide them with rewards, which may include additional user traffic reference, such as placing their live streaming room entrance in a more prominent place based on their associated talent agencies' completion of ladder performance tasks, and content production assistance. The tiered performance tasks mainly include host streaming time and consecutive streaming day requirement. We evaluate the performance quality of a streaming session by the number of users participated in the live streaming session, as well as the amount of virtual items received by the host. Hosts with higher streaming quality and more frequent streaming sessions can complete the tiered performance tasks and earn additional rewards. Hosts may also earn rewards in platform-wide activities. In the future, we will continue to adjust our reward policies in accordance with the industrial practice in order retain viable hosts.

Talent Agencies

We closely collaborate with talent agencies in China. We have begun our collaboration with talent agencies since 2015. We provide stable revenue-sharing policies with talent agencies, so they can have stable and reliable expectations and confidence in forecasting profitability generated from our platform. As of May 31, 2022, we had collaborated with more than 10,000 talent agencies since our establishment, many of whom had worked with us for more than three years.

Cooperation Agreements with Hosts and Talent Agencies

Our hosts are bound by our community guidelines and standard terms of service. We use a standard contract for individual hosts that have not entered into tripartite cooperation agreements with us and a talent agency.

The following is a summary of our standard contract for individual hosts.

- *Service scope.* The parties agree that we will exclusively enjoy the streaming content produced by the host. The host shall entrust us to manage his or her streaming activities during the cooperation period.
- *Cooperation period.* The cooperation period shall typically be one year, which shall be automatically renewed upon its expiration unless a party objects the renewal in writing.
- *Revenue sharing.* The host agrees that our platform-wide revenue sharing policy shall apply, and rewards attributable to the host shall be settled on a monthly basis. The parties further agree that such revenue sharing arrangement include all fees and expenses related to the host, including service fee, equipment fee, tax expenses and insurance expenses.
- *Performance obligation.* The host agrees that he or she has provided authentic personal information to us for our verification and compliance purposes, and that he or she will comply with our community standard and applicable rules and regulations, among others.
- *Intellectual property rights.* We typically own the intellectual property rights in relation to the streaming contents with the host.
- *Confidentiality.* The parties shall keep the information acquired in connection with this agreement confidential.
- *Liability.* Where any host breaches any term under this agreement, including posting inappropriate content, such host shall compensate us for the losses incurred as a result of the breach.

We also collaborate with talent agencies, who help us establish and maintain relationships with talented hosts and serve as a communication channel between us and the hosts they manage. We typically enter into cooperation agreements with such talent agencies, which are generally negotiated on a case-by-case basis.

BUSINESS

The following is a summary of major terms of our cooperation agreement with talent agencies.

- *Service scope.* The talent agency agrees to recruit and manage an agreed-upon number of hosts, whose live streaming quality shall satisfy our platform-wide standards. In the event that we consider certain hosts are especially valuable to our platform, we have the right to enter into tripartite cooperation agreements with them and the talent agency.
- *Cooperation period.* The cooperation period shall typically be two years, which shall be automatically renewed upon its expiration if the revenue generated from hosts of the cooperating talent agencies reached an agreed-upon amount during such period.
- *Revenue sharing arrangements.* The cooperating talent agency agrees that our platform-wide revenue-sharing policies effective at the time shall apply to hosts under its management. For a description of our revenue-sharing policies currently in effect, see “— Revenue Sharing Arrangement with Talent Agencies for *Huajiao*” and “— Revenue Sharing Arrangement with Talent Agencies for *6.cn*.”
- *Cooperation obligation.* The cooperating talent agency agrees to provide hosts under its management with training and necessary equipment for live streaming at their expense, and to provide authentic personal information of hosts under its management to us for our verification and compliance purposes, and to ensure that such hosts will comply with our community standards and applicable rules and regulations, among others.
- *Intellectual property rights.* We typically own the intellectual property rights in relation to the streaming contents with the cooperating talent agency and hosts under its management.
- *Confidentiality.* The parties shall keep the information acquired in connection with this agreement confidential.
- *Liability.* Where any talent agency or host under its management breaches any term under this agreement, including posting inappropriate content, such talent agency and its host shall compensate us for the losses incurred as a result of the breach.

For certain hosts that are introduced by talent agencies and who we believe have great potential, we enter into exclusive tripartite cooperation agreements, which typically have a contract term of one year, with such selected hosts and their associated talent agencies. The major terms included in the aforementioned cooperation agreements are set out below.

- *Service scope.* The talent agency and its selected host agree to perform live streaming exclusively on our platform within the period stipulated.

BUSINESS

- *Exclusive performance.* The selected host agrees that during the cooperation period, all of his or her online live streaming activities shall be managed by the talent agency, and any content generated from such host's live streaming activities, including his or her online image and trade name, are authorized to the talent agency for its management. The talent agency agrees to cooperate with us with respect to all live streaming contents produced by the selected host, and the selected host shall not provide streaming services to any platform not approved by us.
- *Cooperation period.* The cooperation period shall typically be three years, and the renewal of which shall be negotiated by the parties.
- *Cooperation obligation.* The cooperating talent agency agrees to provide authentic personal information of its selected host to us for our verification and compliance purposes, and to ensure that such host will comply with our community standards and applicable rules and regulations, among others. In addition, the cooperating talent agency shall ensure the live streaming quality of its selected host and manage such host to perform as required by us.
- *Number and performance level of live streaming sessions.* We require the selected host to achieve a stipulated number and/or performance level of live streaming sessions on our platform.
- *Performance-based rewards.* The tripartite cooperation agreements provide for performance based reward system for selected hosts who satisfied certain streaming requirements, which may include user traffic referral, promotional activities and content production assistance.
- *Revenue sharing arrangements.* The cooperating talent agency and its selected host agree that our platform-wide revenue-sharing policies effective at the time shall apply to such hosts. For a description of our revenue-sharing policies currently in effect, see “— Revenue Sharing Arrangement with Talent Agencies for *Huajiao*” and “— Revenue Sharing Arrangement with Talent Agencies for *6.cn*.”
- *Intellectual property rights.* We typically own the intellectual property rights in relation to the streaming contents with the cooperating talent agency and its selected host.
- *Confidentiality.* The parties shall keep the information acquired in connection with this agreement confidential.
- *Liability.* Where any cooperating talent agency or its selected host breaches any term under this agreement, including posting inappropriate content, such talent agency and its selected host shall compensate us for the losses incurred as a result of the breach.

BUSINESS

Depending on whether a specific cooperation agreement includes an exclusivity clause, it can be classified either as an exclusive cooperation agreement or a standard cooperation agreement. We believe that the inclusion of such exclusive clause in our cooperation agreement has been effective in limiting our hosts' ability to stream on other entertainment live streaming platforms, primarily because (1) we did not find any of our top ten hosts subject to the exclusive clause streaming on competing platforms during the Track Record Period, and (2) the revenue generated from hosts who had breached such exclusive clause was less than 2.3% of our total revenue in each period during the Track Record Period. In addition, we constantly monitor our hosts' compliance with such exclusive clause, and once we find any host streaming on any of other entertainment live streaming platforms, we would initiate lawsuits against such hosts. As of the Latest Practicable Date, other than the lawsuits that were pending as of the same date, the courts had ruled in our favor or we had obtained favorable settlements for most of lawsuits relevant to breach of the exclusive clause by our hosts initiated during the Track Record Period. During the Track Record Period, we had 53 lawsuits with our hosts relevant to breach of the exclusive clause. In 2019, 2020, 2021 and the five months ended May 31, 2022, the revenue generated from hosts who breached the exclusive clause with us was RMB65.2 million, RMB28.0 million, RMB19.0 million and RMB2.4 million, respectively. For details of contract disputes with our hosts and/or their associated talent agencies, see "—Legal Proceedings." We do not negotiate with each of hosts and/or their talent agencies for revenue-sharing ratio, which are applicable to and are transparent for all hosts who stream on our platform and their associated talent agencies. We may adopt platform-wide adjustment from time to time, based on our strategic focuses and market condition. We may negotiate with hosts and/or talent agencies for such exclusivity clause by offering user traffic referrals and/or promotional opportunities, in addition to our usual revenue sharing arrangement. We believe that these non-cash incentives help hosts more effectively develop their viewer base and increase their gross billing. We entered into tripartite exclusive cooperation agreements, which limit hosts' ability to stream on other entertainment live streaming platforms, with 429, 649, 1,032 and 1,101 hosts and their associated talent agencies, in 2019, 2020, 2021 and the five months ended May 31, 2022, respectively. The revenue generated from such hosts was RMB302.3 million, RMB572.2 million, RMB647.6 million and RMB355.3 million in 2019, 2020, 2021 and the five months ended May 31, 2022, respectively, representing 10.7%, 15.5%, 14.1% and 17.0% of our total revenue in the same periods, respectively. As a result of our continuous efforts in expanding our team of professional hosts who have great potentials, the number of hosts that entered into our tripartite exclusive cooperation agreements and revenue attributable to them as a percentage of our total revenue both experienced stable increases from 429 and 10.7% in 2019 to 1,032 and 14.1% in 2021, respectively.

BUSINESS

The following is a summary of our revenue-sharing policy with talent agencies for *Huajiao* and *6.cn* as of the date of this prospectus.

Revenue Sharing Arrangement with Talent Agencies for Huajiao

Tiered Performance Metrics				
Basic revenue sharing ratio	Gross billing target for all hosts under management by talent agencies	Number of host satisfying target	Additional revenue sharing	Maximum revenue sharing ratio
<i>(RMB in thousand)</i>				
50%	<50	<3	0	50%
50%	≥50	≥3	15%	65%
50%	≥100	≥5	25%	75%
50%	≥300	≥15	28%	78%
50%	≥700	≥30	30%	80%
50%	≥1,000	≥55	33%	83%

Revenue Sharing Arrangement with Talent Agencies for 6.cn

Tiered Performance Metrics						
Basic revenue sharing ratio	Gross billing target for all hosts under management by talent agencies	Number of host satisfying target	Additional revenue sharing	Extra revenue sharing requirement for each host	Extra revenue sharing	Maximum revenue sharing ratio
<i>(RMB in thousand)</i>						
50%	<100	≥5	8%	Monthly gross billing		60%
50%	300≥100	≥8	10%	≥RMB10,000,		62%
50%	500≥300	≥10	11%	Streaming hours		63%
50%	1,000≥500	≥20	12%	≥60 hours,	2% of gross billing of hosts	64%
50%	1,500≥1,000	≥35	13%	and	satisfying the requirement	65%
50%	2,500≥1,500	≥50	14%	Streaming days		66%
50%	5,000≥2,500	≥70	15%	≥22 days		67%
50%	8,000≥5,000	≥120	16%	per month		68%
50%	12,000≥8,000	≥140	17%			69%
50%	≥12,000	≥150	18%			70%

BUSINESS

During the Track Record Period, hosts on *Huajiao* generally received higher revenue sharing percentages than hosts on *6.cn*, primarily due to the longer operating history of *6.cn*, during which it established its own practices accepted by the market when China's entertainment live streaming industry was still in its early development stage with less intense competition for quality hosts. As a result, our Directors believe that hosts on *6.cn*, in particular those having streamed on *6.cn* for a relatively longer period and built their own loyal fan bases on *6.cn*, have become accustomed to the community culture of *6.cn* and become more inclined to accept its lower revenue-sharing ratio.

OUR CONTENT

Our platform covers a wide range of social entertainment topics that address diverse user interests and needs and help users develop or discover new interests. Our users also, in large and growing numbers, actively participate in the creation, share and promotion of content, to satisfy their desires for social interaction, companionship, satisfaction and recognition through a variety of interactive experiences to form an interconnected user community.

Our live streaming content is rich and diverse, including major categories such as music, dance, talk shows, outdoor activities and gaming. As of May 31, 2022, our content library covered 14 major categories of content and more than 40 sub-categories of live streaming programs. In order to cater to the ever-changing interests of our users, we continue to introduce more new categories of live streaming programs.

In addition to user generated content, we actively participate in or lead the production of some of our most popular professionally generated content. As of May 31, 2022, we had a content production and operation team of 132 members, focusing on collaborating with our top hosts to produce professionally designed content. We provide comprehensive support along the entire content production process, from advising hosts on topics and formats of the program, background music selection, storyline production, script creation, supporting graphics and background setting, to program editing and final review. We work closely with talent agencies and individual hosts to design special programs based on host personality, such as contests among energetic hosts with escalating competitive “tension” to boost user traffic and encourage users to back up each party through virtual gifting, and other seasonality programs and streaming sessions centering around recent trending news and events. For examples, we have hosted many online talent contest, such as *Battle for the Pinnacle* (巔峰之戰), *Freshman Orientation* (新生見面會), *Prettiest Angel* (最美天使) and *Girls' Cabinet* (少女私櫥), to generate user traffic and promote promising hosts. Many of such contests will hold offline finale produced by our professional content production team, with the final extravaganza streamed on and then uploaded to our platform for repeated viewing.

CUSTOMER SERVICE

We adhere to our user-centric principal to provide users with the best user experience and customer service, which we believe is a key to our success. As of May 31, 2022, we maintained a team of 38 customer service personnel who are available on a 24/7 basis. For our overseas products, we have also various official social media accounts maintained by customer service staff familiar with local language to provide app updates, feedback and customer support in a timely manner. Our users may submit inquiries, feedback or complaints by communicating via online chat, hotline or emails at any time. Upon receipt of inquiries or complaints, our customer service team will conduct an investigation and provide users with feedback and/or solutions for issues they report.

We value the communication and feedback of the users. We have set up a product feedback system to better understand the user demand. We also train our customer service staff to behave professionally when interacting with users and responding promptly and patiently to their demand. We may also assign exclusive VIP customer service team to address the concern of our VIP users and offer them customized service, such as organizing fan events for VIP users.

CONTENT SCREENING AND REVIEW

We review the content on our platform to maintain a healthy ecosystem for our users and refine user experience and to ensure compliance with applicable laws and regulations in the jurisdictions where we operate.

Content Review

We apply a combination of automated AI-backed user protection system and manual review to manage the content offered on our platform. Our automated AI-backed user protection system serves as the first layer protection to identify potential inappropriate content. Our system will extract identifiers from the content and sends them to our central cloud infrastructure, which processes large amounts of information with our proprietary AI-backed model. If our AI technology cannot clearly recognize the identifiers, our content review team will review the content and visit the live streaming rooms at issue, and promptly suspend the activities in accordance with our internal control policies and applicable regulations. We have established three independent content review centers for *Huajiao*, *6.cn* and HOLLA Group, respectively. As of May 31, 2022, our dedicated content review team consisted of more than 220 employees and contractors responsible for detecting and preventing the release of inappropriate or illegal content on our platform. Our platform has the right to shut down any live streaming room or suspend users' accounts.

Our AI technology is generally capable of identifying and determining whether there is a violation within a matter of seconds after it captures a screenshot of the live streaming session. Live streaming on our platform is reviewed simultaneously by our AI-backed user protection system and content review team. Any content that is flagged by our machine

screening process must then be reviewed by our content review team to decide if the content is inappropriate or illegal, which may lead to the possible termination of the live streaming. In addition, we maintain a report portal which allows users to report violations at any time, and such report will be promptly responded to by our content review team. We analyze multiple factors in order to determine the reliability of and prioritize various reports of inappropriate content, including the history of the reporting user, effective reporting rate and the severity of the alleged violations. If our content review team notices any violation by our hosts or users, they will take actions, such as continuing to monitor and/or issue warnings to the parties involved. For severe violations, such as acts or threats of violence, nudity, use of illegal drugs, or making politically sensitive or inflammatory comments, we can permanently suspend such user or host from accessing our platform, and all the virtual gifts and items in such person's account will be forfeited. If a host is found to be in violation of our internal control policies or applicable regulations, we will impose corresponding sanctions, warning, immediate suspension of live streaming session, temporary account suspension, to permanent account suspension.

Content Compliance Policies

We require our users and hosts to abide by our terms of service, which prohibit illegal content from being created, shared and transmitted on our platform. As required by and depending on the applicable laws and regulations, our community guidelines set forth the prohibited content and actions in details, such as provocative or inflammatory languages, full or partial nudity, sexually suggestive language or body movements, abusive language or actions towards other users, spam, scams, acts and threats of violence and information facilitating or promoting illegal transactions or activities. As required by PRC laws and regulations, we have set up a cybersecurity office for the cybersecurity police officers in our headquarters.

We are committed to complying with relevant PRC laws and regulations, and upholding the integrity of our community. We have implemented various measures to ensure the compliance of relevant rules and regulations, including utilizing an automated AI-backed user protection system and maintaining a manual review team, a report portal for users to report violations, and establishing different benchmarks for evaluating potential violations and our community guidelines.

We have established different benchmarks to evaluate potential violations of our terms of services and community guideline. We will determine the imposition of sanctions and require rectification measures based on the nature and frequency of violations. The following sets forth our major benchmarks for violations of our terms of services and community guidelines.

- *Political sensitive or inflammatory content.* We treat this category as a severe violation and it includes content involving reactionary information, anti-national security information, information harmful to national interest, unity, religious policies and/or social stability, and information prohibited by PRC laws and regulations.

BUSINESS

- *Pornographic content.* We treat this category as a severe violation and it includes obscene and pornographic text, pictures, audio, video, and animation and other sexually suggestive language or movement.
- *False content.* We treat this category as a general violation and it includes information that blindly exaggerates the facts of a social event, over-hypes about hot events with bad social value, spreads rumors, or publishes or disseminates other false information.

Self-Identified Violations and User Complaints

We strictly prohibit contents that are deemed to be (1) sexually suggestive language or body movements, such as indecent exposure of private parts and behavior and language with sexual undertones, (2) acts and threats of violence, such as contents involving blood, terrorism and controlled substances, and (3) improper, such as invasion of privacy and superstition contents, from being displayed on our platform. In 2019, 2020, 2021 and the five months ended May 31, 2022, our AI-backed user protection system and manual review team were able to identify, in general, an average daily total of approximately 570, 530, 430 and 540 incidents of violations of our community guidelines, covering inappropriate dressing, vulgar contents such as sexually suggestive performance, and potential violation of relevant rules and regulations, respectively, which accounted for approximately 1.6%, 1.6%, 1.5% and 2.1% of the number of our daily streaming sessions during the respective periods. We temporarily suspended the streaming function of such hosts. In general, an average daily total of approximately 100, 90, 50 and 40 incidents in 2019, 2020, 2021 and the five months ended May 31, 2022, respectively, would involve severe violation of our community guidelines and/or terms of services, which resulted in the suspension of streaming function of the corresponding hosts for a certain period of time or termination of our cooperation with the hosts, depending on the frequency and severity of violations. In 2019, 2020, 2021 and the five months ended May 31, 2022, we imposed penalties or disciplinary actions, including the suspension of streaming function, and the termination of cooperation with hosts in the case of severe violations, on approximately 85,900, 77,460, 33,800 and 12,270 hosts, representing 0.9%, 0.7%, 0.3% and 0.1% of our total hosts, respectively, among which we terminated cooperation with approximately 1,290, 810, 720 and 90 hosts, representing less than 0.1% of our total hosts, respectively, during the same periods.

In addition to the inappropriate contents identified by us, users from time to time may report their disputes with us or contents on our platform to the China Consumer's Association and the Industry and Commerce Bureau. During the Track Record Period and up to the Latest Practicable Date, we had received 18 complaints related to contents and host behavior on our platform from users, which were subsequently reported to the China Consumer's Association and the Industry and Commerce Bureau. In particular, seven of such complaints were related to vulgar and sexually suggestive contents allegedly produced by hosts on our platform, and the remaining 11 complaints were related to disputes between hosts, users and/or our customer services team. As of the Latest Practicable Date, we had not been subject to any penalty or

investigation as a result of these complaints, although we had investigated internally for these complaints, and issued warning to one and suspended the account of another host whose streaming sessions contained vulgar contents.

In light of (1) the small amount of violations identified on a daily basis, versus the total amount of daily streaming activities on our platform, (2) the few complaints related to the contents or inappropriate activities on our platform and the absence of regulatory penalties associated with such complaints, and (3) our enhanced internal control measures over content review to promptly identify and reduce inappropriate activities on our platform, see “— Risk Management and Internal Control — Content and Hosts on Our Platform,” our Directors do not believe that these incidents and complaints had a material adverse impact on our operations and financial performance.

Regulatory Incidents Involving Contents and Hosts

During the Track Record Period, 33 of our hosts were included in the online streamer warning lists published by China Association of Performing Arts for inappropriate content displayed on our platform, among which 25 of such hosts were listed in the warning lists due to sexually suggestive performance and language, and eight were listed due to politically inflammatory language. We permanently ceased collaboration with such hosts immediately upon the publication of the list and have promptly taken enhanced internal control measures over content review, see “— Risk Management and Internal Control — Content and Hosts on Our Platform.” During each period of the Track Record Period, hosts included in the online streamer warning lists published by China Association of Performing Arts contributed less than 0.1% of the total value of gifts received by all hosts of the Group. Based on the foregoing, our Directors are of the view that these incidents did not cause any material or adverse impact on our business, and that our enhanced internal control measures are adequate and effective in identifying inappropriate content displayed on our platform. After due consideration of (1) the information set out above, (2) the views of the Directors and (3) the relevant due diligence work conducted, the Joint Sponsors are not aware of any material findings which have contradicted the Directors’ view that the inclusion of the 33 hosts in the online streamer warning list did not cause any material or adverse impact on our business, or which have cast doubt on the effectiveness of our internal control measures in identifying inappropriate content displayed on its platform.

During the Track Record Period, we were involved in nine minor incidents with fines imposed by government authorities in connection with inappropriate content displayed on our platform. These incidents were related to sexually suggestive language and/or performance with fines ranging from RMB10,000 to RMB15,247.73. These fines were imposed on us after we had identified inappropriate content and reported the relevant hosts to the relevant authorities. In sum, the total amount of fines imposed on us for inappropriate content displayed on our platform were approximately RMB100,000 during the Track Record Period. We immediately imposed sanctions to hosts involved in these incidents according to our community policies.

BUSINESS

We were requested to meet with the Beijing Internet Information Office in June 2020 as videos containing contents that were deemed to be vulgar by the Beijing Internet Information Office were uploaded to the community live feeds on *Huajiao* by certain users, and following the interview, new users were not able to register on *Huajiao* for two weeks. We have implemented remedial measures to strengthen internal control over content displayed on our platform and uploaded to our community feeds. We have enhanced our content review measures, such as the adoption manual review mechanism to verify potential violations identified by our AI-backed content review system, and the prompt removal of any vulgar content that could violate applicable rules and regulations. We also suspended the accounts of hosts identified in the videos. We completed the remedial measures within the designated period, and passed the review by the Beijing Internet Information Office. Our Directors are of the view that this incident caused no material impact on our business since we promptly implemented corrective measures. Based on the content review measures implemented during the Track Record Period, and the fact that there have not been other violations or additional penalties imposed by regulatory authorities relating to this incident since January 1, 2022, our Directors are of the view that our internal control measures are adequate and effective in identifying inappropriate content displayed on our platform and ensuring compliance of the relevant rules and regulations. After due consideration of (1) the information in relation to the above, (2) the views of our Directors and (3) relevant independent due diligence work conducted, the Joint Sponsors are not aware of any material findings from the independent due diligence work conducted that have caused them to doubt the effectiveness of our internal control measures to identify inappropriate content displayed on our platform.

TECHNOLOGY

We invest heavily in our technology infrastructures, which is critical to allowing us to efficiently and effectively address the technical challenges associated with our business and product offerings. We have accumulated extensive experience in real-time broadcasting and video streaming, multi-party concurrent streaming, data security and data processing.

We have a research and development team of experienced engineers, researchers and scientists, drawing talents from leading internet and technology companies such as Baidu and 360, with extensive experience with large scale mobile apps and PC clients, providing us with competitive edges. As of May 31, 2022, our technology and research and development team consisted of 254 members, whose expertise spans a broad range of disciplines, from live streaming infrastructure to data mining. Approximately one-third members of our research and development team have more than 10 years of professional experiences. Our research and development team continues to launch new features to meet the evolving user needs, such as audio live streaming and virtual reality live streaming features which we launched in 2016 and 2017, respectively. We have developed “Mengyan” technology, avatar guardian gifts, and AI chatbots which we leverage to enhance the atmosphere of the live streaming room.

In 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, our research and development expenses were RMB132.1 million, RMB156.2 million, RMB207.9 million, RMB87.9 million and RMB93.6 million, respectively, representing approximately 4.7%, 4.2%, 4.5%, 4.9% and 4.5% of our total revenue for the same periods, respectively.

High Efficiency Video Coding (H.265)

Our products utilize H.265, which allows us to significantly reduce costs, save bandwidth, or improve graphic quality. We began the research and development into H.265 for its application on mobile devices in 2016, began the related network construction in the second quarter of 2017, and established an end-to-end H.265 live streaming network in the live streaming industry in China at that time. We do not rely on third-party SDK for H.265 technology to generate or display content, which is different from most other internet streaming platforms in China, who tend to purchase prepackaged services from third-party cloud service providers. After we launched PC client and PC web browser in 2019, we accomplished all-platform support of H.265 on iOS, Android and PC clients. As a result, all users can watch high-quality H.265 streaming content instead of transcoded low-quality H.264 video, which serves to significantly improve the entertainment experience for PC-based users.

“Mengyan” Feature

In 2016, we became the first platform in the world to apply “Mengyan” feature in live streaming, according to the iResearch Report. This technology was previously used to modify photographs only. Our “Mengyan” technologies allow hosts to add an element of fun by applying face filters and augmented reality in live streaming sessions.

AI Streaming Effects

Our AI video effects include, among others, (1) background segmentation feature, which can separate hosts from the background and allow hosts to change the background without specialized green screen, and (2) gesture special effect recognition system, which allows hosts to trigger special effects through gestures such as “heart” and “like” during the live streaming. Our hosts can also utilize our facial expression shifting feature, which allows hosts to use 3D avatars to replace their faces without compromising the accurate conveyance of their facial expression.

3D Engine Technology

Our 3D engine technology enables us to design and offer 3D gifts and customized avatars to meet the user demand. For example, users can purchase 3D waltz gifts for their favorite hosts, and the live streaming rooms would display the user-customized avatars dancing with the hosts, which enhances a sense of participation and immersion. In 2019, our 3D engine technology reached the graphic quality of the Unity3D commercial engine.

Intelligent Content Recommendation System

Our proprietary content recommendation system is built upon the user behavior observation that we have accumulated from the massive number of users, supported by algorithms embedded in our advanced AI and data processing capabilities. Our content recommendation system aims to precisely matching users with their favorite content. Once our system generates recommended content, we will leverage our powerful back-end system to push such content to targeted users through app functionalities or push notifications. Our servers can precisely deliver more than 250,000 push notifications to users in a matter of seconds.

Server-Side Business Middleware

We have developed a large number of server-side business middleware, including the IM system used to support functions such as regular comments, private messages, and group chat in the live streaming rooms. Our IM system can be scaled up and adjusted according to business needs without incurring significant cost. We have also developed middleware such as enterprise-level data buses and high-performance synchronization services, which provide stable support for our platform.

DATA SECURITY AND PRIVACY

We treat data security and privacy seriously across all our products. We believe it is crucial that our users and hosts understand how we collect and handle their information and trust that we properly protect their privacy. We have implemented internal rules and policies to govern how we may collect, use, store, retain and transmit personal information in compliance with applicable data protection laws and regulations, as well as protocols, technologies and systems in place to ensure that such information will not be accessed or disclosed improperly. Users and hosts must acknowledge the terms and conditions of the privacy agreement before using our products, under which they consent to our collection, use and disclosure of their data in compliance with applicable laws and regulations. See “Regulation — Regulations on Information Security” and “Regulation — Regulations on Internet Privacy.”

We mainly collect the following personal information of our hosts: (1) IP address and equipment information, which are mainly used for account security purposes; (2) identity information for PRC hosts, including names and identification numbers to verify identities in accordance with relevant PRC laws and regulations; (3) mobile phone numbers for account registration; (4) hosts behavioral data, including streaming times and amount of virtual items received from users, and (5) hosts’ bank account information and/or third-party payment account information to assist our hosts in withdrawing income. We mainly collect the following information of our users: (i) IP address, equipment information, which are mainly used for account security purposes; (ii) user behavioral data, such as purchase record for virtual items, and (iii) mobile phone numbers for account registration. As an alternative, if users choose to use their IDs associated with other platforms such as Weibo, WeChat or QQ for registration,

BUSINESS

we will gather their IDs associated with these platforms which have been registered on users' mobile phone number or other personal information through SDKs, to satisfy the requirements of real-name registration under relevant laws and regulations. Other than encrypted equipment information we received from user traffic referral channels for the purpose of settling referral fees, we do not receive or collect personal information from third parties for our business operation. As advised by our PRC Data Compliance Advisor, other than the non-compliant incidents of *Shiliu live streaming*, *6.cn* and *Huajiao* discussed below, we have complied with all material aspects of the PRC laws and regulations regarding to the personal information protection and data security as of the date of this prospectus.

We collect such necessary user information strictly following government regulations and user privacy agreements. We do not collect unnecessary personal information other than those consented by users and hosts, and we do not provide any personal information to third parties without consent or otherwise required by laws and regulations. All of our network communications are encrypted, and we had not experienced material data leakage during the Track Record Period and up to the Latest Practicable Date. We have also purchased certain network security screening services to perform necessary system security checks while we independently developed our defense system.

We require users and hosts to read our privacy agreement applicable to their respective regions and to complete a consent form before using our services. Our privacy policies inform users that in providing our services, how we may collect, store, utilize or share with third parties certain personal information generated and/or collected in using our services or accessing our platform. We encrypt users' and hosts' personal data stored on cloud servers and/or physical servers provided by third-party providers, set up cloud and external firewalls, and conduct security tests on a regular basis.

For users' personal information, once they decide and request us to cancel their accounts with us, we will delete such users' information from our servers, unless otherwise we are required to keep such information by applicable laws and regulations. We have developed a performance query platform for talent agencies, which allows them to view the income of their associated hosts.

From an internal policy perspective, we limit access to our servers that store our user and internal data on a "need-to-know" basis. We also adopt a data encryption system intended to ensure the secured storage and transmission of data, and prevent any unauthorized member of the public or third parties from accessing or using our data in any unauthorized manner. Furthermore, we implement comprehensive data masking of user data for the purpose of fending off potential hacking or security attacks. We have also implemented real-time synchronization and backup mechanisms across multi-data centers to avoid accidental data losses.

BUSINESS

During the Track Record Period, *Shiliu live streaming*, *6.cn* and *Huajiao* were deemed to be engaged in the collection and use of user information in a non-compliant manner by relevant government authorities under the circumstances described below. On July 16, 2020, the MIIT notified *Shiliu Live streaming* of its non-compliance practices, including the denial of users' access to *Shiliu Live streaming* if they do not consent to certain information access request, and the onerous requirement for account deactivation procedures, such as the provision of copies of user ID card and mobile phone number. On October 12, 2020, the MIIT determined that *6.cn* (1) had collected users' MAC addresses prior to obtaining users' consent to its privacy policies; (2) sent users' device-related information to a third-party SDK; and (3) denied users' access to *6.cn* if its request for accessing storage of user's device is denied. On May 14, 2021, the MIIT determined that *Shiliu live streaming* had sought to collect user location prior to offering relevant services. On January 22, 2021, the MIIT notified *Huajiao* of its non-compliant use of users' personal information. On June 11, 2021, the CAC concluded that *6.cn* had collected user information unrelated to its services. Our non-compliance during the Track Record Period was primarily due to our inadvertent misinterpretation of laws and regulations of China relating to personal information protection, as these laws and regulations are complex and have been evolving, in particular with respect to the standards for identifying non-compliant personal information processing activities adopted by relevant authorities such as the MIIT and the CAC.

As advised by our PRC Data Compliance Advisor, our Directors are of the view that these non-compliance incidents did not cause a material adverse impact on our business, based on the following grounds:

- We have timely rectified our non-compliance practices as required by the MIIT and CAC notices within the designated period and passed the review of relevant government authorities. In particular, we have taken the following measures for *Shiliu live streaming*, *6.cn* and *Huajiao*:
 - (a) we updated *Shiliu live streaming*'s privacy policy to (1) fully disclose our approach for the collection and use of users' personal information, (2) notify users about *Shiliu live streaming*'s privacy policy by pop-up window and other appropriate methods when users launch our app for the first time, (3) request for the storage access only when the users start using live-streaming feature, and (4) explain the purpose of obtaining the corresponding permission to users. We have also simplified the process of application for account deactivation by users;
 - (b) *6.cn* ceased to collect the MAC address before the users agree to the privacy policy, supplemented the SDKs list attached to its privacy policy, ceased to request users for storage permission prior to the use of features relating to such permission, and only requests camera and microphone permissions after the users start using live streaming feature; and

BUSINESS

- (c) *Huajiao* updated the language used for the click box under its privacy policy pop-up window from “I see” to “I agree,” and the iOS version of *Huajiao* app ceased to send any users’ personal information to any SDK prior to users’ consents to its privacy policy, and its privacy pop-up window pops up every time when it is launched if users did not expressly consent to the privacy policy.
- We were not subject to any fines for these non-compliances;
 - We have adopted data compliance measures as recommended by our PRC Data Compliance Advisor based on the PIPL, which has become effective on November 1, 2021 and applicable to all internet companies for their user information collection practices, and as advised by our PRC Data Compliance Advisor, our Directors are of the view that such measures are adequate and effective in identifying similar potential non-compliance practices and ensuring compliance of relevant rules and regulations; and
 - As of the Latest Practicable Date, there had been no other governmental investigation, penalty or administrative orders pending against us in relation to unlawful collection or use of user information.

To keep abreast with recent regulatory developments, we pay great attention to the recently enacted data protection laws to ensure the effectiveness of our data security and privacy policies and that we are in compliance with all applicable laws and regulations.

- For example, we have updated our user privacy agreements on our platform and notified users of the underlying purpose, scope and method of our collection and use of personal information, and the rights that users are entitled in connection with their personal information.
- We have formulated a series of internal protocols regarding data security and privacy, such as Policy on Data Security and Information Management (數據及信息安全管理制度), which outlines our company-level policies towards data collection and storage, and Policy on Data Backup and Recovery Management (備份恢復管理制度), which details the normative protocols we follow for data backup and recovery. Furthermore, we have also formulated a Plan of Cybersecurity Emergency Response (信息安全總體應急預案) to strengthen our emergency responses in the event of a cybersecurity incident.
- We have adopted a series of internal policies such as the Personal Information Protection Management Policy (個人信息保護管理制度), the Policy on Personal Information Compliance and Audit (個人信息合規審計制度), and the Policy on App for Personal Information Protection Management (App個人信息保護管理制度),

BUSINESS

provided regular employee trainings, and appointed a data security management team to supervise the overall work in respect of personal information and privacy protection, and to ensure our compliance with PIPL.

- Additionally, we train new employees on data security and privacy awareness at the beginning of their employment, conduct regular information security training for employees who process data, and take back the physical and logical access of departing employees in a timely manner.

During the Track Record Period, we did not experience any material information leakage or loss of user information in the PRC or any overseas market.

BRANDING AND MARKETING

We believe brand recognition is critical to our ability to attract users and establish and retain business collaboration with quality hosts and talent agencies, and our general marketing efforts are designed to enhance our brand awareness and reputation among the user and host communities. We have implemented various marketing and promotional measures to promote our products and services. We hold different offline marketing activities to enhance our brand recognition, attract new users to our platform, increase user stickiness, and promote hosts on our platform. In 2016, we held a performance event featuring many of our hosts, *Night of Huajiao*, nicknamed as the Oscar in the live streaming industry, which greatly promoted the recognition of our brand among viewers and hosts. In 2017, we jointly organized *Night of Huajiao* with Beijing Media Network, which was broadcast simultaneously on Beijing Television and attended by many internet influencers, celebrities and eminent hosts. Such offline events have significantly improved our brand recognition and promote our brand name. In addition to offline events, we promote our platform and attract new users through advertisements on popular social media platforms and placement channels, such as mobile device manufacturers, app developers and search engines developers. We also collaborate with overseas internet influencers to increase the download volume of our platforms, through content created by our hosts and their interactions with users. We believe word-of-mouth marketing has also helped us achieve, and continue to drive, organic growth of our user base.

CUSTOMERS

Our customers primarily include a large and diverse base of individuals who purchase virtual items which are gifted to the hosts and other value-added services on our platform. In each year/period during the Track Record Period, the aggregate revenue generated from our top five customers, all of them were individuals, were RMB63.4 million, RMB167.9 million, RMB133.0 million and RMB76.9 million, respectively, accounting for 2.2%, 4.6%, 2.9% and 3.7% of our total revenues for the same years/period, respectively. In the same years/period, our revenue from the single largest customer amounted to RMB17.7 million, RMB80.1 million, RMB29.7 million and RMB39.2 million, respectively, accounting for 0.6%, 2.2%, 0.6% and 1.9% of our total revenue, respectively. Based on information obtained from the top five customers, such customers are high-net-worth individuals working in industries such as

BUSINESS

internet, finance, construction, among others. The revenue contributed by top five customers increased significantly in 2020, which we believe was in line with our overall revenue growth. In addition, we introduced more platform events, PK features and PK ladder tasks in 2020 to increase user engagement. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, none of the above major customers was a connected person.

SUPPLIERS

Our suppliers primarily include hosts who stream on our platform or their associated talent agencies, promotion and marketing channel, and bandwidth and server custody service providers. We typically have over three years of business dealings with our major suppliers. We strive to have at least two candidates for each type of our suppliers to minimize any potential disruption in our operations, maintain sourcing stability, avoid over-reliance risk, and secure competitive pricing from suppliers. During the Track Record Period, we did not experience any interruption of supply or early termination of supply agreements that had any material adverse impact on our business or results of operations. We also seek to control our procurement costs by strengthening our internal controls. Our employee handbooks contain anti-bribery clauses, and to the best knowledge of our Directors, none of our employees received any kickback from our suppliers.

In each year/period during the Track Record Period, purchases from our five largest suppliers were RMB342.4 million, RMB420.6 million, RMB561.5 million and RMB327.6 million, respectively, accounting for 14.2%, 13.8%, 13.9% and 15.4% of our total purchases for the same years/period, respectively, and purchases from our largest supplier were RMB131.1 million, RMB119.3 million, RMB151.6 million and RMB103.0 million, respectively, accounting for 5.5%, 3.9%, 3.8% and 4.8% of our total purchases for the same years/period, respectively.

BUSINESS

The following table sets forth the details of our five largest suppliers during the Track Record Period.

<u>Rank</u>	<u>Supplier</u>	<u>Type of products/ services provided</u>	<u>Principal business</u>	<u>Year of commencement of business relationship</u>	<u>Purchase amount</u> <i>(RMB'000)</i>	<u>Percentage of our total purchase</u>
<i>For the year ended December 31, 2019</i>						
1	Supplier A	Streaming service	Talent agency service	2016	131,143	5.5
2	Supplier B	Marketing	Internet marketing service	2018	64,945	2.7
3	Supplier C	Streaming service	Talent agency management service	2017	55,398	2.3
4	Supplier D	Marketing	Marketing service on mobile applications	2016	46,738	1.9
5	Supplier E	Streaming service	Talent agency service	2018	44,211	1.8
Total					342,435	14.2
<i>For the year ended December 31, 2020</i>						
1	Supplier F	Streaming service	Talent agency service	2019	119,289	3.9
2	Supplier A	Streaming service	Talent agency service	2016	116,640	3.8
3	Supplier G	Marketing agency service	Marketing service on mobile applications	2020	65,091	2.1
4	Supplier H	Streaming service	Talent agency service	2019	60,167	2.0
5	Supplier I	Streaming service	Talent agency service	2019	59,410	2.0
Total					420,597	13.8

BUSINESS

<u>Rank</u>	<u>Supplier</u>	<u>Type of products/ services provided</u>	<u>Principal business</u>	<u>Year of commencement of business relationship</u>	<u>Purchase amount</u>	<u>Percentage of our total purchase</u>
					<i>(RMB'000)</i>	
<i>For the year ended December 31, 2021</i>						
1	Supplier J	Streaming service	Talent agency service	2020	151,584	3.8
2	Supplier K	Streaming service	Talent agency service	2021	122,080	3.0
3	Supplier L	Streaming service	Talent agency service	2019	104,696	2.6
4	Supplier I	Streaming service	Talent agency service	2020	93,509	2.3
5	Supplier F	Streaming service	Talent agency service	2019	89,653	2.2
Total					<u>561,522</u>	<u>13.9</u>
<i>For the five months ended May 31, 2022</i>						
1	Supplier M	Streaming service	Talent agency service	2021	102,989	4.8
2	Supplier N	Streaming service	Talent agency service	2020	89,974	4.2
3	Supplier O	Marketing agency service	Marketing service on mobile applications	2020	53,240	2.5
4	Supplier L	Streaming service	Talent agency service	2019	42,628	2.0
5	Supplier P	Streaming service	Talent agency service	2021	38,722	1.8
Total					<u>327,553</u>	<u>15.4</u>

As of the Latest Practicable Date, none of our Directors, their associates or any existing Shareholders which, to the best knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, had any interest in any of our five largest suppliers.

Licensing Agreement with MCSC

We have entered into an agreement with the MCSC, which allows us to use music content licensed by the MCSC on our platform. Major terms of our agreement with the MCSC are set forth below.

- *Licensing scope.* MCSC authorizes Huafang Technology and Mijing Hefeng to use and download work products of MCSC's members.
- *Duration.* The duration of the agreement is typically three years.
- *Payment.* We pay a base fee plus certain percentage of our revenue generated from virtual gifts and advertisements resulted from the use of music from the MCSC.
- *Termination.* We are entitled to terminate the agreement if the other materially breach the agreement and vice versa.

Cooperation with App Distribution Channels

We are required to comply with the standard terms and condition of the various application stores, including Apple's App Stores. Apple's App Stores charges 30% of the total transaction amount as process fees. Other application stores typically do not charge transaction process fees. All of such distribution channels have rights to remove our mobile apps from their app stores if we are deemed to violate their terms and conditions.

Prior to being acquired by us in December 2020, *Monkey* and *HOLLA* were removed from Apple's App Store in January 2020 for alleged violation of Apple's terms of services relating to user-generated content, although Apple did not specify the users or content that allegedly violated its terms of services. Due to the removal of *Monkey* and *HOLLA* from Apple's App Store, from January 2020 to the Latest Practicable Date, *Monkey* and *HOLLA* apps could not be downloaded from Apple's App Store, but the existing users were still able to access these apps if downloaded prior to the removal. Nonetheless, *HOLLA* and *Monkey* apps remained available on Google Play marketplace when the apps were removed from Apple's App Store. In addition, from January 2020 to the Latest Practicable Date, users could download *HOLLA* from other app stores and distribution channels. The number of cumulative registered users of *Monkey* and *HOLLA* in aggregate increased from 16.1 million as of December 31, 2019 to 29.7 million as of December 31, 2020, representing a growth rate of approximately 85.0%, which was slower than the growth rate of over 800% in 2019, mainly due to the removal of *Monkey* and *HOLLA* from Apple's App Store.

After the acquisition of *HOLLA* Group in December 2020, we have adopted more stringent internal control policy over many aspects of the operations of our social networking products, including user reporting system and AI text classification and moderation, among others, to reduce user generated contents that could potentially violate distribution channels' terms of services. Specifically, we expanded the categories for user reporting, allowing them

BUSINESS

to report on improper user behavior or information, such as bullying behavior. An AI-based text filter and classification system has also been implemented, which allows us to detect and remove harmful content before it reaches end-users. This system utilizes natural language processing AI to accurately identify inappropriate content and scans in real time for text form of violations and to detect inappropriate user behavior in video chat. We have also launched Web client for *Monkey*, and increased our efforts in promoting Web clients of *Monkey* and *HOLLA*, primarily by leveraging influencer marketing and search engine advertising. As of the Latest Practicable Date, *HOLLA* was accessible from Google Play and the overseas app stores of Xiaomi, Samsung and Oppo, among others, and *Monkey* was downloadable from Google Play. After our acquisition, the number of cumulative registered users of *Monkey* and *HOLLA* in aggregate increased to 56.7 million as of December 31, 2021, representing annual growth rate of approximately 90.6%, and further increased to 64.5 million as of May 31, 2022. The average MPUs of *Monkey* and *HOLLA* in aggregate for the year ended December 31, 2021 and for five months ended May 31, 2022 was 42,596 and 53,863, respectively. Considering the increase in the cumulative registered users and average MPUs of *Monkey* and *HOLLA* after our acquisition, our Directors are of the view that our business was not materially affected because of such removal as we acquired HOLLA Group and the related overseas social networking products in December 2020, at which point and up to the Latest Practicable Date, *HOLLA* and *Monkey* could be accessed from other prominent online distribution channels.

SEASONALITY

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

INTELLECTUAL PROPERTY

We protect our intellectual property rights through a combination of copyright, trademark and other intellectual property laws, as well as confidentiality and license agreements with our employees, suppliers, customers and others. In general, our employees must enter into a standard confidentiality agreement acknowledging that all inventions, trade secrets, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works. Despite our precautions, however, third parties may obtain and use intellectual property that we own or

BUSINESS

license without our consent. During the Track Record Period and up to the Latest Practicable Date, we did not find any of such breaches of our intellectual property rights. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See “Risk Factors — Risks Related to Our Business — Unauthorized use of our intellectual properties by third parties may harm our brands and reputation, and the expenses incurred in protecting our intellectual property rights may materially adversely affect our business.”

As of the Latest Practicable Date, we owned 56 registered domain names in China. We generally renew our domain name registrations once every year and applications for their renewal are usually automatically made prior to their expiration. Under normal circumstances, the domain name registrations take effect immediately after the payment of renewal fees. As of the Latest Practicable Date, all of our registered domain names remained in effect. If any of our domain name registrations cannot be renewed for any reason, the domain name registrar may deregister the relevant domain name.

As of Latest Practicable Date, we held 277 software copyrights registered in China and 406 trademarks in various categories and registered in China.

We did not have any other material pending legal proceedings of intellectual property rights with third parties during the Track Record Period and up to the Latest Practicable Date. For details of our material intellectual property rights, see “Appendix IV — Statutory and General Information — B. Further Information about Our Company’s Business — 2. Intellectual Property Rights.”

COMPETITION

As an online entertainment platform that caters to a diverse range of users on both mobile apps and PC clients, we compete with other social entertainment platforms offering similar products and services. In addition, other major companies in the internet industry have established their own live streaming businesses and compete with us for user time. For our overseas products, we compete with regional and global social entertainment platforms that offering online video entertainment and social discovery services.

We believe that our ability to compete effectively depends upon many factors, including the size, composition and engagement of our user base, our ability to adjust to rapid advancements in technology and user demands, our marketing and selling efforts, and the strength and reputation of our brand.

As we directly compete with other entertainment live streaming platforms that focus on entertainment content offerings, we consider such platforms as our direct competitors. Our direct competitors primarily include, among others, *Kugou Live & Kuwo Live* under Tencent Music Entertainment Group, *YY Live* under Baidu, *Inke Live* under Inkeverse, *Now Zhibo* under Tencent, and *Yi Zhibo* under Weibo. Nonetheless, we are inevitably exposed to varying degrees

of competition from other players in China's online video social entertainment industry that offer content options and services broader than ours, such as *Kuaishou* under Kuaishou Technology and *Douyin* under Douyin Group. In particular, we may indirectly compete with such players for (1) user time and (2) cooperation opportunities with well-established talent agencies and viable hosts. Our users may be attracted to gaming or e-commerce-related live streaming content offered by these players, therefore reducing user time spent on our platform. Meanwhile, we may also indirectly compete with these players for talent agencies and hosts, especially those who could become prominent hosts on our platform. Furthermore, the quality of live streaming content on our platform could also be adversely affected if we fail to attract and groom viable hosts. See also "Risk Factors — If we fail to attract, groom and retain hosts or maintain our relationship with talent agencies, hosts may cease to produce content, and we may experience declines in the number of users accessing our platform and in the user engagement."

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

- *Quality improvement for our content offerings.* We believe that the quality of our entertainment live streaming content could be improved by our trainings complementary to our hosts, among others. In particular, we invest resources in training viable hosts, offering a series of online and offline training sessions on live streaming operations, content creation, and communication techniques and manners, delivered by both our in-house streamer associations or third-party streamer associations or MCNs. Our operational staff continuously impart their knowledge and experience accumulated during the course of their daily work to hosts through "on-the-job" training, and they may also pair more experienced hosts with novice hosts for one-on-one training sessions, so that these novice hosts can hone their live streaming skills. In addition, we contact promising hosts and provide them with customized trainings and encourage them to stimulate and involve their viewers to maximize user engagement and produce entertaining user-generated content. We also plan to improve the quality of content on our platform by establishing host training teams, leasing properties for offline live streaming bases, and setting up host training camps. See "Future Plans and Use of Proceeds."
- *User experience improvement.* For improving user experience on our platform, we have developed a series of special features, including H.265 technology, AI video special-effect technology, virtual background features, special effect recognition features for screen gestures, expression transfer features, "hand puppet" and "finger heart" features, and customizable gifts supported by 3D engine technology. See

BUSINESS

“Business — Technology.” For further user experience improvement, we plan to (1) continue developing machine learning algorithms and multi-objective optimization technology for deeper insights into user preferences, (2) invest in our computer vision and graphics capabilities to further encourage interaction on our platform, and (3) upgrade live streaming technology for higher video quality, lower latency and transmission stability under various network conditions. See “Future Plans and Use of Proceeds.”

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

For risks relating to our competitiveness in the industry, see “Risk Factors — Risks Related to Our Business — The markets in which we operate are highly competitive, and we face significant competition in many major aspects of our operations. If we fail to compete effectively, our business, financial condition, results of operations and prospects may be materially and adversely affected.”

BUSINESS

EMPLOYEES

As of May 31, 2022, we had 623 full-time employees, all located in China. The following table sets forth the number of our employees by function as of May 31, 2022:

Function	As of May 31, 2022	
	<i>Number</i>	<i>%</i>
Sales and marketing	52	8.3
Technology, research and development	254	40.8
Business operations	92	14.8
General and administrative	84	13.5
Content monitoring	103	16.5
Customer service	38	6.1
Total	623	100.0

We primarily recruit our employees in China through recruitment agencies, on-campus job fairs and online recruiting channels, including our corporate website, job search websites and social networking platforms. We provide on-the-job training to our boarding employees. We also provide external training opportunities to selected employees during their course of employment. As part of our strategies to expand overseas markets, we also actively recruit employees with overseas education and work experience, who are familiar with the culture of our overseas target markets. Since our products and services primarily aim to retain and attract younger generation of users, our strive to attract younger generation of qualified employees. As of May 31, 2022, more than 50% of our employees aged below 30 and more than 11% of our employees aged below 25.

As required under PRC regulations, we participate in various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans. We are required under PRC laws to make contributions to employee benefit plans at specified percentages of the salaries. Bonuses are generally discretionary and based in part on employee performance and in part on the overall performance of our business. During the Track Record Period, we paid relevant social insurance and housing provident fund contributions for our employees in compliance with PRC regulations. We also purchase commercial insurance for regular employees and joint insurance for the family members of them. The types of insurance we purchase cover severe disability, serious illness and traffic accident insurance. We also purchase health insurance for senior executives and other key employees.

We believe that we maintain a good working relationship with our employees, and we had not experienced any material labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period and up to the Latest Practicable Date.

PROPERTIES

We do not own any real properties. As of the Latest Practicable Date, we operated our business through nine leased properties in Beijing, Tianjin, Baoding, Chengdu and Hainan. Our leased properties in China serving as our offices are considered as non-property activities under Rule 5.01(2) of the Listing Rules. Even if we experience temporary interruption to our usage of any of our leased office space, we believe that our employees can continue to perform the material aspects of their duties remotely, and that our offices in other or alternative locations can adequately support the functioning of our business operations in areas where we experience temporary office space interruptions through our technology infrastructure.

As of the Latest Practicable Date, our leased properties had a total gross floor area of approximately 8,500 square meters, with the gross floor area of each leased property ranging from approximately 10 square meters to 6,200 square meters. The relevant lease agreements have lease expiration dates ranging from the end of November 2022 to the end of November 2026, subject to an option to renew the lease.

No single property interest that forms part of non-property activities has a carry amount of 15% and no single property interest that forms part of property activities has a carry amount of 1%, of our total assets as of May 31, 2022. Accordingly, we are not required under Chapter 5 of the Listing Rules to value or include in this prospectus any valuation report of our property interests, and, pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Non-registration

Pursuant to the applicable PRC laws and regulations, property lease agreements must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部). The registration of such leases will require the cooperation of our lessors. As of the Latest Practicable Date, we had not obtained lease registration for certain of the leased properties used as general offices in China, primarily due to the difficulty of procuring our lessors' cooperation to register such leases. We will take all practicable and reasonable steps to ensure that such leases are registered. As advised by our PRC Legal Advisor, the lack of registration of the lease agreements will not affect the validity of such lease agreements.

According to the relevant PRC laws and regulations, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each

BUSINESS

non-registered lease. As of the Latest Practicable Date, we had not received any such request or suffered any such fine from the relevant government authorities. We undertake to cooperate fully to facilitate the registration of lease agreements once we receive any requirements from relevant government authorities.

INSURANCE

In line with general market practice, we do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws. We do not maintain insurance policies covering damages to our technology infrastructure or properties. We also do not maintain insurance policies against risks relating to the Contractual Arrangements. During the Track Record Period, we did not make any material insurance claims in relation to our business. Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material adverse effect on our results of operations. See “Risk Factors — Risks Related to Our Business — Our limited insurance coverage could expose us to significant costs and business disruption.”

LEGAL PROCEEDINGS

We are subject to legal proceedings, investigations and claims arising in the ordinary course of our business from time to time. We were involved in 16 copyright infringement claims with certain third parties, including MCSC and entertainment companies initiated during the Track Record Period. Specifically, Mijing Hefeng was named as the defendant in one lawsuit with MCSC for alleged unauthorized use of the music copyrights by hosts during their live streaming sessions, and we paid MCSC RMB50,000 to settle the dispute. Mijing Hefeng was named as the defendant in eight copyright infringement lawsuits, among which, Mijing Hefeng compensated approximately RMB5,500 to the plaintiff in one copyright infringement case involving the unauthorized use of copyrighted comics in promotion activities, and the one case involving alleged unauthorized use of copyrighted novel during streaming session was dismissed. The remaining six lawsuits involving alleged unauthorized use of copyrighted music were withdrawn by the plaintiffs before final judgment. Holla Technology (formerly known as Mizhi Technology), a subsidiary of Huafang Technology, was named as the defendant in two copyright infringement disputes relating to use of copyrighted anime and music product by Holla Technology, and we paid RMB108,000 to settle the disputes. During the Track Record Period, Huafang Technology was named as the defendant in six copyright infringement disputes relating to the use of copyrighted music during live streaming sessions by three entertainment companies, two were withdrawn by the plaintiffs, and we were ordered to compensate the plaintiffs in three cases for RMB7,000 in aggregate, and one case was pending for final judgment as of the Latest Practicable Date. Due to the remaining one lawsuit of copyright infringement by Huafang Technology and Holla Technology pending for final judgment, the total unsettled claim amount was below RMB1.0 million, calculated based on the maximum amount subject to the claims and potential legal expenses sought from us. While we intend to defend these lawsuits vigorously and believe that we have valid defenses, there can be no assurance that a favorable outcome will be obtained. However, considering the

BUSINESS

nature of these lawsuits and the amount of subject matters thereof, our Directors are of the view that the total liabilities could be incurred resulting from the event of losing all of these lawsuits will not have material adverse impact on our business, financial condition and results of operations. See also “— Risk Management and Internal Control — Content and Hosts on Our Platform.” In addition, our cooperation agreements with hosts include standard indemnity provisions, pursuant to which the relevant host shall indemnify and hold harmless us against any and all claims, actions, damages, suit and liabilities that may be asserted by a third party against us in connection with the infringement of copyrights and intellectual properties by the relevant host. In considering whether to enforce indemnity provisions under cooperation agreements against hosts that have been adjudicated to have infringed music copyrights, we take into consideration a range of factors, including but not limited to, the costs and expenses associated with enforcement of such indemnity provisions, the monetary amount of judgment sums in respect of infringement cases, follow-up action or disciplinary action that has been taken against such hosts and whether such hosts continued to disregard music copyright protection and commercial relationship with such hosts. Based on the aforementioned factors, in particular the amount of damage actually incurred, which was not more than RMB60,000, we did not seek indemnification from hosts for litigation resulting from alleged copyright infringements during the Track Record Period.

Our hosts and their associated talent agencies may also have contract disputes with us from time to time. We were involved in 60 contract disputes with our hosts and/or their associated talent agencies that were initiated during the Track Record Period, among which 19 disputes were still pending for final judgments as of the Latest Practicable Date. Among the 60 contract disputes with hosts and/or their talent agencies, 53 were related to the breach of exclusivity clause in the respective cooperation agreement by our hosts, and the remaining disputes were primarily related to the settlement amount of revenue-sharing arrangement with hosts and/or talent agencies. For the 41 disputes with final judgments, we were the plaintiff in 34 disputes and were awarded an aggregated compensation of approximately RMB11.3 million, and we paid approximately RMB1.9 million in damages and/or settlement as the defendant for remaining seven disputes, all of which were primarily related to disputes with hosts and/or talent agencies for revenue-sharing determination. As for 19 pending disputes, we were plaintiff for 18 pending disputes with an aggregate contract claims of RMB23.1 million, and we were named as the defendant for remaining one pending dispute with a maximum potential damages of approximately RMB50,000, which relates to a talent agency’s failure to settle payment with its associated host, who also named us as a co-defendant along with the talent agency. Revenue contributed by hosts and talents agencies involved in these contract disputes was RMB73.2 million, RMB32.1 million, RMB20.5 million and RMB2.8 million in 2019, 2020, 2021 and the five months ended May 31, 2022, respectively, representing approximately 2.6%, 0.9%, 0.4% and 0.1% of our total revenue in the same periods, respectively. Due to the relatively small number of disputes and claim amounts, as compared to our large host cohort, and the fact that these contract disputes with hosts and talent agencies arose in the ordinary course of our business during the Track Record Period, our Directors are of the view that these disputes did not and will not have a material and adverse effect on our business, financial condition and results of operations.

Lingdong-related Arbitration

In connection with the Disposal of Beijing Lingdong as described in the section headed “History, Reorganization and Corporate Structure — Lingdong Acquisition and Disposal”, following the default in payment by Beijing Lingdong Founder and Beijing Rongyu, we have engaged qualified PRC legal advisors to advise on the potential arbitration proceeding against Beijing Lingdong Founder, Beijing Rongyu and Beijing Lingdong to recover the overdue portion of the Outstanding Consideration and the Dividend Distribution in the amount of RMB105,082,000 and losses incurred in connection with the default based on the arbitration clause set out in the Disposal Agreement (the “Potential Arbitration Proceeding”). On July 7, 2021, we reported the dispute with Beijing Lingdong Founder to the Beijing Xicheng branch of the Public Security Bureau (the “Public Security Bureau”). Based on our communication with the Public Security Bureau, given Beijing Lingdong Founder was the only person who negotiated with us in relation to the Disposal of Beijing Lingdong, we requested the initiation of criminal investigation over the alleged misconduct of Beijing Lingdong Founder in connection with the default of the Outstanding Consideration and the Dividend Distribution (the “Criminal Investigation,” together with the Potential Arbitration Proceeding, the “Ongoing Legal Proceeding”). As represented by the management of Huafang Technology, Huafang Technology made the indictment submission to accuse Beijing Lingdong Founder of contract fraud and embezzlement to the Public Security Bureau. As of the Latest Practicable Date, we had received the notice from the Public Security Bureau that it had decided to initiate criminal investigation over the alleged misconduct of Beijing Lingdong Founder in respect of misappropriation of funds.

We have also engaged Beijing Rongtai Law Firm (the “Arbitration Counsel”) to advise the Potential Arbitration Proceeding against Beijing Lingdong Founder, Beijing Lingdong and Beijing Rongyu and provide an opinion as to (1) the likelihood of prevailing in the Potential Arbitration Proceeding against Beijing Lingdong Founder, Beijing Lingdong and Beijing Rongyu, and (2) whether the Potential Arbitration Proceeding would have any material adverse impact on our business operations and financial condition. Pursuant to applicable dispute resolution procedures in China, as of the Latest Practicable Date, the Potential Arbitration Proceeding was pending the investigation result of the Criminal Investigation, which was ongoing as of the same date.

Having considered the facts and circumstances, the underlying evidence and documentation and having conducted interviews with our management, the Arbitration Counsel has advised us that:

- the claims against Beijing Lingdong Founder in connection with the default of Beijing Lingdong Founder and Beijing Rongyu under the Disposal of Beijing Lingdong are more likely to be supported by the arbitration tribunal or the court on the basis that (1) pursuant to the terms of the Disposal Agreement, Fang Qi and Beijing Lingdong are contractually obligated to make payment of the Dividend Distribution, failing which would constitute a breach of contract by Fang Qi and Beijing Lingdong, and impose on them further obligation to make payment of the

BUSINESS

Dividend Distribution and other losses thereof; (2) pursuant to the terms of the Disposal Agreement, Beijing Rongyu is contractually obligated to make payment of the Outstanding Consideration, failing which would constitute a breach of contract by Beijing Rongyu, and impose on it further obligation to make payment of Outstanding Consideration and other losses thereof; and (3) relevant evidence could support the determination that Fang Qi ultimately controlled Beijing Rongyu during the relevant period, and therefore he should be jointly and severally liable for Beijing Rongyu's default under the Disposal Agreement; and

- considering that Huafang Technology is the plaintiff in the Potential Arbitration Proceeding, the Potential Arbitration Proceeding would not have any material adverse impact on its business operations and financial condition.

The Directors, after taking into account the advice from the Arbitration Counsel and the distinctive business nature and separate operations of Beijing Lingdong, are of the view that the Disposal of Beijing Lingdong and the Ongoing Legal Proceeding would not have any material adverse impact on our business operations or financial condition.

COMPLIANCE

Current effective laws and regulations in relation to real-name registration requirement on internet live-streaming platforms like us are the Internet Live Streaming Service Management Regulations, the Provisions on the Administration of Internet Audio and Video Information Services, the Provisions on the Administration of Internet User Public Account Information Services, the Opinions on Regulating Virtual Gifting to Strengthen the Protection of Minors, and the Provisions on the Administration of Internet User Account Information.

To comply with the above laws and regulations, during the Track Record Period and up to the Latest Practicable Date:

- (1) We collect mobile phone numbers of users when they register accounts on our platform. Before August, 2022, as an alternative, if users chose to use their IDs associated with other platforms such as Weibo, WeChat or QQ for registration, we collected users' IDs associated with these platforms, which had been registered on users' mobile phone number or other personal information through SDKs. Since August 1, 2022, under the guidance of the CAC, we have started to collect mobile phone numbers of all new and active users on our platform; and
- (2) We require all hosts to undergo real-name registration and facial recognition, and collect their personal information when they register host account on our platform.

We also request each of the users to agree to the terms and conditions set forth in the user agreements of our platform, pursuant to which, each user undertakes to, among others, use authentic identity and personal information to register an account, confirm he/she reaches the age of eighteen and authorize us to verify the authenticity of personal information provided.

BUSINESS

We have also adopted various measures and made significant efforts to comply with the requirement of minor protection and restrictions on minors on virtual gifting. These measures include establishing and continuing to upgrade youth mode, setting up a specialized customer service team to handle complaints related to virtual gifting by minors using the account of others, and managing hosts on our platform to prevent them from encouraging or soliciting virtual gifts from potential minor users, among others. See “ — Risk Management and Internal Control — Minor Protection and Virtual Gifting Management” and “— Content and Hosts on Our Platform.”

Based on consultation with the Beijing Radio and Television Bureau on March 29, 2022 and the NRTA on April 1, 2022, we have not been subject to any administrative penalties. According to the written confirmation from relevant provincial and municipal cultural administrative enforcement divisions, we have not been subject to any administrative penalties related to the aforementioned regulations during the Track Record Period.

Based on the above, our PRC Legal Advisor is of the view that we have adopted measures to implement the requirement stipulated in the current effective laws and regulations, and have fulfilled the prevailing real-name registration regulatory requirements during the Track Record Period and up to the Latest Practicable Date.

In addition to the abovementioned regulations, we are also subject to the Code of Conduct for Streamers. According to the Code of Conduct for Streamers which took effect on June 8, 2022, (1) for live streaming content that requires a high level of professional competency (such as medical and health care, finance, law and education), streamers should obtain the corresponding practice qualifications and report the practice qualifications to the live streaming platforms, and the live streaming platforms should review and record the relevant qualifications; (2) during live streaming sessions, streamers shall not behave extravagantly or waste food, flaunt luxury goods, jewelry and other assets, or display sexually suggestive and provocative content; (3) live streaming platforms shall establish comprehensive internal policies to manage their streamers, covering various aspects of operations, from recruitment, training, daily management, performance evaluation to violation record management, and shall provide incentives to streamers who display positive qualities and abide by the Code of Conduct, and reprimand and discipline hosts who have violated the Code of Conduct, and ban the account of streamers who have repeatedly violated the Code of Conduct or applicable rules and regulations.

Our live streaming platform primarily provides entertainment live streaming content, including music, dance, and social networking, among others. Our platform does not have specialized live streaming categories that require a high level of professional competency. In addition, our community guidelines and green live streaming convention require hosts to adhere to a healthy style and taste, and to consciously oppose undesirable behaviors such as money worship, waste of food, flaunting of extravagant lifestyle, and to proactively strengthen self-development and learning. In addition, our community guidelines also require hosts who plan to create content involving a high level of professional competency to obtain the corresponding practice qualifications and to provide such qualifications to us, so that we can

BUSINESS

review and maintain a record of such qualifications. We have established a series of internal policies and talent fostering system, which manage hosts recruitment, training, content creation and review, host classification and credit management, dress code behavior standards, user management, thread comments, and inspection management. We have also formulated community guidelines and green live streaming convention, which have been prominently displayed on our platform and have set forth clear requirements for hosts' code of conduct. We impose various degree of penalties on hosts based on the specific types of violations and transgression. Furthermore, we have adopted a content review mechanism that combines AI technologies and manual content review. Our content review team consisted of more than 220 members as of May 31, 2022. Through our content review mechanism, we monitor streaming activities on our platform, and prevents the aforementioned inappropriate or illegal content from being displayed on our platform. We have the right to suspend live streaming sessions and to impose bans or other types of penalties on hosts for displaying content in violation of our internal policies or relevant laws and regulations.

Based on the above analysis, our PRC Legal Advisor is of the view that, save as disclosed in “— Content Screening and Review — Regulatory Incidents Involving Contents and Hosts,” we have fully complied with the applicable requirements under the Internet Live Streaming Service Management Regulations, the Code of Conduct for Streamers, and other effective laws and regulations during the Track Record Period and up to the Latest Practicable Date.

LICENSE AND REGULATORY APPROVALS

As confirmed by our PRC Legal Advisor, we have obtained all licenses, permits and certificates from the relevant regulatory authorities that are necessary to conduct our operations in material aspects. We closely monitor the regulatory development governing our industry and operations. As advised by our PRC Legal Advisor, nothing has come to their attention that would cause them to believe that there are material impediments to renew licenses, permits and certificates material to our operations upon their expiration as of the Latest Practicable Date. However, to the extent that we are unable to renew such licenses, permits and/or certificates, we may be required to adjust or temporarily suspend our operations, which may adversely affect our business and results of operations. For details, see “Risk Factors — Risks Related to Our Business — If we fail to obtain requisite approvals, licenses or permits applicable to our business or to comply with applicable laws and regulations, our business, results of operations, financial condition and prospects may be materially and adversely affected.” The following table sets out a list of material licenses, permits and approval currently held by us.

BUSINESS

<u>License/Permit</u>	<u>Entity Holding the License/Permit</u>	<u>Expiration Date</u>
Online Culture Operating License	Huafang Technology	November 22, 2025
ICP License	Huafang Technology	June 8, 2026
Commercial Performance License	Huafang Technology	June 29, 2024
Information Network Dissemination of Audio-Visual Programs Permit	Huafang Technology	February 13, 2024
Online Culture Operating License	Mijing Hefeng	June 24, 2025
ICP License	Mijing Hefeng	November 12, 2026
National Network Audio-Visual Platform Information Registration Management System	Mijing Hefeng	September 25, 2022 ⁽¹⁾
Commercial Performance License	Holla Technology	April 17, 2023
Online Culture Operating License	Holla Technology	December 11, 2022 ⁽²⁾
ICP License	Holla Technology	June 20, 2023
Online Culture Operating License	Huafang Canlan	April 17, 2025
Radio and Television Program Production and Operation License	Huafang Canlan	June 30, 2023
Commercial Performance License	Huafang Canlan	July 9, 2023
ICP License	Huafang Canlan	April 25, 2026
Online Culture Operating License	Maijike	December 13, 2023
ICP License	Maijike	July 12, 2024
Online Culture Operating License	Sichuan Huayin	May 20, 2025
ICP License	Sichuan Huayin	August 1, 2024
Online Culture Operating License	Chengdu Huayang	July 24, 2022 ⁽²⁾⁽³⁾
ICP License	Chengdu Huayang	September 22, 2025
Radio and Television Program Production and Operation License	Chengdu Huayang	May 30, 2024
Online Culture Operating License	Ruzuo Technology	January 11, 2024
ICP License	Ruzuo Technology	April 25, 2026
Online Culture Operating License	Hainan Kailin	July 29, 2024
ICP License	Hainan Kailin	August 13, 2026

(1) As of the Latest Practicable Date, Mijing Hefeng was in the process of renewing its filing with the National Network Audio-Visual Platform Information Registration Management System. During the renewal period, the Registration Management System can be operated normally. As confirmed by our PRC Legal Advisor, based on their consultation with BMRTB, there is no substantial obstacle to the renewal.

(2) As confirmed by our PRC Legal Advisor, there is no substantial obstacle to the renewal upon expiration.

(3) According to the notification of the MCT, if the relevant license including Online Culture Operating License expires during the period from July 1, 2022 to December 31, 2022, the license renewal period shall be calculated based on the six-month extension of the original expiration date and during the extended issuance period, the relevant licenses shall be deemed to be in normal existence. Considering the expiration date of our Online Culture Operating License has been extended to January 24, 2023 according to such notification, we undertake to submit our renewal application in December 2022.

BUSINESS

AWARDS AND RECOGNITION

During the Track Record Period and up to the Latest Practicable Date, we received a number of awards and recognitions in connection with our business. Some of the significant awards and recognitions we have received are set forth below.

Awards and Recognition	Awarding Parties	Year of Award
China's Top 100 Internet Companies (中國互聯網百強企業) in 2017, 2018, 2019, 2020 and 2022	China's Internet Association and Information Center of the Ministry of Industry and Information Technology of China	2017–2020, 2022
National High-Tech Enterprise (高新技術企業)	Ministry of Science and Technology of China	2019
Secretary General of Internet Performance (Live Streaming) Branch of China Association of Performing Arts (中國演出行業協會網絡表演(直播)分會秘書長單位)	China Association of Performing Arts	2017
Vice President of Beijing Internet Culture Association (北京網絡文化協會副會長單位)	Beijing Internet Culture Association	2020
Member of China's Internet Association (中國互聯網協會會員單位)	China's Internet Association	2015

RISK MANAGEMENT AND INTERNAL CONTROL

We have designated responsible personnel in our Company to monitor the ongoing compliance by our Company with the relevant PRC laws and regulations that govern our business operations and oversee the implementation of any necessary measures. In addition, we plan to provide our Directors, senior management and relevant employees with continuing training programs and/or updates regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identify any concerns and issues relating to any potential non-compliance.

In addition, we have adopted a set of internal rules and policies governing the conduct of our employees. We have established a monitoring system to implement anti-bribery and anti-corruption measures and ensure that our employees comply with our internal rules and

BUSINESS

policies as well as the applicable laws and regulations. For example, our internal audit committee regularly organizes employees to attend educational events about business ethics and provides employees with an effective feedback channel, so as to help employees develop an anti-corruption awareness and encourage mutual supervision among each other. Our internal audit committee also regularly reports to the management team regarding its work progress. We have also highlighted certain prohibitions in our internal anti-bribery and anti-corruption policies, including, among others, acceptance of bribes or rebates, embezzlement or misappropriation of corporate assets, and forgery or alteration of accounting records. We offer compulsory training courses to our onboarding employees and continuing training to our existing employees to enhance their knowledge and awareness of the relevant rules and regulations. We also keep abreast of the latest regulatory updates and communicate with the relevant regulatory authorities from time to time to discuss the latest regulatory requirements in light of the evolving nature of the live streaming industry.

We have appointed Goldlink Capital (Corporate Finance) Limited as our compliance advisor with effect from the date of the Listing to advise on ongoing compliance with the Listing Rules and the applicable securities laws and regulations in Hong Kong.

During the Track Record Period, our Directors did not identify any material internal control weaknesses or failures. Our Directors are of the view that we have adequate and effective internal control procedures, that the suitability and competency of our Directors is compliant with Rules 3.08 and 3.09 of the Listing Rules, and that our Company is suitable for listing under Rule 8.04 of the Listing Rules.

Minor Protection and Virtual Gifting Management

The NRTA promulgated the Notice 78, which sets forth registration requirements for platforms providing online show live streaming or e-commerce live streaming as well as requirements for real-name registration, limits on user spending on virtual gifting, prohibitions of virtual gifting by minors, live streaming review personnel requirements, content tagging requirements and other requirements. For more information on Notice 78, see “Regulations — Regulations Relating to Online Live Streaming Services.” The laws, regulations and drafts in the current form, including the May 7 Opinions, as set out in section headed “Regulation — Regulation Relating to Minor Protection” require that, among others: (1) live streaming platforms are not allowed to provide minors under age 16 with online live streaming host account registration service, and must obtain the consent from parents or other guardians and verify the identity of the minors before allowing minors aged 16 or above to register live streaming host accounts; (2) minors and users without real-name registration are prohibited from virtual gifting; (3) live streaming platforms shall implement and continue to improve anti-addiction system and youth mode system, log off all services in such youth mode after 10:00 PM on a daily basis, and establish a customer service team to promptly process and settle relevant complaints and disputes relating to minors; and (4) live streaming platforms shall cancel all gifting leaderboards and are prohibited from evaluating the performance of hosts solely based on the amount of virtual gifts received.

BUSINESS

We have taken various measures and made significant efforts to comply with the foregoing relevant requirements of real-name registration, restrictions on minors on virtual gifting and certain other requirements:

- (1) Pursuant to our policies, the minimum age requirement to register as a user or as a host on the our live streaming products is 18. We have required real-name registration from all hosts on our platform through collecting their personal information such as names and identification numbers since our inception. There was no minor with host accounts on our live streaming platform during the Track Record Period and up to the Latest Practicable Date. Prior to August 1, 2022, we have collected mobile phone numbers of our users when they register accounts on our platform. As an alternative, if users choose to use their IDs associated with other platforms such as Weibo, WeChat or QQ for registration, we will gather their IDs associated with these platforms which have been registered on users' mobile phone number or other personal information through SDKs, to satisfy the requirements of real-name registration. Since August 1, 2022, we have started to collect mobile phone numbers for all of our new users and active users. For more information, see "Business — Data Security and Privacy." In addition, we request users to agree to the terms and conditions set forth in the user agreements of our platform. Pursuant to the user agreements, each user undertakes to, among others, use the authentic identity and personal information to register an account, confirm they have reached the age of eighteen and authorize us to verify the authenticity of personal information provided to us. During the Track Record Period and up to the Latest Practicable Date, there was no incident of breach of such requirement. Nonetheless, we were the subject of nine complaints in relation to virtual gifting by minors using the account of others during the Track Record Period, for which we investigated each complaint relating to such incidents, refunded minor virtual gifting verified by us and closed relevant user accounts where appropriate.
- (2) We have set up and continuously upgraded our youth mode, which is intended for minors under 18 years old using the account of adults under supervision, since September 2019, which is available in all of our video-based and audio-based live streaming products in China, including *Huajiao*, *Naitang* and *6.cn*, and covers various aspects of minor usage, including internet addiction prevention and prohibitions of virtual gifting. Youth mode in all of our video-based and audio-based live streaming products in China have substantially similar functions, and are designed to provide minors with suitable content and prevent them from virtual gifting. When an adult user launches our app for the first time every day, the adult user can switch to the youth mode for minors under his or her supervision according to the pop-up prompt or settings in the app, and minors could browse or listen content whitelisted by our content team. Under the youth mode, we recommend content suitable for minors, such as live streaming related to documentaries, general education and health related topics. Virtual gifting is prohibited under the youth mode. In addition, we disable certain social features including bullet chatting, following and private message under the youth mode. Under youth mode, minors under supervision of adult users are granted limited access to our live streaming products for 40 minutes a day and longer

BUSINESS

access requires passwords set by adult users. Between 22:00 and 6:00 of the next day, we deny access to all of our video-based and audio-based live streaming products in China under youth mode. In 2019, 2020, 2021 and the five months ended May 31, 2022, the number of users who had switched to the youth mode at least once in the same period was approximately 1,100, 6,300, 7,800 and 2,700, respectively, representing less than 0.01% of the total number of registered users for our live streaming products as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. Compared with total number of registered users, there were very few users who switched to youth mode at least once during the relevant periods primarily because minors are not our target user group and are prohibited from making virtual gifts pursuant to relevant laws and regulations. We also have a specialized customer service team to handle complaints related to virtual gifting by minors using the account of others. We investigate each complaint, and will refund minor virtual gifting verified by us, and subsequently close the relevant user accounts. During the Track Record Period, we were the subject of nine complaints in relation to minors making virtual gifting using the accounts of their guardians. In each case, we examined the account information and relevant payment records provided to us. Based on our examination of account activities and payment records, we settled with and made appropriate refund to, four complaints. However, we concluded the investigation of the other five complaints without making refund, as there was insufficient evidence to prove that virtual items were purchased or gifted by minors. During the Track Record Period, we were not subject to any fines or other penalties from regulatory authorities involving virtual gifting or other streaming activities relating to minors or as a result of any of the aforementioned claims. As a result, our Directors are of the view that the impact of such complaints/disputes did not have a material and adverse impact on our operations and financial performance.

- (3) In addition to our youth mode and registration requirement, we have adopted policies to prevent minors from streaming or making virtual gifts using the account of others. For example, we prominently display warnings against soliciting virtual gifts from minors and streaming by minors in community feeds and in live streaming sessions. We leverage technologies such as AI algorithms to identify users that are suspected of being minors based on keyword searches on written messages. We monitor activities in live streaming sessions and will promptly suspend a live streaming session if the AI algorithms or our content review team identify suspected streaming by minors based on keyword searches on written messages, real-time surveillance and reports by users and hosts.
- (4) We have also implemented policies to regulate the activities of hosts to protect minors. We have emphasized our policies on minor protection with hosts and talent agencies, and will impose penalties on hosts if they were found to have solicited virtual gifting from minors. Such penalties include the return of fund gifted by minors and suspension or termination of host accounts. We also require hosts to promptly report to us when they believe their live streaming sessions are being viewed by minors, or when they notice that minors are making virtual gifts to them. Since June 2022, we have discontinued ranking hosts on our platform solely based

BUSINESS

on the monetary amount of virtual gifts received, and begun to evaluate factors such as daily tasks completed by hosts, number and activities of fan clubs, among others. We have also enhanced our management over streaming activities, such as limiting the number of real-time PK battles to two for each streaming room and suspending PK punishment mechanism, during the peak hours between 20:00 and 22:00 each day.

- (5) Although as advised by our PRC Legal Advisor, currently there are no regulations about the implementation details of the limitation on virtual gifting, we have adopted a number of measures to encourage users to closely monitor their spending on our platform. For example, we encourage users to turn on the gifting amount alert function and set their own daily virtual gifting limitation. We have also implemented a notification system, which delivers in-app messages to users when their top-up in a day reaches RMB10,000. We also remind users that minors are prohibited from making virtual gifts in these messages.
- (6) We have a content review team consisting of employees and contractors responsible to satisfy the requirement of the ratio of content analysts to online live streaming rooms under Notice 78. After the promulgation of Notice 78 and up to the Latest Practicable Date, we had maintained such ratio above 1:50 during the relevant period, we had maintained a content review team of more than 200 members, and the number of simultaneously active live streaming sessions was below 8,000 during all relevant time. For more information, see “Business — Content Screening and Review.”
- (7) According to Notice 78, platform shall implement label classification management for the content and hosts in the live broadcast rooms. During the Track Record Period, we had categorized our live streaming rooms and the corresponding hosts labeled as music, dance, outdoor, social networking or other types that do not require professional qualifications from hosts. Hosts on our platform are not allowed to change these labels without our review and final approval. Under each of these labels, there are certain different tags, such as gentle and humorous, for our hosts to more specifically introduce themselves and their live streaming rooms, which can be changed by hosts at any time.

In addition to the aforementioned measures implemented by us to comply with the relevant requirements of real-name registration and restrictions on virtual gifting by minors, we have consulted with relevant competent regulatory authorities with respect to the interpretation of requirements under Notice 78. As confirmed by consultations with relevant competent regulatory authorities on March 29, 2022 and April 1, 2022, (1) the relevant regulatory authority has not provided specific implementation guidelines of Notice 78; (2) Notice 78 has not stipulated any administrative penalties for any noncompliance; and (3) since the promulgation of Notice 78, the relevant regulatory authority has conducted several rounds of survey, examination and guidance on live-streaming platforms, and we have not been subject to any administrative penalties in connection with any non-compliance under Notice 78.

BUSINESS

During the Track Record Period and up to the Latest Practicable Date, the NRTA had not provided specific implementation guidelines of Notice 78, and we had not received any notice of enforcement actions or had been subject to any review, inquiry, investigation or administrative penalties in connection with any non-compliance under Notice 78.

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

Our PRC Legal Advisor is of the view that the aforementioned measures adopted by us are in compliance with relevant laws and regulations with respect to minor protection, real-name registration, as well as the requirement stipulated under April 12 Notice and May 7 Opinions. In addition, according to the iResearch Report, we have also taken the measures that are widely adopted by our industry peers, and our practices are in line with industry practice to prevent minors from making virtual gifts or watching live streaming on our platform.

Based on (1) aforementioned measures implemented by us to comply with the relevant requirements of real-name registration and restrictions on virtual gifting by minors, (2) the view of the industry consultant, (3) consultation with relevant regulatory authorities, and (4) the advice of our PRC Legal Advisor, our Directors believe that we have effective measures in place to ensure compliance with the various requirements under Notice 78, April 12 Notice, May 7 Opinions and other PRC laws and regulations in respect of minor protection in all material respects, and our financial condition and operations have not been materially and adversely affected since the adoption of the aforementioned measures, or by the implementation of Notice 78, April 12 Notice, May 7 Opinions and the Regulations on the Protection of Minors on the Internet (Draft for Comments).

We are closely monitoring and evaluating the regulatory development. We will maintain communication with regulatory authorities. If there is any further legislation or other intensified regulations and/or governmental actions in this regard, we will take prompt measure to comply with the relevant regulatory requirements.

Content and Hosts on Our Platform

We continue to strengthen our content review capability, including the adoption of graphic and text capture technologies during each streaming session to timely identify potential violations. We will promptly suspend the relevant streaming session and/or freeze or terminate a host's account if we confirm there is any violation of our community guidelines or applicable rules and regulations.

Our internal control measures over content review involve (1) suspension and/or termination of cooperation with hosts that engaged in illegal activities or repeatedly violate our community guidelines, (2) timely report to the relevant regulatory authorities for any suspected violation of laws and regulations, and (3) report to the China Association of Performing Arts of any host that has engaged in illegal activities on our platform so that such host can be listed on the warning lists. We regularly check the warning list published by the China Association of Performing Arts, and would prevent individuals on the warning lists from being able to register as a host on our platform.

We have implemented community guidelines and a green live streaming convention since July 1, 2022, which require hosts to adhere to a positive and healthy streaming style and to oppose undesirable behaviors such as money worship, waste of food and flaunting of extravagant lifestyle, in order to comply with the requirement stipulated under the Code of Conduct issued by the NRTA and the MCT on June 8, 2022. Furthermore, we have established a series of internal policies and the talent fostering system, which manage hosts recruitment, training, content creation and review, host classification and credit management, dress code behavior standards, user management, thread comments, and inspection management. We impose various degrees of penalties on hosts based on the specific types of violations and transgression. Our content review team, supported by our AI technologies, monitors the streaming activities on our platform to prevent inappropriate or illegal content from being displayed. We have the right to suspend live streaming sessions and to impose bans or other types of penalties on hosts for displaying content in violation of our internal policies, the Code of Conduct, and relevant laws and regulations.

We have adopted internal control policies governing the use of copyrighted content on our platform. Such internal control policies include, among others, (1) maintaining a blacklist of music content, which includes popular songs that are not licensed to us by copyright owners, which is updated from time to time and provided to all hosts on our platform; (2) prohibiting hosts from using music content included in the blacklist or any other unlicensed copyrighted content during streaming sessions; and (3) removing any records of content that are alleged to have violated the copyrights of others based on users' or copyright owners' reports, and issuing warnings to the relevant hosts. In order to mitigate the risk of copyright infringements, we have also entered into licensing agreements with copyright owners to expand the scope of licensed copyrights. See “— Suppliers — Licensing Agreement with MCSC.”

Anti-money Laundering Measures

Keeping money launderers out of our industry has long been a priority of ours. It is the policy of our platform to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. We have installed “know your customer” policies in place to help prevent money laundering, which involves

BUSINESS

monitoring the activity of customers and understanding the types of transactions that should raise red flags through training sessions for our employees. Our technical department is responsible for keeping records of all account transactions with our customers. We have also appointed money laundering reporting officers to alert our management where they suspect they have encountered the proceeds of crime, and we are under obligations to report suspicious activity to relevant financial investigation authorities. During the Track Record Period and up to the Latest Practicable Date, we had not identified any incident related to money laundering or terrorist or criminal activities.

Risk Management

We are exposed to various risks in the operations of our business, and we believe that risk management is important to our success. Key operational risks we face include, among others, changes in general market trends and the regulatory environment of the live streaming industry, our ability to maintain, improve and innovate our products and services, our ability to maintain cooperation relationships with talent agencies, and our ability to retain and grow our host pool. See “Risk Factors” for disclosures on various risks we face. In addition, we also face numerous market risks, such as credit and liquidity risks that arise in the normal course of our business. See “Financial Information — Quantitative and Qualitative Disclosures about Market Risks” for details.

We have implemented various policies and procedures to ensure effective risk management at each aspect of our operations, including the administration of daily operations, financial reporting and recording procedures, fund management policies, and compliance with applicable laws and regulations. Our Board oversees and manages the overall risks associated with our operations. We have established an audit committee to review and supervise the financial reporting process and internal control system of our Group. See “Directors and Senior Management — Board Committees — Audit Committee” for the qualifications and experience of these committee members as well as a detailed description of the responsibility of our audit committee. We have adopted written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

BUSINESS ACTIVITIES RELATING TO COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the Track Record Period, we received payments through Apple’s App Store and Google Play from users of certain apps operated under HOLLA Group that were located in the Sanctioned Countries. These apps are all published and distributed through Apple’s App Store and Google Play, which are U.S. platforms. During the Track Record Period, revenues generated from payments received from users located in the Sanctioned Countries accounted for less than 1.0% of our total revenue. In August 2021, we stopped receiving payments from users in Sanctioned Countries after we adopted internal controls to prevent such transactions. We undertake not to accept any payment from users in Sanctioned Countries after the Listing.

Sanctions Risk

The United States and other jurisdictions or organizations, including the United Kingdom, the European Union, the United Nations, and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries. See “Regulation — Sanctions Laws and Regulations.”

U.S.

Primary sanctions risk

As advised by our International Sanctions Legal Adviser, U.S. primary sanctions are applicable to activities involving a U.S. nexus such as funds transfers in U.S. currency that clear through the U.S. financial system or are processed by U.S. payment processors. U.S. primary sanctions could apply to us in specific situations, including transactions with or involving a Sanctioned Country or Sanctioned Target. During the Track Record Period, we received payments made to our mobile apps which involved Sanctioned Countries. Specifically, certain users of *Monkey* located in Sanctioned Countries made payments in U.S. dollars to our U.S. bank accounts. We also received these payments made by users located in Sanctioned Countries in an account at a branch of a U.S. financial institution in Hong Kong. However, as advised by our International Sanctions Legal Adviser, our limited activities during the Track Record Period with Sanctioned Countries are unlikely to create a material risk under U.S. primary sanctions given that (1) we have now implemented internal controls to prevent transactions with a Sanctioned Country or Sanctioned Target; (2) the underlying software involved in our apps contains no U.S.-origin content; (3) our apps are published and publicly available without restriction; (4) the distribution of our apps for personal communications and related services and payments may benefit from the general licenses published by OFAC for internet communications and OFAC generally does not penalize transactions relating to personal communications; and (5) the U.S. person involvement in our operations is relatively limited.

Secondary sanctions risk

The U.S. has also enacted secondary sanctions targeting non-U.S. persons who are engaged in transactions that facilitate or materially support sanctioned persons or activities, such as dealing in “confiscated” property in Cuba, certain Syria-related activities, and with Iranian SDNs or with certain types of industries in Iran even if no SDNs are involved, as well as those who “operate in” Crimea. As advised by our International Sanctions Legal Adviser, because we have ceased transactions involving Sanctioned Countries, we are not likely to become a Sanctioned Target under U.S. secondary sanctions.

BUSINESS

The European Union, the United Nations, the United Kingdom, United Kingdom overseas territories and Australia

As further advised by our International Sanctions Legal Adviser, our group companies incorporated in the Cayman Islands and the British Virgin Islands are directly subject to the sanctions regimes of the United Kingdom (which implement the sanctions imposed by the United Nations and by the European Union), however, our business dealings in the Relevant Jurisdictions do not appear to be unlawful under those sanctions regimes nor under those currently implemented in Australia.

See “Risk Factors — Risks Related to Our Business — We could be adversely affected by applicable sanction laws as a result of our payments received from users located in certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, the United Kingdom, Australia and other relevant sanctions authorities.” for further details regarding sanctions risks.

Our Undertakings and Internal Control Procedures

We have undertaken to the Stock Exchange that we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Sanctioned Country subject to International Sanctions or any other government, individual or entity sanctioned by the United States, the European Union, the United Nations, the United Kingdom, the United Kingdom overseas territories or Australia, including, without limitation, any government, individual or entity that is specifically identified on the SDN List maintained by OFAC or other restricted parties lists maintained by the European Union, the United Nations, the United Kingdom, the United Kingdom overseas territories and Australia. Further, we have undertaken not to use the proceeds from the Global Offering to pay any damages for terminating or transferring any contract that violates International Sanctions. In addition, we have undertaken not to enter into any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders and investors to violate or become a target of international sanctions laws by the United States, the European Union, the United Nations, the United Kingdom, the United Kingdom overseas territories or Australia.

We will also disclose on the respective websites of the Stock Exchange and our Group if we believe that the transactions our Group entered into in Sanctioned Countries subject to International Sanctions or with Sanctioned Targets would put our Group or our Shareholders and investors to risks of being sanctioned, and in our annual reports or interim reports (1) details of any new activities in Sanctioned Countries subject to International Sanctions or with Sanctioned Targets; (2) our efforts on monitoring our business exposure to sanctions risks; and (3) the status of, and the anticipated plans for any new activities in Sanctioned Countries subject to International Sanctions and with Sanctioned Targets.

BUSINESS

We intend to fully implement the following internal control and risk management measures.

- We will set up and maintain a separate bank account, which is designated for the purpose of the deposit and deployment of the proceeds from the Global Offering or any other funds raised through the Stock Exchange;
- We plan to establish a Risk and Compliance Committee to further enhance our existing internal risk management functions, which is responsible for monitoring our exposure to sanctions risks and our implementation of the related internal control procedures. Our Risk and Compliance Committee will hold at least two meetings each year to monitor our exposure to sanctions risks;
- Our Directors will continuously monitor the use of proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, Countries subject to International Sanctions or Sanctioned Targets where this would be in breach of International Sanctions;
- Our Risk and Compliance Committee will periodically review our internal control policies and procedures with respect to sanctions matters including periodic review of updates to International Sanctions and Sanctioned Targets that bear on our operations. As and when our Risk and Compliance Committee considers necessary, we will retain external international legal counsel with necessary expertise and experience in sanctions matters for recommendations and advice; and
- If necessary, we will arrange external international legal counsel to provide training programs relating to the sanctions to our Directors, our senior management and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations, in particular, to perform screening procedures where appropriate in respect of counterparties to our Group's business to ensure none of them are Sanctioned Targets. In consultation with our external international legal counsel, we will provide and regularly update the current list of Countries subject to International Sanctions and Sanctioned Targets to our Directors, senior management and other relevant personnel, who will in turn disseminate such information internally.

Our International Sanctions Legal Adviser has reviewed and evaluated these internal control measures and are of the view that these measures appear adequate and effective for our Company, based on our products and risk assessment, to comply with applicable international sanction laws and our undertakings to the Stock Exchange.

BUSINESS

Having taken into account the above advice of our International Sanctions Legal Adviser, our Directors are of the view that our measures provide a reasonably adequate and effective internal control framework to assist us in identifying and monitoring any material risk relating to sanctions laws so as to protect the interests of our Shareholders and us. Subject to the full implementation and enforcement of such measures, the Joint Sponsors are of the view that these measures will provide a reasonably adequate and effective internal control framework to assist our Company in identifying and monitoring any material risk relating to sanction laws.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE AND INITIATIVES

Governance Structure

Sound corporate governance forms the foundation of our Group's business and operations. We believe that establishing and implementing sound environmental, social and corporate governance ("ESG") principles and practices will help enhance the investment value of an enterprise and provide long-term returns to our shareholders. Our Board has the overall responsibility of overseeing sustainability issues related to our Group's operations and strategy. By setting a strategic direction, our Board sets a clear vision and strategy that guides the ESG measures or systems, reflecting our Group's core values. Our Board will adopt the following approaches to identify, manage and review material ESG issues.

- *Identify ESG issues.* The Board will engage key stakeholders, including our major customers, major suppliers, management team and employees to identify material ESG issues and risks inherent in our Group's business operations. Our Board believes that open dialogue with stakeholders plays a crucial role in maintaining our business sustainability.
- *Assess ESG performance.* Apart from assessing the performance of our Group's ESG measures through discussion with our Group's stakeholders, our Board will engage a third party to identify and assess our performance in respect of environmental protection and climate change.
- *Review ESG performance.* Our Board will review the progress made against ESG-related goals to guide our Group to achieve better ESG performance. Through our Group's ESG policy, a set of systematic risk management practices have been put in place to ensure financial and operational functions, compliance control systems, material control, asset management and risk management all operate effectively.

To ensure a better implementation system in place, an ESG working group has been set up at the management level. Our ESG working group is currently composed of representatives from administration department, technical department and sales department. Our ESG working group is responsible for discussing our Group's ESG issues and continuing to ensure that appropriate and effective ESG risk management is in place. It also assists current risk

BUSINESS

management, which is designed to meet our Group's specific business needs and to minimize its risk exposure. Such working group meets quarterly and sets ESG goals at the beginning of each year and reviews its progress in achieving the goals using monthly data reports to check whether there are areas for improvement. Additionally, through analysing the situation of our Group, the working group will suggest new ideas and bring attention to issues, as well as offer solutions that can be applied in our Group.

Compliance with Laws and Regulations

We strictly abide by the Measures for Security Protection Administration of the International Networking of Computer Information Networks under the Order of the Ministry of Public Security of China. Under our internal policies, no entity and individual shall use our live streaming platform to produce, duplicate, search or disseminate the following information:

- information that instigates the resistance and disruption against the implementation of constitution, laws and regulations of China;
- information that instigates the subversion of the state political power and overthrow of the socialist system;
- information that instigates the splitting up of the country and sabotages national unity;
- information that instigates hatred and discrimination among nationalities and sabotages solidarity among nationalities;
- information that fabricates or distorts facts, spreads rumours and disrupts social order;
- information that propagates feudalistic superstitions, obscenity, pornography, gambling, violence, murder and terror and instigates crime;
- information that openly insults others or fabricates facts to slander others;
- information that damages the reputation of state organizations; and
- other information that violates constitution, laws and regulations of China.

Potential Climate Risks on Our Business Operation and Financial Results

A warming planet creates a wide range of risks for business, from disrupted supply chains to rising insurance costs to labor challenges. Since our Group's business operations do not involve the manufacturing of products, we do not currently have any material liabilities relating to health, work safety and environment, and do not expect to incur any material liabilities in this regard which could have any material adverse impact on our business and

operating results. As advised by our PRC Legal Advisor, we are not required to obtain any approvals or certificates for the principal businesses we engaged in that are applicable to environmental laws and regulations in the PRC. Most of the potential physical risk and transition risk can only reflect on their users which may eventually impact our revenue.

Physical Risks

Extreme weather events as a short-term risk, such as typhoons, storm surges and rainstorms, will disrupt production, transportation and ultimately sales revenue. Our main operation is located in the downtown area of Beijing which may be vulnerable to snowstorms during extreme weather events. The devastating floods that have killed 71 people and affected more than 11 million in Zhengzhou, Henan Province last year sounded an alarm bell to us. Extreme weather not only can impact our normal operation but can also cost human life even in the metropolitan area.

In addition our own physical operational risk, our main revenue comes from User Generated Content (“UGC”) and Professional User Generate Content (“PUGC”). Extreme weather may hinder the production and delivery of some of the programs committed by the PUGC, which eventually impact our revenue.

How to mitigate physical risk

Our working teams operate in the downtown area of Beijing, the physical impact on our own operation due to climate change is limited. We are fully aware that unanticipated system failure due to extreme weather can result in chaotic mayhem. Lost data can impact ongoing collaborations with our users result in hampering our future. Three streamline broadcast service providers are engaged to ensure smooth operations no matter under what level of climate disaster. However, we also realize that climate change may impose a huge impact on some of our users that have the physical operation and performance in different locations. Diversification of our PUGC users may mitigate some of the physical risks.

Transition Risks

Transition risk refers to the medium- and long-term financial risk related to the process of adjustment towards a lower-carbon economy which can be prompted by, for example, changes in climate policy, technological changes, or a change in market sentiment. While we consider our operation to have limited exposure to transition risks due to climate change, many of our users, especially PUGC users, may face different transition risks from a legal, technology, market and reputation perspective, which may result in client loss and eventually have an adverse impact on our revenue.

How to mitigate transition risks

While we conclude that our internal transition risk is limited due to our business nature, the related risk rippling from our PUGC users cannot be underestimated. Engagement and communication with our major PUGC users in the future on the topic of climate change will be an important process for our Group to mitigate transition risk. To prevent some of our users from inadvertently conveying the message of opposing climate change or anti-environment, we may need to communicate with major users on this topic to avoid their potential reputation risk.

Opportunities

While analyzing the climate risk that we are exposed to, our management concludes that better risk management can unlock even greater opportunities. Our platform could be enjoyed wherever the audience is located, whether they are on a cruise or in a small hut of a snow mountain. Extreme weather or pandemic may create unexpected opportunities and extra revenue for our business operation.

ENVIRONMENT, SOCIAL AND GOVERNANCE

ESG mission and vision

We advocate for a three-dimensional sustainable development of society, economy and environment, where environmentally friendly lifestyles are encouraged, employees' developments are emphasised, and community investment and charity works are performed. Our continuous effort to promote sustainable development and raise awareness of such acts has made us a leader in ESG performance in the industry.

We are committed to ensuring the following principles:

- empowering employees and unleashing their fullest potential;
- providing equal opportunities for all potential candidates irrespective of their gender, marital status, race, ethnicity, age, and religion;
- making sure employees feel comfortable and safe, and are able to work in an accident-free working environment;
- equipping employees with know-how of the industry, to increase their competency and enhance professionalism; and
- protecting personal data and making sure they are kept confidential.

Measures to reduce our environmental footprint

Due to our business nature, the environmental impact induced by our operations is limited. Nonetheless, we abide by all environmental laws and regulations when applicable and take steps to minimize our environmental footprint. We actively encourage our staff to take part in building a green working environment and be responsible for their impacts on the environment, by following the main principles of reducing, reusing and recycling. To make constant improvements, we constantly review our waste and emissions management measures.

Concern about Our Scope 3 Emissions from Our Cloud Storage

We utilize a considerable amount of third-party cloud storage and third-party bandwidth to operate our business. Energy consumption becomes a major component of the environmental footprint of a data center. As emissions from suppliers are counted as scope 3 emissions in ESG disclosures, which tends to be reported voluntarily to avoid double counting, our impact on global warming can be heavily underestimated.

To mitigate our impact through third-party cloud service providers, the following actions have been taken:

- Actively research the carbon footprint of our providers. Some major cloud service providers like Google have committed to going carbon neutral by 2030. Major mainland providers like Kingsoft have established a high-efficiency, low-carbon storage pool. When screening service providers in the future, low carbon will be our top priority criteria;
- Cloud Carbon Footprint apps have appeared in the market recently. We are going to source a reliable one to try to calculate the footprint of our service providers in the future; and
- Ongoing rearchitecting of our application to be cloud-native whenever possible will produce a smaller carbon footprint.

Significant Impacts of Activities on the Environment

Due to our business nature, no activities contribute to significant impacts on the environment. The only areas that bring about impacts on the environment are our greenhouse gas emissions and office waste produced from daily operations. We therefore take responsibility for recycling and reusing items of different varieties and cooperate with reliable recyclers to make sure that waste is well managed and handled to limit the impact on the environment. We also encourage our employees to take an active responsibility towards the environment, by adhering to the principles of reduce, reuse, recycle and recover.

Content Screening and Review

We require our users and hosts to abide by our terms of service, which prohibit illegal content from being created, shared and transmitted on our platform. Our community guidelines set forth the prohibited content and actions in details, such as provocative or inflammatory languages, full or partial nudity, sexually suggestive language or body movements, abusive language or actions towards other users, spam, scams, acts and threats of violence and information facilitating or promoting illegal transactions or activities. We have implemented various measures to ensure the compliance of relevant rules and regulations, including utilizing an automated AI-backed user protection system and maintaining a manual review team, a report portal for users to report violations, and establishing different benchmarks for evaluating potential violations and our community guidelines. We have also established different benchmarks to evaluate potential violations of our terms of services and community guideline. We will determine the imposition of sanctions and require rectification measures based on the nature and frequency of violations. See “— Content Screening and Review — Content Compliance Policies.”

We will promptly suspend the relevant streaming session and/or freeze or terminate a host’s account if we confirm there is any violation of our community guidelines or applicable rules and regulations. Our internal control measures over content review involve (1) suspension and/or termination of cooperation with hosts that engaged in illegal activities or repeatedly violate our community guidelines, (2) timely report to the relevant regulatory authorities for any suspected violation of laws and regulations, and (3) report to the China Association of Performing Arts of any host that has engaged in illegal activities on our platform so that such host can be listed on the warning lists. We also regularly check the warning list published by the China Association of Performing Arts, and would prevent individuals on the warning lists from being able to register as a host on our platform. See “— Risk Management and Internal Control — Content and Hosts on Our Platform.”

Equal Opportunity

Equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. Under our internal policies, the employees shall not be discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable laws and regulations. We value cultural diversity at workplace, and recruit employees in a wide range of ages, genders and ethnicities. We comply with all relevant laws and regulations of China including:

- Labour Law
- Labour Contract Law
- Regulations on Paid Annual Leave for Employees

BUSINESS

- Law on the Protection of Women's Rights and Interests
- Special Rules on the Labour Protection of Female Employees

Development and Training

We acknowledge the importance of providing opportunities for training and development. It is not only essential to the career development of our employees but also ensures and improves the quality of our services. Our training programs are customized to our business needs, equipping our employees with practical knowledge and skills.

Compensation and benefits

For our employees, remuneration packages, which include salary and bonuses, are offered. They also receive various welfare benefits, such as medical care, retirement benefits, occupational injury insurance and other miscellaneous items. We provide our employees with paid time off, including public holidays, marital leaves, maternity leaves, compassionate leaves and annual leaves according to labour laws and regulations. Appraisals take place twice a year such that their work performances are constantly reviewed. Employees who meet certain criteria will have their salary raised.

Our ESG Policy

We are committed to working on the environmental, health and safety, employment, supply chain and community issues that our operations affect, and to working with our stakeholders to promote sustainable development in the industry in which we operate. We undertake all reasonable efforts to ensure compliance with all applicable national and local safety, health, labor and environmental obligations.

We are dedicated to providing a green office environment and promoting environmentally friendly practices in our office operations. Common practices of our green office codes include the following:

- promote recycling scheme, seek alternative ways of disposing of and reducing waste in environment ways;
- re-use materials whenever possible;
- utilizing natural resources and energy efficiently;
- consider environmental friendliness and energy efficiency of any item to be purchased;
- strictly comply with and fully implement all relevant environmental laws and regulations;

BUSINESS

- address environmental concerns and incorporate environmental initiatives into marketing planning and design for all clients; and
- review and seek continual improvement on the implementation of environmental management.

Our social policies include the following:

- equal opportunity applies to all aspects of employment, including gender, race, nationality, marital status, disability, religious belief, sexual orientation or any other characteristic protected under the law;
- encourage our employees to constantly improve their skills and abilities and develop competencies through the taking up of both internal and external training programmes. Training needs for improvement on existing skills will be regularly identified through performance appraisals;
- promotional and job opportunities are offered to existing employees and suitable candidates, and selection is based on assessment of work performance of all individuals on merit, qualifications and abilities, and suitability for the position;
- protects and respects intellectual property including all the programs broadcast on our platform;
- all employees are prohibited from offering or providing corrupt payments and other advantages to or accepting the same from private persons and entities; and
- all employees are prohibited from giving, promising, offering, or authorizing payment of anything of value to any government official to obtain or retain business, to secure some other improper advantage, or to improperly influence a government official's actions.

Environment Performance and Metrics

In 2021, our offices in Beijing with a total of 708 employees used 409,508.6 kilowatt-hour of electricity, which accounted for 250 tons of carbon equivalent emission. The emission intensity of our use of electricity was 54.3 kilograms of carbon equivalent per RMB1.0 million in revenue.

BUSINESS

Targets

Strategies	Approaches	Targets for the next five years
Carbon emission reduction	Reduce carbon emission by improving energy efficiency in our operation	Reduce the intensity of carbon emission by 5% of our current discharge (250 tons of carbon equivalent emission in 2021)
Carbon neutral	In pursuit of our social responsibility and in line with the national target to go carbon neutral by 2060, we aim to approach carbon-neutral by 2050	

Plans and Measures to Achieve the Target Reduction

Our plan of reduction:

- Establishing policy for energy saving and assigning supporting team and security team to turn off lights according to set schedule, and to check if all computers in the offices were turned off or with pre-approved exemption labels. Computers found turning on without exemption labels are recorded, and IT Department will follow up with representative employees and might be handled by our management if the issue persists;
- Replacing energy-intensive lighting such as high bay light, and fluorescent lamps with high luminous efficacy light set such as LED lights at printing plants;
- Pre-setting computer to switch to energy-saving mode after 30 minutes of idle;
- Installing thermostat for all air conditioning for smarter control of room temperature and better efficient use of energy in all premises wherever possible; and
- Reminding employees of energy-saving labels for turning off lights and air conditioners before leaving work. These labels are provided in major corridors and rooms throughout the offices.

With the above measure, we predict that we could achieve a more than 5% emissions reduction in the coming five years.

Following the commitment to a carbon-peak in 2030 and carbon-neutral in 2060 by the PRC government, we foresee that offices in Beijing's downtown area will have the choice to purchase fully renewable energy at a higher price latest by 2030 to 2040. We will undoubtedly be ahead of the commitment of the PRC government to purchase 100% renewable energy when available to achieve carbon-neutral before 2050.

Recent Regulatory Development

Cybersecurity review and data security

On August 20, 2021, the SCNPC promulgated the PIPL, which became effective on November 1, 2021, setting forth detailed rules for handling sensitive personal information. Furthermore, the Ninth Amendment to the Criminal Law of the PRC prohibits the sale or otherwise illegal disclosure of a citizen's personal information, and if such information is obtained during the course of performing duties or providing services, additional penalties could be imposed. Critical information infrastructure operators and personal information processors who have processed personal information that surpassed the threshold prescribed by the CAC must store the personal information collected or generated within China. Critical information infrastructure operators and personal information processors who have processed personal information that surpassed the threshold prescribed by the CAC must obtain approval from the CAC if personal information collected or generated within China is to be transferred overseas. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any regulatory investigation or penalty in connection with protection of personal information.

On November 14, 2021, the CAC publicly solicited opinions on the Draft Data Security Regulations. According to the Draft Data Security Regulations, data processors shall, in accordance with relevant state provisions, apply for cybersecurity review when carrying out the following activities: (1) the merger, reorganization or separation of internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests, which affects or may affect national security; (2) data processors that handle the personal information of more than one million people intends to be listed abroad; (3) the data processor intends to be listed in Hong Kong, which affects or may affect national security; (4) other data processing activities that affect or may affect national security. However, the Draft Data Security Regulations provides no further explanation or interpretation for what activities fall into the ambit of those that "affect or may affect national security." As advised by our PRC Data Compliance Advisor, the PRC government authorities may have wide discretion in the interpretation of "affects or may affect national security."

As advised by our PRC Data Compliance Advisor, the Draft Data Security Regulations regulates specific requirements in respect of the data processing activities through internet, among others, with the cybersecurity review to be applied when data processor intends to be listed in Hong Kong, which affects or may affect national security. We possess personal data of more than one million users as a result of our large user base and the amount of activities processed on our platform. We believe that we have not engaged in any data processing activity which affects or may affect national security, because during the Track Record Period and up

BUSINESS

to the Latest Practicable Date: (1) we had not been identified as a CIIO; (2) we had not received notification from any regulatory authority, informing us that the data processed by us had been recognized as important data or core data; (3) our proposed listing in Hong Kong is not considered as an listing in a foreign country, based on the oral response to our telephonic inquiry on a named basis from the consultation conducted by our PRC Data Compliance Advisor on March 17, 2022 with the CCRC; and (4) we had not been notified by any regulatory authority or was subject to any investigation on any data processing activity that affects or may affect national security. We have implemented comprehensive measures to comply with the requirements of personal information protection, data security and cybersecurity under relevant laws and regulations, and we will actively implement measures to comply with the specific requirements in the Draft Data Security Regulations as if the Draft Data Security Regulations is implemented in its current form in the future. For provisions regarding listing in Hong Kong in the Draft Data Security Regulations, we are of the view that, assuming the Draft Data Security Regulations become effective in their current form in the future, subject to further implementation details, guidance or clarification of the Draft Data Security Regulations, it will not have a material adverse effect on us as of the date of this prospectus, on the basis that (1) we have implemented relevant measures to protect our data security, and (2) we are actively communicating with relevant authorities to seek guidance under the Draft Data Security Regulations.

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

- On the basis that we have not been identified as a CIIO during the Track Record Period and up to the date of this prospectus, the cybersecurity review for “procurement of network products and services by CIIOs” promulgated in the Cybersecurity Review Measures shall not be applicable to us.
- Based on the oral response to our telephonic inquiry on a named basis from the consultation conducted by our PRC Data Compliance Advisor on March 17, 2022 with the official consultation hotline with CCRC, Hong Kong is a part of the People’s Republic of China and therefore does not belong to “foreign country” under the Cybersecurity Review Measures, it is not necessary for us to voluntarily apply for cybersecurity review according to Article 7 of the Cybersecurity Review Measures. As announced by the CAC, the CCRC is entrusted by the Cybersecurity Review Office and under its guidance, to undertake specific work of the cybersecurity review such as receipt of materials and formal review of such materials and setup a hotline for the consultation regarding cybersecurity review.

BUSINESS

- As for the cybersecurity review initiated by the Office of Cybersecurity Review stipulated in the Article 16 of the Cybersecurity Review Measures, we confirmed that we have not been subject to or have been notified of a cybersecurity review during the Track Record Period and up to the date of this prospectus. The CCRC replied during the abovementioned consultation that the fact of any entity not being subject to any cybersecurity review means such entity's internet service of product or its data processing activities are not considered as "affect or may affect national security" according to the Article 16 of the Cybersecurity Review Measures. Furthermore, the CCRC also replied that the Draft Data Security Regulations had not yet come into effect as of the date of the consultation.
- Our PRC Data Compliance Advisor conducted the consultation on a named basis, and the CCRC was informed of our Listing plan. Up to the date of this prospectus, we have not received any objection from relevant authorities.

On December 28, 2021, the CAC and other regulatory authorities jointly released the revised Cybersecurity Review Measures which became effective on February 15, 2022. In accordance with the Cybersecurity Review Measures, internet platform operators holding personal information of more than one million users must apply to the Cybersecurity Review Office for cybersecurity review when they seek listing in a foreign country.

As advised by our PRC Data Compliance Advisor, as the Cybersecurity Review Measures stipulates "seeking a listing in a foreign country," we do not need to proactively file for the cybersecurity review because our proposed listing is in Hong Kong. However, the Cybersecurity Review Measures provides no further explanation or interpretation for what activities "affect or may affect national security." With respect to the CIIO stipulated in the Cybersecurity Review Measures, according to the CII Regulations, which came into effect on September 1, 2021, the Protection Authorities in the CII Regulations will establish the rules for the identification of critical information infrastructures based on the particular situations of the industry and report such rules to the public security department of the State Council for record, and they are responsible for organizing the identification of critical information infrastructures in their own industries and sectors in accordance with the identification rules, promptly notifying the operators of the identification results and reporting to the public security department of the State Council. During the Track Record Period and up to the Latest Practicable Date, no relevant authority had published any detailed rules for identification of the critical information infrastructures, and to our best knowledge, we had not received any notification from the Protection Authorities about being identified as a CIIO. Therefore, on the basis that we have not been identified as a CIIO, the likelihood that we will be subject to the cybersecurity review for procurement of network products and services in the near future is relatively remote. For "data processing activities that affect or may affect national security" mentioned in the Cybersecurity Review Measures, since the criteria are relatively vague, our PRC Data Compliance Advisor and our Directors are of the view that, it remains uncertain as to whether we would be subject to the cybersecurity review. During the Track Record Period and up to the date of this prospectus, we had not received any written concern about our Listing.

BUSINESS

On December 31, 2021, the CAC, the MIIT, the Ministry of Public Security and the SAMR jointly announced the Provisions on Algorithmic Recommendations, which became effective on March 1, 2022. Provisions on Algorithmic Recommendations specifies that it applies to the application of algorithmic recommendation technologies to provide Algorithmic Recommendation Services within the territory of China. According to the Provisions on Algorithmic Recommendations, Algorithmic Recommendation Services providers shall comply with certain standards of information services and ensure the protection of users' rights and interests. For example, the providers of Algorithmic Recommendation Services shall inform users of the circumstances of the Algorithmic Recommendation Services in a prominent manner, provide users with options not to target their individual characteristics, or provide users with convenient options to close Algorithmic Recommendation Services. Our operations shall comply with such provisions. If we fail to fulfill our responsibilities and obligations under such provisions, we may be subject to penalties such as warning, public reprimand, orders to make corrections within a time limit, suspension of information updating, fines and other penalties. As of the date of this prospectus, we have submitted the internet information services algorithm registration filing as required under Article 24 of the Provisions on Algorithmic Recommendations to the CAC, and *Huajiao* has been registered with the CAC on October 28, 2022, but we have not been notified of the result of such registration for *6.cn* during the Track Record Period and up to the date of this prospectus. We have also implemented internal procedures such as content publishing review, user registration, data security and personal information protection and other procedures required by the Provisions on Algorithmic Recommendations. Furthermore, we have disclosed relevant rules of algorithm recommendation service to our users, provided options to turn off the algorithm recommendation service and formulated an emergency plan for security incidents. Our PRC Data Compliance Advisor is of the view that we have complied with all material aspects of the Provisions on Algorithmic Recommendations as of date of this prospectus.

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

Overseas listing

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

On December 24, 2021, the CSRC promulgated the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定》(草案徵求意見稿)) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (collectively the “New Consultation Drafts”) for public consultations until January 23, 2022. Pursuant to the New Consultation Drafts, domestic enterprises that directly or indirectly list overseas shall go through the filing procedures with the CSRC. Furthermore, if the issuer meets the following conditions, the offering and listing shall be determined as an indirect overseas offering and listing by a domestic company: (1) the total assets, net assets, revenues or profits of the domestic operating entity of the issuer in the most recent accounting year account for more than 50% of the corresponding figure in the issuer’s audited consolidated financial statements for the same period; and (2) the senior managers in charge of business operation and management of the issuer are mostly Chinese citizens or have domicile in China, and its main places of business are located in China or main business activities are conducted in China. Therefore, we understand that the listing of our Group constitutes an indirect listing under the New Consultation Drafts.

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

Furthermore, according to the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), if an enterprise falls under any of the following circumstances, it will not be allowed to list overseas: (1) the PRC laws and regulations and relevant provisions expressly prohibit such listing; (2) the relevant competent authorities of the State Council determined that the overseas listing threaten or endanger national security; (3) material ownership disputes over equity, major assets or core technologies of the enterprise; (4) there are enterprises and controlling

BUSINESS

shareholders, actual controllers have committed crimes of corruption, bribery, embezzlement, misappropriation of property or disrupting the order of the socialist market economy in the past three years, or are being investigated by judicial authorities for suspected crimes or suspected major violations of laws and regulations; (5) directors, supervisors and senior managers of the enterprise have been subject to administrative penalties in the past three years and the circumstances are serious, or are being investigated by judicial authorities for suspected crimes or suspected major violations of laws and regulations; and (6) other circumstance as prescribed by the State Council. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any situations that falls into the above regulations.

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

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

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

BUSINESS

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

Foreign investment negative list

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

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

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

Live streaming business

On February 7, 2021, the Anti-Monopoly Committee of the State Council published the Guideline, which became effective on the same day, aiming to enhance anti-monopoly oversight of businesses that operate under the platform model and the overall platform business. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any penalties in connection with the application and/or enforcement of the Guideline.

On November 12, 2020, the NRTA promulgated Notice 78, which sets forth registration requirements for platforms providing online show live streaming or e-commerce live streaming as well as, among others, requirements for real-name registration, limits on user spending on virtual gifting, prohibitions of virtual gifting by minors, live streaming review personnel

requirements, and content tagging requirements. According to Notice 3 issued on February 9, 2021, live streaming platforms that provide network audio-visual program services must hold the Audio-Visual Permit (or complete the registration in the National Network Audio-Visual Platform Information Registration Management System) and complete the ICP filing. As of the Latest Practicable Date, Huafang Technology held an Audio-Visual Permit, and Mijing Hefeng was in the process of renewing its filing with the National Network Audio-Visual Platform Information Registration Management System. We are still in the process of obtaining further guidance from regulatory authorities and evaluating the applicability and effect of the various requirements under Notice 78 on our business. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any review, inquiry or investigation by the relevant authorities for violation of Notice 78. See “Risk Factors — Risks Related to our Business — We face uncertainties with respect to the enactment, interpretation and implementation of Notice 78.”

On June 1, 2021, the Law of the PRC on the Protection of Minors (2020 Revision) took effect, which provides that, among others, live streaming service providers are not allowed to provide online live streaming publisher account registration service to minors under 16 of age with, and must obtain the consent from parents or guardians and verify the identity of the minors before allowing minors aged 16 or above to register online live streaming publisher accounts on live streaming platform. We have collected identity information of each PRC host on our platform, including name, age and identification number to prevent minors from providing live streaming services on our platform in accordance with relevant PRC laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any penalties in connection with violating laws related to protection of minors.

The CAC launched a “Fan Group Chaos Rectification” special action on June 15, 2021, which was followed by the issuance of the Notice on Further Strengthening the Management of Chaos in Fan Groups on August 25, 2021. This notice requested, among other things, the cancelation of all rankings of celebrities. The rankings of music, film and television works are still allowed, but the network platforms should optimize and adjust ranking rules to focus on the art works and their professional evaluation. Furthermore, minors are not allowed to make virtual gifting or spend money to support celebrities, or act as the organizer or manager of a fan group. We have also been closely monitoring the content streamed on our platform and would suspend the account of any host that engages in material violation of applicable laws and regulations.

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

BUSINESS

On May 7, 2022, the Office of Central Guidance Commission on Building Spiritual Civilization, the MCT, NRTA and the CAC promulgated the Opinions on Regulating Virtual Gifting to Strengthen the Protection of Minors (《關於規範網絡直播打賞加強未成年人保護的意見》) (the “May 7 Opinions”). According to the May 7 Opinions, live streaming platforms shall, among others (1) prohibit minors from virtual gifting, and implement the requirements on real-name registration; (2) not provide online live streaming publisher account registration service to minors under the age of 16 and obtain the consent from guardians before allowing minors between the age of 16 and 18 to register online live streaming publisher accounts on their platforms; (3) continue to upgrade their youth mode and establish a customer service team for minors to process, and prioritize the settlement of complaints and disputes related to minors; (4) manage key functions of their applications so that virtual gifting amount is not the sole criteria for ranking; and (5) shall discontinue all services under youth mode after 10:00 PM every day. We have implemented a series of measures to ensure compliance with the May 7 Opinions and other minor protection related rules and regulations. See “Business — Risk Management and Internal Control — Minor Protection and Virtual Gifting Management.”

On June 8, 2022, the NRTA and the MCT issued the Code of Conduct for Streamers (《網絡主播行為規範》) (the “Code of Conduct”) which stipulates, among others, that: (1) for live streaming content that requires a high level of professional skills (such as medical and health care, finance, law and education), streamers should obtain the corresponding practice qualifications and report the practice qualifications to the live streaming platforms, and the live streaming platforms should review and record the relevant qualifications; (2) during live streaming sessions, streamers shall not behave extravagantly or waste food, flaunt luxury goods, jewelry and other assets, or display sexually suggestive and provocative content; (3) live streaming platforms shall establish comprehensive internal policies to manage their streamers, covering various aspects of operations, from recruitment, training, daily management, performance evaluation to violation record management, and shall provide incentives to streamers who display positive qualities and abide by the Code of Conduct, and reprimand and discipline hosts who have violated the Code of Conduct, and ban the account of streamers who have repeatedly violated the Code of Conduct or applicable rules and regulations.

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

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

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

Immediately after the completion of the Capitalization Issue and the Global Offering (assuming no exercise of the Over-allotment Option and without taking into account any option granted under the Pre-IPO Share Option Scheme), Mr. Zhou Group will be entitled to exercise approximately 36.46% of voting rights at general meetings of our Company, and Songcheng Performance, through control of Global Bacchus Limited, will be entitled to exercise approximately 35.35% of voting rights at general meetings of our Company.

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

BUSINESS DELINEATION AND COMPETITION

We offer (1) video- and audio-based live entertainment and social networking services through our flagship products, *Huajiao* and *6.cn*; and (2) social networking and discovery services through our overseas products under HOLLA Group (collectively, the “Core Business”).

In addition to Mr. Zhou’s interest in our Company, (1) he was interested in approximately 30.76% of the total issued share capital of 360 LUDASHI HOLDINGS LIMITED (360魯大師控股有限公司) (“360 Ludashi”) as of June 30, 2022, a company listed on the Stock Exchange (stock code: 3601), (2) as of September 30, 2022, he was interested in approximately 14.3% of the total issued share capital of 360 DigiTech, Inc. (“360 DigiTech”), a company listed on NASDAQ (QFIN.NASDAQ) and expected to be listed on the Stock Exchange (stock code: 3660) according to the prospectus of 360 DigiTech dated November 18, 2022, and (3) he was interested in approximately 57.63% of the total issued share capital of 360 Security Technology Inc. (三六零安全科技股份有限公司) (“360 Security”), a company listed on the Shanghai Stock Exchange (stock code: 601360) as of June 30, 2022. Please refer to “Directors and Senior Management” for the biographical details of Mr. Zhou.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Given that (i) 360 Ludashi is principally engaged in PC and mobile devices utility software, (ii) 360 DigiTech is principally engaged in providing a comprehensive suite of technology services to assist financial institutions and consumers and small- and micro-enterprises in the loan lifecycle, ranging from borrower acquisition, preliminary credit assessment, fund matching and post-facilitation services, (iii) 360 Security is principally engaged in offering internet and mobile security products and providing users with secure access points to internet activities, and (iv) Songcheng Performance is principally engaged in on-site live performance business, each of which is clearly delineated from our business, our controlling shareholders and our Directors confirm that as of the Latest Practicable Date, neither of them nor their respective close associates have any interest in any business, apart from the Core Business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with the Core Business and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors believe that we are capable of carrying out our business independently without reliance on our controlling shareholders (and their close associates) after the Listing.

Management Independence

Our business is managed and conducted by our Board and senior management. Upon the completion of the Listing, our Board consist of one executive Director, three non-executive Directors and three independent non-executive Directors. See “Directors and Senior Management” for details.

Two non-executive Directors also hold positions in 360 Ludashi, 360 DigiTech or 360 Security as set out below:

Name of our Director	Major position(s) held in our Company	Major position(s) held in 360 Ludashi, 360 DigiTech or 360 Security
Mr. Zhou Hongyi (周鴻禕)	Non-executive Director and chairman of the Board	(i) a director and the chairman of the board of directors of 360 DigiTech, since July 2016 and since September 2018, respectively (ii) the chairman of the board of directors and the general manager at 360 Security since February 2018

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Name of our Director	Major position(s) held in our Company	Major position(s) held in 360 Ludashi, 360 DigiTech or 360 Security
Mr. Zhao Dan (趙丹)	Non-executive Director	(i) a non-executive director at 360 Ludashi since June 2020 (ii) a director at 360 DigiTech since May 2020

Other than Mr. Zhou Hongyi and Mr. Zhao Dan, to the best of the knowledge, information and belief of our Directors having made all reasonable inquiries, none of our Directors or senior management holds any directorship or senior management role in 360 Ludashi, 360 DigiTech or 360 Security.

Mr. Chen Shengmin (陳勝敏), our non-executive Director, is the chief financial officer of Songcheng Performance, one of our controlling shareholders. Mr. Zhou Hongyi (周鴻禕), our non-executive Director, is also one of our controlling shareholders. Despite such relationship and the overlapping positions as mentioned above, our Directors believe that our Board and senior management has been and will continue to be able to independently manage our business and function independently from our controlling shareholders based on the following grounds:

- (1) each of our Directors is aware of his fiduciary duties as a Director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest;
- (2) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Directors shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum;
- (3) although Mr. Zhou Hongyi holds the directorship in each of our Group, 360 DigiTech and 360 Security and Mr. Zhao Dan holds the directorship in each of our Group, 360 Ludashi and 360 DigiTech, they have been and will continue to be supported by the separate and independent boards and senior management teams to perform their duties at respective entities. In addition, given both of Mr. Zhou Hongyi and Mr. Zhao Dan are our non-executive Directors, they will not be involved in the day-to-day management or affairs and operations of our businesses. Our daily management and operations are carried out by our executive Director and a senior

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

management team, all of whom are independent from our controlling shareholders and have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interest of our Group;

- (4) we have three independent non-executive Directors who have extensive experience in different professions. They have been appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions. Our Directors believe that the presence of our independent non-executive Directors from different backgrounds provides a balance of views and opinions; and
- (5) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our controlling shareholders which would support our independent management. See “— Corporate Governance Measures.”

Our Directors are satisfied that our Board together with our senior management team as a whole is able to manage our business independently from our controlling shareholders and their close associates.

Operational Independence

We have established our own organizational structure comprised of individual departments, each with specific areas of responsibilities. We have also established various internal controls procedures to facilitate the effective operation of our business. Our Group is not operationally dependent on our controlling shareholders. Our Company (through our subsidiaries) holds or enjoys the benefit of all relevant licenses and owns all relevant intellectual property and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our controlling shareholders. We also have independent access to our customers and suppliers.

Apart from the transactions set out in “Connected Transactions,” our Directors do not expect that there will be any other significant transactions between our Group and our controlling shareholders upon or shortly after the Listing. Based on the above, our Directors believe that we are capable of carrying on our business independently of our controlling shareholders and their respective close associates.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs. Our Group’s accounting and finance functions are independent of our controlling shareholders. During the Track Record Period, we primarily

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

financed our business operation through cash generated from our business activities. As of the Latest Practicable Date, we did not have any outstanding borrowing or guarantee from or non-trade receivables or payables with our controlling shareholders or any of their respective close associates.

Having considered the above, we believe we are able to obtain external financing, when and if necessary, without guarantee or security provided by our controlling shareholders. Our Directors confirm that we will not rely on our controlling shareholders for financing after the Global Offering as we expect that our working capital will be funded from the Global Offering and cash flow from operations. Therefore, there is no financial dependence on our controlling shareholders and their respective close associates.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders' interests. We have put in place sufficient corporate governance measures to manage the conflict of interest and potential competition from our controlling shareholders and safeguard the interest of the Shareholders, including:

- (1) where a Shareholders' meeting is to be held for considering proposed transactions in which our controlling shareholders or any of his close associates has a material interest, our controlling shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (2) our Company has established internal control mechanism to identify connected transactions. After the Listing, our Company will comply with the requirements in connection with connected transactions under the Listing Rules;
- (3) where our Directors reasonably request the advice of independent professionals, such as independent financial advisors, the appointment of such independent professional will be made at our Company's expense;
- (4) we have appointed Goldlink Capital (Corporate Finance) Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance; and
- (5) we will establish the audit committee, remuneration committee and nomination committee prior to the Listing with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our controlling shareholders and their respective close associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

CONTRACTUAL ARRANGEMENTS

BACKGROUND

We are an internet company in China, offering video- and audio-based live entertainment and social networking services to our users. Business in certain areas we currently operate or intend to operate are subject to restrictions and prohibitions under current PRC laws and regulations. After consultation with our PRC Legal Advisor, we determined that it was not viable for our Company to acquire and hold the equity interest in the Consolidated Affiliated Entities under the applicable PRC laws and regulations, which hold the requisite permit and approval required for our business, including but not limited to (1) Value-Added Telecommunications Business Operating License, also known as the “ICP License” (增值電信業務經營許可證(ICP許可證)), (2) Online Culture Operating License, also known as the “ICB License” (網絡文化經營許可證(ICB許可證)) and (3) Information Network Dissemination of Audio-Visual Programs Permit (信息網絡傳播視聽節目許可證).

The relevant licenses obtained by our Consolidated Affiliated Entities are as follows:

Consolidated Affiliated Entities	Principal Activity	Relevant Licenses Obtained
Huafang Technology	Live streaming	(i) ICP License, (ii) Online Culture Operating License and (iii) Information Network Dissemination of Audio-Visual Programs Permit (信息網絡傳播視聽節目許可證)
Mijing Hefeng	Live streaming	(i) ICP License, and (ii) Online Culture Operating License
Hainan Kailin	Live streaming related business and intends to carry out more businesses which are subject to foreign investment restrictions, including but not limited to live streaming business	(i) Online Culture Operating License, and (ii) ICP License
Huafang Canlan	Has not commenced business operations within the PRC but intends to carry out businesses which are subject to foreign investment restrictions, including but not limited to live streaming business	(i) ICP License, and (ii) Online Culture Operating License

CONTRACTUAL ARRANGEMENTS

Consolidated Affiliated Entities	Principal Activity	Relevant Licenses Obtained
Holla Technology (formerly known as Mizhi Technology)	Live streaming business, and social networking service and intends to carry out more businesses which are subject to foreign investment restrictions, including but not limited to live streaming related business	(i) ICP License, and (ii) Online Culture Operating License
Chengdu Huayang	Has not commenced business operations within the PRC but intends to carry out businesses which are subject to foreign investment restrictions, including but not limited to live streaming business	(i) ICP License, and (ii) Online Culture Operating License
Maijike	Social networking service	(i) ICP License, and (ii) Online Culture Operating License
Sichuan Huayin	Live streaming business and social networking service	(i) ICP License, and (ii) Online Culture Operating License
Ruzuo Technology	Live streaming business	(i) ICP License, and (ii) Online Culture Operating License
Beijing Hongfa and Chengdu Yuanjin Culture Media Co., Ltd. (成都元錦文化傳媒有限公司) (“Chengdu Yuanjin”) ⁽¹⁾	Have not commenced business operations within the PRC but intends to carry out businesses which are subject to foreign investment restrictions, including but not limited to live streaming business	–

-
- (1) Beijing Hongfa and Chengdu Yuanjin do not hold any specific foreign restricted/prohibited license and Beijing Hongfa and Chengdu Yuanjin have not yet commenced substantive business operations and are not expected to commence any substantive business operations by the time of the Listing. Beijing Hongfa is expected to conduct entertainment live stream business to attract the users living in third- and fourth-tier cities and the users aged over 40. We will undertake to procure Beijing Hongfa and Chengdu Yuanjin not to conduct any businesses that are not subject to foreign investment restrictions or prohibitions, and to the extent that Beijing Hongfa or Chengdu Yuanjin does, we will transfer Beijing Hongfa and Chengdu Yuanjin outside the scope of the Contractual Arrangements prior to engaging in any unrestricted businesses in order to ensure that our Contractual Arrangements are narrowly tailored.

CONTRACTUAL ARRANGEMENTS

Based on the above and considering that Beijing Hongfa and Chengdu Yuanjin did not generate revenues during the Track Record Period and the assets of Beijing Hongfa and Chengdu Yuanjin are nil as of the Latest Practicable Date, the Company controls Beijing Hongfa and Chengdu Yuanjin through the Contractual Arrangements.

As a result of the foregoing, we decided that, in line with common practice in industries subject to foreign investment restrictions or prohibitions in the PRC, we would gain effective control over, and receive all of the economic benefits generated by the business currently operated by our Consolidated Affiliated Entities through a series of Contractual Arrangements we entered into with Huafang Technology and the Registered Shareholders on October 18, 2021 and further amended on September 8, 2022. The revenue generated from the Contractual Arrangements was RMB2,830.9 million, RMB3,683.5 million, RMB4,481.4 million and RMB2,021.1 million in 2019, 2020, 2021 and the five months ended May 31, 2022, respectively.

The agreements underlying such Contractual Arrangements include: (1) exclusive business co-operation agreement, (2) exclusive option agreement, (3) equity pledge agreement, (4) shareholders' rights proxy agreement, and (5) spousal consent letter, the details of such agreements are set out in the paragraph headed "Details of the Contractual Arrangements" in this section.

Pursuant to the Contractual Arrangements, all substantial and material business decisions of the Consolidated Affiliated Entities will be instructed and supervised by our Group, through our WFOE, and all risks arising from the business of the Consolidated Affiliated Entities are also effectively borne by our Group as a result of such Consolidated Affiliated Entities being treated as our wholly-owned subsidiaries. Financial positions and results of operations of the Consolidated Affiliated Entities were consolidated into our financial position and results of operations under IFRSs as if they were subsidiaries of our Group even though we do not directly own any equity interest in our Consolidated Affiliated Entities during the Track Record Period. Therefore, our Group operates and controls 100% of our online live streaming and social networking businesses in the PRC. Accordingly, our Directors consider that it is fair and reasonable for our WFOE to be entitled to all economic benefits generated by the business operated by the Consolidated Affiliated Entities through the Contractual Arrangements as a whole.

REASONS FOR ADOPTION OF THE CONTRACTUAL ARRANGEMENTS

Foreign investment activities in the PRC are mainly governed by Catalog of Industries Encouraging Foreign Investment, or the Encouraging Catalog and the Special Administrative Measures (Negative List) for the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》), or the 2021 Negative List, which have been promulgated and amended from time to time jointly by the MOFCOM and the NDRC. The Encouraging Catalog sets forth the industries in which foreign investment is encouraged, while the 2021 Negative List sets forth the industries in which foreign investment is restricted or prohibited. The current version of the Negative List

CONTRACTUAL ARRANGEMENTS

contains specific provisions on, among others, (1) market access of foreign capital; and (2) the areas of entry pertaining to the categories of restricted foreign investment industries and prohibited foreign investment industries.

A summary of our businesses that are subject to foreign investment restriction or prohibition in accordance with the 2021 Negative List and other applicable PRC laws and regulations (collectively, the “Relevant Businesses”) is set out below:

Categories	Relevant Business
Value-added Telecommunication Services Business (<i>Restricted</i>)	The online live streaming business engaged by Mijing Hefeng via <i>Huajiao</i> and Huafang Technology via <i>6.cn</i> is carried out through internet. Such business falls within the scope of telecommunications and information services provided through public network infrastructure (defined as “value-added telecommunication services business”) under the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) promulgated by the State Council on September 25, 2000 and last amended on February 6, 2016, and the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), or the FITE Regulations, promulgated by the State Council, taking effect on January 1, 2002 and last amended on March 29, 2022.

According to the 2021 Negative List and other applicable PRC laws, foreign investors are not allowed to hold more than 50% of the equity interests in an enterprise conducting value-added telecommunications services business (excluding electronic commerce, domestic multiparty communication, storage-forwarding and call center).

CONTRACTUAL ARRANGEMENTS

Categories	Relevant Business
Internet Cultural Businesses (<i>Prohibited</i>)	The online live streaming business and the operation of PK system, multiparty streaming and online interactive channels for users to share text, image and short video engaged by Mijing Hefeng via <i>Huajiao</i> and Huafang Technology via <i>6.cn</i> constitute “internet cultural businesses” as defined under the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》), promulgated by the MOC on May 10, 2003 and last amended on December 15, 2017. According to the 2021 Negative List and other applicable PRC laws, foreign investors are prohibited from holding equity interest in an enterprise carrying out “internet cultural business” (excluding music).
Transmission of Audio-Visual Programs (<i>Prohibited</i>)	<p>The live streaming businesses engaged by certain of our Consolidated Affiliated Entities involve Internet audio-visual programs, which constitute “Transmission of Audio-Visual Programs” as defined under Administrative Regulations on Internet Audio-Visual Program Service (《互聯網視聽節目服務管理規定》) promulgated by the SARFT and the MII on December 20, 2007 and last amended on August 28, 2015.</p> <p>According to the 2021 Negative List and other applicable PRC laws, foreign investors are prohibited from holding equity interest in an enterprise carrying out the business of transmission of audio-visual programs via information network.</p>

The Relevant Business

We operate the Relevant Business under the Contractual Arrangement and are of the view that the Contractual Arrangement are narrowly tailored for the reasons as explained in the paragraphs below.

We operate online live streaming and social networking business through our Consolidated Affiliated Entities.

CONTRACTUAL ARRANGEMENTS

(i) Online Live Streaming Businesses

We operate online live streaming businesses through Huafang Technology, Mijing Hefeng, Hainan Kailin and Ruzuo Technology. As advised by our PRC Legal Advisor, our operation of online live streaming businesses involves providing a mix of (i) internet information services, a subcategory of value-added telecommunication services (which is a “restricted business”), (ii) internet cultural business (which is a “prohibited business”) and/or transmission of audio-visual program services (which is a “prohibited business”), under applicable PRC laws and regulations. These entities are required to hold the relevant licenses, including (i) ICP License, (ii) ICB License and/or Audio-Visual Permit to carry out such businesses.

(ii) Online Live Streaming Businesses and Social Networking Services

Holla Technology, Sichuan Huayin and Maijike engage in the operation of online live streaming businesses and social networking services. Sichuan Huayin and Maijike are involved in social networking services only in the PRC. In particular, Sichuan Huayin is involved in the development of the Company’s audio-based app *Naitang*, and Maijike is expected to be engaged in the incubation of social networking products in the PRC. Please refer to the section headed “Business — Our Platform — Naitang” in this prospectus for further information. Each of Holla Technology, Sichuan Huayin and Maijike holds an ICB License and an ICP License. As advised by our PRC Legal Advisor, our operation of online live streaming businesses and social networking services falls within the scope of “internet cultural business” and “value-added telecommunication services”. According to the 2021 Negative list and other applicable PRC laws, while foreign investors are allowed to hold no more than 50% equity interests in an enterprise conducting value-added telecommunication services, and foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business.

(iii) Other Entities

Each of Huafang Canlan and Chengdu Huayang holds an ICB License and an ICP License while they have not yet commenced substantive business operations. Beijing Hongfa and Chengdu Yuanjin does not hold specific foreign restricted/prohibited license currently and it has not yet commenced substantive operations.

Huafang Canlan, Chengdu Huayang, Beijing Hongfa and Chengdu Yuanjin are not expected to commence any substantive business operations by the time of the Listing. We will undertake to procure these entities not to conduct any businesses that are not subject to foreign investment restrictions or prohibitions, and to the extent that any of these entities does, we will transfer such entity outside of the Contractual Arrangements prior to engaging in any unrestricted businesses.

CONTRACTUAL ARRANGEMENTS

As advised by our PRC Legal Advisor, and as confirmed in the consultation with the Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅遊部) on June 24, 2021 (“MCT Consultation”) and BMRTB on July 12, 2021 (“BMRTB Consultation”) conducted by our PRC Legal Advisor and the PRC legal advisor of the Joint Sponsors, we cannot acquire any equity interest in our Consolidated Affiliated Entities directly, under the 2021 Negative list and other applicable PRC laws, as foreign investors are prohibited from holding any equity interests in a PRC enterprise engaging in internet cultural business (excluding music) or transmission of audio-visual program.

As advised by our PRC Legal Advisor, and as confirmed in the consultation with the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) on July 13, 2021 (“MIIT Consultation”) conducted by our PRC Legal Advisor and the PRC legal advisor of the Joint Sponsors, under the 2021 Negative list and other applicable PRC laws, as foreign investors are restricted from holding more than 50% of the equity interests in an enterprise providing internet information services, which are categorized as “value-added telecommunications service business”. Additionally, the internet information services provided by our Consolidated Affiliated Entities are integrated into the operation of our online live streaming and social networking business and cannot be separated from internet cultural businesses and transmission of audio-visual programs, which fall under the “foreign-prohibited” business category.

On March 29, 2022, the State Council promulgated the Decision on Revising and Repealing Some Administrative Regulations (Order No. 752), according to which, the New Regulations for the Administration of Foreign-Invested Telecommunications Enterprises will be amended so that, among others, starting from May 1, 2022, the requirement that “a foreign major investor of a foreign-invested telecommunications enterprise which operates value-added telecommunication business shall have good track-record and operational experience in the operation of value-added telecommunication business” (Qualification Requirements) will no longer exist. As such, upon approval, foreign investors without a good track-record and operational experience may be allowed to hold no more than 50% of the equity interests of a company providing value-added telecommunications services. However, as of the Latest Practicable Date, no applicable PRC laws and regulations have provided clear guidance, and it remains uncertain as to the interpretation and enforcement of the amendment.

We offer video- and audio-based live entertainment and social networking services to our users through our Consolidated Affiliated Entities, which hold the requisite permits and approvals required for our business, including but not limited to the ICP License, the Online Culture Operating License and/or the Information Network Dissemination of Audio-Visual Programs Permit. Due to the nature of the business, the provision of value-added telecommunication service cannot be segregated from conducting online culture operation and dissemination of audio-visual programs, which shall be conducted through the same platforms. According to the 2021 Negative List, foreign investors are prohibited from holding any equity interests in a PRC enterprise engaging in internet cultural business (excluding music) or transmission of audio-visual program. As of the Latest Practicable Date, for the businesses which we operate fall within the “foreign-prohibited” business categories under the 2021

CONTRACTUAL ARRANGEMENTS

Negative List, we are unable to obtain the requisite permits and approvals through any Sino-foreign equity joint venture or wholly-owned foreign investment entity. Therefore, as advised by our PRC Legal Advisor, the legality of our Contractual Arrangements structure shall not be affected by the New Regulations for the Administration of Foreign-Invested Telecommunications Enterprises, or the Order No. 752.

Based on the above, we believe that to maintain the business operations and the effectiveness of license and permits held by our Consolidated Affiliated Entities, our Consolidated Affiliated Entities must be controlled by the Company through the Contractual Arrangements. Furthermore, since the businesses operated by Consolidated Affiliated Entities fall within both “foreign-prohibited” and “foreign-restricted” business categories under the 2021 Negative List, we are unable to set up any alternative structure that allows us to partly hold equity interests in and partly control the economic benefits of this entity via the Contractual Arrangements.

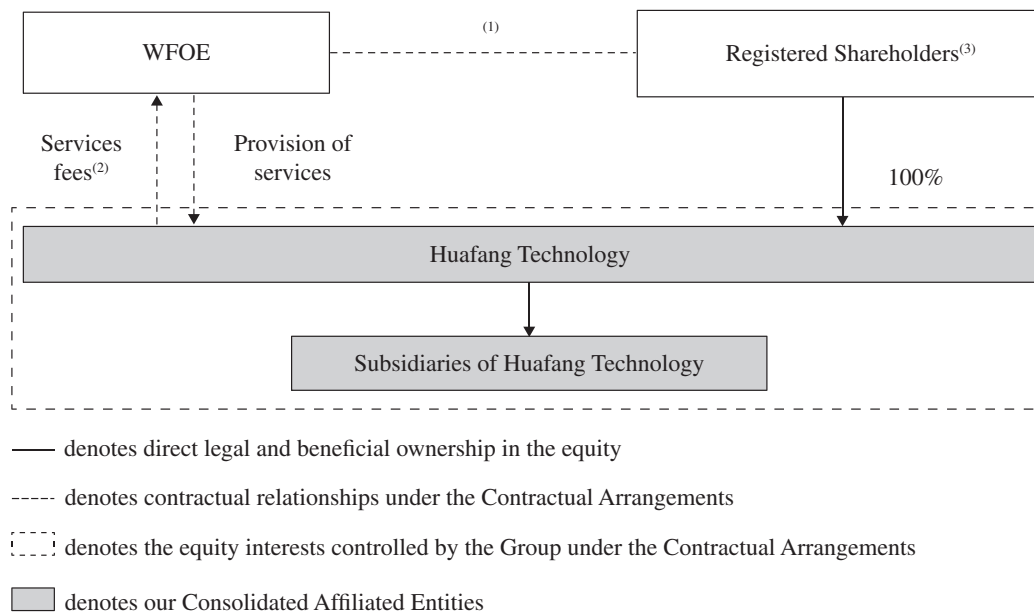
Therefore, we are of the view that our Contractual Arrangements are narrowly tailored, as they are used to merely enable our Group to conduct businesses in industries that are subject to foreign investment prohibitions in China.

Pursuant to the Contractual Arrangements, in the event that PRC laws and regulations allow Chengdu Huafang Online Technology Co., Ltd., our WFOE, or its shareholders to directly hold all or part of the equity interest in our Consolidated Affiliated Entities, and conduct the Relevant Business directly, our WFOE or its designated purchasers will exercise the call option as soon as possible under the exclusive option agreement entered into among our WFOE, Huafang Technology and the Registered Shareholders on October 18, 2021 and further amended on September 8, 2022. The percentage of equity interest of Huafang Technology to be purchased upon such exercise of the call option should not be lower than the maximum percentage then allowed to be held by our WFOE or its respective shareholders under PRC laws and regulations.

CONTRACTUAL ARRANGEMENTS

DETAILS OF THE CONTRACTUAL ARRANGEMENTS

The following simplified diagram illustrates the flow of the economic benefit from the Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



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

CONTRACTUAL ARRANGEMENTS

Our Registered Shareholders consist of PRC national, namely Zhang Fa (the “Individual Registered Shareholder”), and PRC domestic companies or PRC limited partnership enterprises (collectively, the “Corporate Registered Shareholders”). Each of the Registered Shareholders have executed an Exclusive Option Agreement, which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated September 8, 2022, a Shareholders’ Rights Proxy Agreement which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated September 8, 2022 (as defined below). Each of the Registered Shareholders have granted security interests in favor of WFOE, over the entire equity interests in Huafang Technology held by such Registered Shareholders and have registered such pledges with the relevant PRC authorities. Thus, the Corporate Registered Shareholders and Individual Registered Shareholder assume the same obligations under the Contractual Arrangements.

Our PRC Legal Advisor is of the view that each of the Contractual Arrangements is binding on the parties thereto, and the Corporate Registered Shareholders, having obtained all necessary authorizations and approvals to execute and perform the Contractual Arrangements, are bound by the Contractual Arrangements to the same extent as that applicable to Individual Registered Shareholder, and the WFOE is able to gain control over the Consolidated Affiliated Entities through agreements with the Corporate Registered Shareholders to the same extent as through agreements with the Individual Registered Shareholder.

Exclusive Business Co-operation Agreement

Huafang Technology and WFOE entered into an exclusive business co-operation agreement on October 18, 2021 (the “Exclusive Business Co-operation Agreement”, which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated September 8, 2022 (the “Exclusive Business Co-operation Supplemental Agreement”)), pursuant to which the Consolidated Affiliated Entities agreed to engage WFOE as its exclusive provider of technical support, consultation and other services, including:

- (i) to provide technical support and professional training for the staff of the Consolidated Affiliated Entities;
- (ii) to assist the Consolidated Affiliated Entities in providing consultation, collection and research on the techniques and market information in relation to the principal business of the Consolidated Affiliated Entities (except those market research that wholly foreign-owned enterprise is prohibited from engaging in by the PRC laws (including any laws, regulations, rules, notices, explanations or other binding documents issued by the central or local legislative, administrative or judicial authorities before or after the Exclusive Business Co-operation Agreement and/or the Exclusive Business Co-operation Supplemental Agreement));
- (iii) to provide the Consolidated Affiliated Entities with corporate management consultation;
- (iv) to provide the Consolidated Affiliated Entities with marketing and promotion services;

CONTRACTUAL ARRANGEMENTS

- (v) to provide the Consolidated Affiliated Entities with management services in relation to customer orders and customer related services, assist in formulating plan for maintaining the relationship with customers and assist in maintaining such relationship;
- (vi) to provide the Consolidated Affiliated Entities with services in relation to the transfer, lease and disposal of facilities and assets;
- (vii) to provide the Consolidated Affiliated Entities with services in relation to the design, installation and daily management, maintenance and update of computer network system, hardware and database;
- (viii) to allow the use by the Consolidated Affiliated Entities of intellectual property rights legally owned by WFOE or persons designated by WFOE;
- (ix) to provide the Consolidated Affiliated Entities with system integration, product development and system maintenance services; and
- (x) to provide other services as required by the Consolidated Affiliated Entities from time to time if permitted by the laws of the PRC.

Pursuant to the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement, the service fee shall be equivalent to the total consolidated profit of the Consolidated Affiliated Entities, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, WFOE shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating conditions and expansion needs of the Consolidated Affiliated Entities, provided that the adjusted amount shall not exceed the limit as stated above. WFOE shall send the payment notification to Huafang Technology within 40 days after each fiscal year end for the services provided in the preceding fiscal year. The Consolidated Affiliated Entities have agreed to pay the service fee within 30 days after receiving the relevant notice.

In addition, pursuant to the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement, without the prior written approval from WFOE, the Consolidated Affiliated Entities shall not, and shall procure the other Consolidated Affiliated Entities not to, accept the same or any similar services provided by any third party and shall not, establish cooperation relationships similar to that formed by the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement with any third party.

CONTRACTUAL ARRANGEMENTS

The Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement also provide that, (1) all proprietary rights and other rights and interests of all intellectual property rights generated, developed or created during the performance of the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement are solely and exclusively owned by WFOE, and (2) WFOE is authorized to use all existing intellectual property rights owned by the Consolidated Affiliated Entities before execution of the Exclusive Business Co-operation Agreement and/or the Exclusive Business Co-operation Supplemental Agreement for free.

Our Directors are of the view that the above arrangement will ensure the economic benefits generated from the operations of the Consolidated Affiliated Entities will flow to WFOE and hence, our Group as a whole.

The Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement shall take effect upon their respective execution dates and shall remain valid unless (1) all the equity interests and/or assets of Huafang Technology have been legally transferred to WFOE or the nominee(s) designated by WFOE; or (2) it is terminated in accordance with the provisions of the Exclusive Business Co-operation Agreement and/or the Exclusive Business Co-operation Supplemental Agreement. Nonetheless, WFOE shall always have the rights to terminate the Exclusive Business Co-operation Agreement and/or the Exclusive Business Co-operation Supplemental Agreement by giving a prior written notice of termination.

Exclusive Option Agreement

WFOE, Huafang Technology and the Registered Shareholders entered into an exclusive option agreement on October 18, 2021 (the “Exclusive Option Agreement” which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated September 8, 2022 (the “Exclusive Option Supplemental Agreement”)), pursuant to which the Registered Shareholders and the Consolidated Affiliated Entities jointly and severally granted irrevocably to WFOE the rights to require the Registered Shareholders to transfer any or all their equity interests and/or assets in the Consolidated Affiliated Entities to WFOE and/or its nominee(s), in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations. The Registered Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, they will return to WFOE and/or its nominee(s) any consideration paid by WFOE and/or its nominee(s) within 10 business days as requested by WFOE. The Registered Shareholders and the Consolidated Affiliated Entities shall not grant exclusive option to any third party.

CONTRACTUAL ARRANGEMENTS

Pursuant to the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement, the Registered Shareholders and the Consolidated Affiliated Entities have undertaken to perform certain acts or refrain from performing certain other acts unless they have obtained prior written approval from WFOE, including but not limited to the following matters:

- (i) Huafang Technology shall not in any manner supplement, change or alter its business scope, constitutional documents, increase or decrease its registered capital or change the structure of its registered capital in other manner without the prior written consent of WFOE;
- (ii) Huafang Technology shall prudently and effectively operate its business and transactions in accordance with the good financial and business standards and practices as a going concern;
- (iii) the Consolidated Affiliated Entities shall not sell, transfer, gift, create encumbrances or otherwise dispose of any of its or its subsidiaries' assets, business, legal or beneficial interest of its income or allow any security interest to be created thereon without the prior written consent of WFOE;
- (iv) Huafang Technology shall not terminate or procure its management team to terminate any of the Contractual Arrangements, or enter into any contracts or agreements that conflict with the Contractual Arrangements;
- (v) Huafang Technology and its subsidiaries shall not incur any indebtedness other than those in the ordinary course of business, or having been disclosed to and consented by WFOE in writing;
- (vi) except as demanded by PRC laws, Huafang Technology shall not dissolve or liquidate without the prior written consent of WFOE;
- (vii) Huafang Technology and its subsidiaries shall maintain their normal operation within their principal business scope and shall not alter its principal business or allow any acts or transactions which adversely affects Huafang Technology's business or assets value;
- (viii) Huafang Technology and its subsidiaries shall not enter into any material contracts with a value above RMB0.5 million without the prior written consent of WFOE, except the contracts executed in the ordinary course of business;
- (ix) Huafang Technology and its subsidiaries shall not provide loan or guarantee to any person without the prior written consent of WFOE;
- (x) Huafang Technology and its subsidiaries shall provide its labor, operational and financial information to WFOE or its nominee(s) upon WFOE's request;

CONTRACTUAL ARRANGEMENTS

- (xi) Huafang Technology shall not spin-off, merge, enter into joint operation agreements with other entities, acquire or be acquired by other entities; or invest in any entities without the prior written consent of WFOE;
- (xii) Huafang Technology shall immediately inform WFOE if its and its subsidiaries' assets, business or income may be subject to any litigations, arbitrations or administrative proceedings and shall take all necessary actions as reasonably requested by WFOE;
- (xiii) Huafang Technology shall sign all necessary and appropriate documents, take all necessary and proper acts, bring up all necessary and proper requests, or take necessary and proper defenses against claims to maintain Huafang Technology and its subsidiaries' ownership of all their assets;
- (xiv) if the Registered Shareholders or Huafang Technology fail(s) to perform the tax obligations under applicable laws and results in obstacles for WFOE to exercise its exclusive option right, WFOE may request Huafang Technology or the Registered Shareholders to perform the tax obligations or pay the amount equivalent thereto to WFOE;
- (xv) Huafang Technology shall not distribute any bonus, dividend, distributable profits and/or assets and other income derived from the equity interests held by the Registered Shareholders to the Registered Shareholders without the prior written consent of WFOE;
- (xvi) when necessary, Huafang Technology and its subsidiaries shall only purchase insurances from insurers that WFOE recognizes, and the amounts and categorizes of the insurances shall be the same with the companies having similar business and other income derived from the equity interests held by the Registered Shareholder or assets in the same area; and
- (xvii) WFOE has the right to appoint the director(s) of Huafang Technology.

The Exclusive Option Agreement and/or the Exclusive Option Supplemental Agreement take effect upon their respective execution dates and shall remain valid until (1) it is terminated in writing by all parties, or (2) upon the transfer of the entire equity interests held by the Registered Shareholders and/or the transfer of all the assets of Huafang Technology to WFOE and/or its nominee(s). Nonetheless, WFOE shall always have the rights to terminate the Exclusive Option Agreement and/or the Exclusive Option Supplemental Agreement by giving a prior written notice of termination.

CONTRACTUAL ARRANGEMENTS

Equity Pledge Agreement

WFOE, Huafang Technology and the Registered Shareholders entered into an equity pledge agreement on October 18, 2021 (the “Equity Pledge Agreement”) which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated September 8, 2022 (the “Equity Pledge Supplemental Agreement”), pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in the Consolidated Affiliated Entities to WFOE as a security interest to guarantee (1) the payment of service fee and interest under the Contractual Arrangements; (2) performance of all other obligations under the Contractual Arrangements; and (3) other payment obligations arising from or in connection with the Contractual Arrangements, including but not limited to liquidated damages, compensations and each expense for the realization of the pledge.

Under the Equity Pledge Agreement and the Equity Pledge Supplemental Agreement, the Registered Shareholders represent and warrant to WFOE including but not limited to the following matters:

- (i) the pledged equity interests can be pledged and transferred legally. Each of the Registered Shareholders is the only legal owner of their respective equity interests and have the authority to pledge all or any part of the equity interests. There is no existing dispute in relation to the ownership of the pledged equity interests;
- (ii) except as agreed in the Contractual Arrangements, there is no other pledge, mortgages or encumbrances in any other forms on the pledged equity interests and WFOE shall enjoy the first priority of security interest in respect of the pledged equity interests;
- (iii) each of the Registered Shareholders shall not transfer all or any part of his/her/its equity interests in Huafang Technology and shall not create or allow any guarantee or other liabilities thereon that may affect the rights and interest of WFOE without its prior written consent;
- (iv) each of the Registered Shareholders shall not create or allow others to create any new encumbrances on the pledged equity interests without the prior written consent of WFOE. Any encumbrances created on all or any part of the pledged equity interests without the prior written consent of WFOE shall be invalid;
- (v) each of the Registered Shareholders shall not perform any acts which may adversely reduce the value of the pledged equity interests or adversely affect the validity of the pledge under the Equity Pledge Agreement and/or the Equity Pledge Supplemental Agreement. The Registered Shareholders shall inform WFOE immediately if such event happens and shall use his/her/its other assets to provide guarantee as reasonably requested and satisfied by WFOE and to take all necessary actions to solve or minimize the adverse effect;

CONTRACTUAL ARRANGEMENTS

- (vi) the Registered Shareholders shall comply with and perform the provisions under all laws and regulations in relation to pledge of the equity interests. Upon receiving the notices, orders or suggestions from the relevant authorities in relation to pledge, the Registered Shareholders shall present such notices, orders or suggestions within five working days to WFOE and comply with such notices, orders or suggestions or to raise opposition as reasonably requested or consented by WFOE; and
- (vii) each of the Registered Shareholders has agreed to, and has procured its immediate shareholder(s) (or partner(s)), ultimate shareholder(s) (or de facto controller(s)), directors, successors, agents and property trustees to make all appropriate arrangements and sign all necessary documents to ensure that in case of (i) merge, spin-off, dissolution, liquidation, de-registration, revocation of business license or transfer of equity interests; (ii) change of controlling shareholders or general partner(s) or de facto controllers; (iii) death, incapacity, divorce and/or other circumstances that may affect the Registered Shareholders to exercise his/her/its rights; and/or (iv) the occurrence of any circumstances that may affect the Registered Shareholders to exercise his/her/its rights, the successors, liquidators, creditors, transferees, agents or property trustees of the Registered Shareholders shall continue to perform the obligations of the agreement.

The Equity Pledge Agreement and the Equity Pledge Supplemental Agreement take effect upon their respective execution dates and shall remain valid until (i) all the agreements underlying the Contractual Arrangements (other than the Equity Pledge Agreement and the Equity Pledge Supplemental Agreement) have been terminated; (ii) all the obligations under the Contractual Arrangements have been fulfilled or all the secured debts have been repaid; or (iii) each of the Registered Shareholders has transferred his/her/its equity interests in Huafang Technology or Huafang Technology has transferred all of its assets in accordance with the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement. Nonetheless, WFOE shall always have the rights to terminate the Equity Pledge Agreement and the Equity Pledge Supplemental Agreement by giving a prior written notice of termination. The registration of the pledge of equity interests of Huafang Technology as required by the relevant laws and regulations was completed on October 20, 2021 in accordance with the terms of the Equity Pledge Agreement and the Equity Pledge Supplemental Agreement and PRC laws and regulations. The registration of the pledge of equity interests of the operating subsidiaries of Huafang Technology as required by the relevant laws and regulations was completed on September 26, 2022.

Shareholders' Rights Proxy Agreement

Huafang Technology, the Registered Shareholders and WFOE entered into a shareholders' rights proxy agreement on October 18, 2021 (the "Shareholders' Rights Proxy Agreement" which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated September 8, 2022 (the "Shareholders' Rights Proxy Supplemental

CONTRACTUAL ARRANGEMENTS

Agreement”)), pursuant to which, each Registered Shareholders irrevocably appoints WFOE and/or its nominee(s) to exercise such shareholder’s rights in the Consolidated Affiliated Entities, including without limitation to, the rights to:

- (i) propose to convene, participate in and attend the general meetings of the Consolidated Affiliated Entities on behalf of the Registered Shareholders, receive any notices on the convening and proceedings of the general meetings and sign the minutes and resolutions of the meetings, exercise voting rights on all matters that require discussion and resolution of the general meetings (including but not limited to the designation, appointment or replacement of directors, legal representatives, supervisors and senior management of the Consolidated Affiliated Entities), and sign any documents that require signature from the Registered Shareholders and submit any documents for filing purposes to the company registration authority on behalf of the Registered Shareholders;
- (ii) authorize or resolve on the disposal of assets of the Consolidated Affiliated Entities on behalf of the Registered Shareholders;
- (iii) resolve on the dissolution and liquidation of the Consolidated Affiliated Entities on behalf of the Registered Shareholders, and form a liquidation group on behalf of the Registered Shareholders and exercise the authority of the liquidation group during the liquidation period according to law;
- (iv) decide to transfer or otherwise dispose of the equity interests of the Consolidated Affiliated Entities held by the Registered Shareholders and, for the purposes of the foregoing, sign all required documents and perform all required procedures on behalf of the Registered Shareholders; and
- (v) exercise other shareholder’s rights as specified in other applicable PRC laws and regulations and the articles of association of the Consolidated Affiliated Entities (and its amendments from time to time).

Pursuant to the Shareholders’ Rights Proxy Agreement and the Shareholders’ Rights Proxy Supplemental Agreement, Huafang Technology, as the direct and indirect controlling shareholder of all operating subsidiaries, irrevocably appoints WFOE and/or its nominee(s) to exercise the voting right and all other shareholder’s rights as specified by PRC laws and regulations and the articles of association in all operating subsidiaries.

The Shareholders’ Rights Proxy Agreement and the Shareholders’ Rights Proxy Supplemental Agreement have an indefinite term and will be terminated in the event that all the equity interests held by the Registered Shareholders or all assets of Huafang Technology have been legally and effectively transferred to WFOE and/or its nominee(s). Nonetheless, WFOE shall always have the rights to terminate the Shareholders’ Rights Proxy Agreement and the Shareholders’ Rights Proxy Supplemental Agreement by giving a prior written notice of termination.

CONTRACTUAL ARRANGEMENTS

Spousal undertakings

The spouse of each of the Registered Shareholders, where appropriate, has signed an undertaking to the effect that (1) he/she has unconditionally and irrevocably waived the rights to the respective Registered Shareholders' rights or interests in the equity interests in Huafang Technology and will not have any claim on such interests; (2) the respective Registered Shareholders has exclusive right to enjoy and perform the rights and obligations under the Contractual Arrangements and does not require the consent of the spouse; and (3) should the spouse acquire the respective Registered Shareholders' equity interests in Huafang Technology, he/she shall be bound by the Contractual Arrangements, and at the request of WFOE, he/she shall sign documents in the form and substance consistent with the Contractual Arrangements.

Dispute resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the China International Economic and Trade Arbitration Commission ("CIETAC") for arbitration after 30 days from negotiation notice issued by the other party, in accordance with the then effective arbitration rules. The arbitration shall be confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that to the extent permitted by PRC law, the arbitral tribunal may award any temporary or permanent injunctive relief (for instance, the injunctive relief for commencement for business operation or transfer of assets), remedies against the equity interests or assets of Huafang Technology, or order the winding up of Huafang Technology.

However, our PRC Legal Advisor has advised that an arbitral tribunal normally would not grant such kind of injunctive relief or order the winding up of Huafang Technology pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC. As a result of the above, in the event that Huafang Technology or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner. See "Risk Factors — Risks Related to Our Corporate Structure" for further details.

Conflict of interest

The Shareholders' Rights Proxy Agreement and the Shareholders' Rights Proxy Supplemental Agreement provide that, in order to avoid potential conflicts of interest, where the Registered Shareholders are directors or staff of our Company, the power of attorney shall be granted to other unrelated directors or staff of our Company, and any director or staff of our Company who are Registered Shareholders shall not participate in the decisions in relation to the Contractual Arrangements.

CONTRACTUAL ARRANGEMENTS

Loss sharing

Under the relevant PRC laws and regulations, neither of our Company nor WFOE is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. WFOE intends to continuously provide to or assist our Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through our Consolidated Affiliated Entities, which hold the requisite PRC operational license and approvals, and that their financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

However, as provided in the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement, without the prior written consent of WFOE, Huafang Technology shall not, among others, (1) sell, transfer, pledge or dispose of in any manner any of its assets or allow any third party create any other security interest on its assets; (2) execute any material contract with a value above RMB0.5 million, except those entered into in the ordinary course of business; (3) provide any loan or guarantees in any form to any third party; (4) incur, inherit, guarantee or assume any debt that is not incurred in the ordinary course of business or not disclosed to and consented by WFOE; (5) enter into any spin-off, consolidation or merger with any third party, or acquire or being acquired by any third party; and (6) increase or reduce its registered capital, or alter the structure of the registered capital in any other way. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on WFOE and our Company in the event of any loss suffered from the Consolidated Affiliated Entities can be limited to a certain extent.

Liquidation

Pursuant to the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement, in the event of a mandatory liquidation required by the PRC laws, the Registered Shareholders have hereby irrevocably undertaken that, in compliance with the PRC laws, Huafang Technology shall transfer all remaining asset to WFOE or its nominee(s), at the lowest price as permitted by the PRC laws, after deduction of payments of liquidation expenses, staff salaries, social security fee, statutory compensation, and outstanding taxes and settlement of other debts. WFOE or its nominee(s) does not have any payment obligation arising thereon to the extent permitted by the applicable laws of the PRC in force. The Registered Shareholders shall return to WFOE or its nominee(s) any income (if any) received by them arising from such transaction to the extent permitted by then applicable laws of the PRC in force.

CONTRACTUAL ARRANGEMENTS

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Our confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our business through our Consolidated Affiliated Entities under the Contractual Arrangements.

Circumstances under which we will adjust or unwind the Contractual Arrangements

We will adjust or unwind (as the case maybe) the Contractual Arrangements as soon as practicable in respect of the operation of our business to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority accepts applications for the requisite permit and approval required for our business to be made by sino-foreign equity joint ventures or wholly-owned foreign investment entities under relevant PRC laws and regulations.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, our PRC Legal Advisor is of the opinion that:

- (a) as confirmed by the parties to the Contractual Arrangements, each of our WFOE and Huafang Technology has obtained all necessary approvals and authorizations to execute and perform the Contractual Arrangements;
- (b) parties to each of the Contractual Arrangements are entitled to execute the agreements and perform their respective obligations thereunder. Each of the Contractual Arrangements is binding on the parties thereto and none of them would violate the provisions of the Civil Code including in particular “impairing other’s legitimate rights and interests with malicious collusion” or fall within any of the circumstances under which a contract may become invalid under the Civil Code of the People’s Republic of China;
- (c) none of the Contractual Arrangements violates any provisions of the articles of association of our WFOE or Huafang Technology;

CONTRACTUAL ARRANGEMENTS

- (d) the execution and performance of the Contractual Arrangements are not required to obtain any approvals or authorizations from the PRC governmental authorities, except that:
 - (i) the exercise of the option by the WFOE of its rights under the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement to acquire all or part of the equity interests and/or assets in Huafang Technology are subject to the approvals of and/or registrations with the PRC regulatory authorities;
 - (ii) any share pledge contemplated under the Equity Pledge Agreement and the Equity Pledge Supplemental Agreement is subject to the registration with local administration bureau for industry and commerce;
 - (iii) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by PRC courts before compulsory enforcement.

- (e) each of the Contractual Arrangements is valid, legal and binding under PRC laws, except for the following provisions regarding dispute resolution and the liquidating committee:
 - (i) the Contractual Arrangements provide that any dispute shall be submitted to the CIETAC for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing. They also provide that the arbitrator may award interim remedies over the shares or assets of Huafang Technology, including compensation, injunctive relief (including but not limited to injunctive relief relating to the conduct of business and injunctive relief compelling transfer of assets), enforce the contract or order the winding up of our Consolidated Affiliated Entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the PRC (being the place of incorporation of Huafang Technology) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of Huafang Technology. However, our PRC Legal Advisor has advised that an arbitration tribunal has no power to grant injunctive relief nor will it be able to order the winding up order of companies under PRC laws, and that the interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; and
 - (ii) the Contractual Arrangements provide that the Registered Shareholders undertake to authorize the WFOEs to appoint a liquidation committee upon the winding up of the Consolidated Affiliated Entities to manage their assets. However, in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, these provisions may not be enforceable under PRC laws.

CONTRACTUAL ARRANGEMENTS

Contractual Arrangements

However, on December 24, 2021, the CSRC promulgated New Consultation Drafts for public consultations until January 23, 2022, and according to the CSRC, under the PRC laws and regulations, VIE-structure enterprises that meet the compliance requirements can be listed overseas after filing. However, since the New Consultation Drafts have not taken effect, they are silent on how to define and determine the compliance with the requirements of the VIE-structure. As advised by our PRC Legal Advisor, there are substantial uncertainties regarding the interpretation and application of above current and future PRC laws and regulations over the validity of the Contractual Arrangements. Accordingly, there can be no assurance that the PRC governmental authorities, including but not limited to the CSRC, will not in the future take a view that is contrary to the opinions of our PRC Legal Advisor or impose additional compliance requirements on our contractual arrangements. For more information, please refer to the sections headed “Risk Factors — Risks Related to Our Corporate Structure” and “Risk Factors — Risks Related to Doing Business in China — The approval of or filing procedure with the CSRC may be required in connection with the Global Offering, and, if required, we cannot predict whether we will be able to obtain such approval.” in this prospectus.

Notwithstanding the foregoing, as confirmed in (1) the MCT Consultation, (2) the BMRTB Consultation, and (3) the MIIT Consultation, conducted by our PRC Legal Advisor and the PRC legal advisor of the Joint Sponsors, our Contractual Arrangements would not require their approvals.

Our PRC Legal Advisor is of the view that (1) the MIIT, BMRTB and MCT are the competent regulatory authorities for the Company’s principal business activities and therefore have competent authorities to give the confirmations above; (2) based on these interviews, the adoption of the Contractual Arrangements would not require approvals from the relevant PRC regulatory authorities; and (3) based on these interviews, the adoption of the Contractual Arrangements does not constitute a breach of the relevant PRC laws and regulations.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Combination of financial results of our Consolidated Affiliated Entities

Under the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement, it was agreed that, in consideration of the services provided by WFOE, Huafang Technology will pay service fees to WFOE. Subject to the provisions of PRC laws, the services fees are the remaining amount of the after-tax profits of the Consolidated Affiliated Entities after making up the losses in the previous year (if any) and extracting the statutory reserve (if applicable). Without exceeding the agreed limits aforesaid, WFOE has the right to adjust the amount of service fees based on the specific circumstances of its services provided to the Consolidated Affiliated Entities, as well as the operation conditions and development needs of the Consolidated Affiliated Entities. WFOE also has the right to periodically receive or inspect the accounts of Huafang Technology. Accordingly,

CONTRACTUAL ARRANGEMENTS

WFOE has the ability, at its sole discretion, to extract all of the economic benefit of Huafang Technology through the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement.

In addition, under the Exclusive Business Co-operation Agreement, the Exclusive Business Co-operation Supplemental Agreement, and the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of Huafang Technology as WFOE's prior written consent is required before any distribution can be made. In the event that Huafang Technology distributes any bonus, dividends, distributable profits and/or any assets and other income derived from the equity interests held by the Registered Shareholders without the prior written consent of WFOE, the Registered Shareholders shall notify WFOE within three working days upon obtaining the said interests and pay the relevant interests to WFOE as soon possible in accordance with the terms of the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through WFOE and, at our Company's sole discretion, can receive all of the economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, our Consolidated Affiliated Entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial statements.

In this regard, our Directors consider that our Company can consolidated the financial results of our Consolidated Affiliated Entities into our Group's financial information as if they were our Company's subsidiaries. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in note 1 to the Accountants' Report in Appendix I to this prospectus.

DEVELOPMENT IN LEGISLATION ON FOREIGN INVESTMENT

The Foreign Investment Law

Foreign Investment Law (the "Foreign Investment Law") was adopted at the 2nd Session of the 13th National People's Congress of the PRC on March 15, 2019 and came into force from January 1, 2020. On December 26, 2019, the State Council promulgated the Implementation Rules of the Foreign Investment Law of the PRC (中華人民共和國外商投資法實施條例), which came into effect on January 1, 2020.

The Foreign Investment Law stipulates the implement of the management systems of pre-establishment national treatment and "negative list" for foreign investment. The "negative list", which will be issued by, amended or released upon approval by the State Council from time to time, refers to special administrative measures for access of foreign investment in specific fields in China. A foreign investor shall not invest in any field in the "negative list" which is prohibited from foreign investment. A foreign investor shall meet the investment conditions stipulated under the "negative list" for any field in the "negative list" which is

CONTRACTUAL ARRANGEMENTS

restricted from foreign investment. Concerning fields not mentioned in the “negative list”, management shall be conducted under the principle of consistency of domestic and foreign investment. The Foreign Investment Law does not contain or quote the stipulation of the “negative list”.

The definition of “foreign investors” in Foreign Investment Law includes foreign natural persons, enterprises and other organizations.

Moreover, the Foreign Investment Law does not stipulate that the “foreign investment” as defined thereunder shall include Contractual Arrangements. Instead, it adds a catch-all provision to the definition of foreign investment so that foreign investment, by its definition, includes “investments through other means stipulated under laws or administrative regulations or provisions prescribed by the State Council” without elaboration on “other means”.

Impact and potential consequences of the Foreign Investment Law on our Contractual Arrangements

Our PRC Legal Advisor is of the view that, provided that no additional laws, administrative regulations, departmental rules or other regulatory documents on contractual arrangements have been issued and enacted, the Foreign Investment Law does not, by itself, have any material adverse operational and financial impact on the legality and validity of the Company’s Contractual Arrangements. Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “investments through other means stipulated under laws or administrative regulations or provisions prescribed by the State Council”. Therefore, there remains uncertainty regarding whether future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares. See “Risk Factors — Risks Related to Our Corporate Structure” for further details of the risks we face relating to our Contractual Arrangements. Our Company will disclose, as soon as possible, updates of changes to the Foreign Investment Law that will materially and adversely affect our Company as and when occur.

If the operations of our internet cultural business, transmission of Audio-Visual Programs services, and value-added telecommunication services business are not on the “negative list” and we can legally operate such business under PRC laws, the WFOE will exercise the call option under the Exclusive Option Agreements and the Exclusive Option Supplemental Agreement to acquire the equity interest of our Consolidated Affiliated Entities and unwind the Contractual Arrangements subject to re-approval by the relevant authorities.

CONTRACTUAL ARRANGEMENTS

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (i) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (iii) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and
- (iv) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

CONNECTED TRANSACTIONS

CONNECTED PERSONS

The following sets forth our connected persons that will conduct continuing connected transactions with us upon or after the Listing and the details of their relationship with our Group:

Connected Persons	Relationships with our Group
Beijing Hongxiang Technology Services Co., Ltd. (北京鴻享技術服務有限公司) and its subsidiaries and associates (the “Qihoo Group”)	a company that is controlled by Mr. Zhou, our controlling shareholder, and principally engaged in technology promotion and application service
Qihoo 360, Huajiao No. 1 and Huajiao No. 2	each of them is controlled by Mr. Zhou, our controlling shareholder. Qihoo 360 is principally engaged in internet and security services, while Huajiao No. 1 and Huajiao No. 2 are principally engaged in investment holding
Songcheng Performance	our controlling shareholder and principally engaged in investment, development and operation of theme parks, tourism, and cultural performance

CONTINUING CONNECTED TRANSACTIONS

The following table sets forth the continuing connected transactions with our Group following the Listing:

Transaction	Applicable Listing Rules	Waiver sought	Proposed annual cap for the year ending December 31,		
			2022	2023	2024
<i>(RMB)</i>					
<i>Non-fully exempt continuing connected transactions (subject to reporting, annual review and announcement requirements)</i>					
Master Technical Services Framework Agreement	14A.35, 14A.53, 14A.76(2) and 14A.105	Requirements as to announcement under Chapter 14A of the Listing Rules	41,000,000	43,000,000	45,000,000

CONNECTED TRANSACTIONS

Transaction	Applicable Listing Rules	Waiver sought	Proposed annual cap for the year ending December 31,		
			2022	2023	2024
<i>(RMB)</i>					
<i>Non-exempt continuing connected transactions (subject to reporting, annual review, announcement and independent Shareholders' approval requirements)</i>					
Contractual Arrangements	14A.34, 14A.35, 14A.36, 14A.46, 14A.49, 14A.52 to 14A.59, 14A.71 and 14A.105	Requirements as to announcement, independent Shareholders' approval, annual cap and three year term under Chapter 14A of the Listing Rules	–	–	–

Non-fully exempt continuing connected transactions (subject to reporting, annual review and announcement requirements)

We set out below a summary of the continuing connected transaction of our Group which are partially exempt from the circular and independent shareholders' approval requirements under Rule 14A.76(2) in Chapter 14A of the Listing Rules.

Master Technical Service Framework Agreement

Principal Terms

On November 22, 2022, Huafang Technology and Qihoo Group entered into a master technical service framework agreement (the "Master Technical Service Framework Agreement"), pursuant to which, Qihoo Group agrees to provide us with server lease and custody services, cloud services and other technical services for our video- and audio-based live streaming for a period starting from the date of the agreement and ending on December 31, 2024. Any member of our Group may enter into individual agreement for specific service required with any member of Qihoo Group under the Master Technical Service Framework Agreement.

Reason for the Transactions

Qihoo Group is a leading provider of internet value added service in the PRC, and offers a wide range of high-quality products and services. We have migrated the majority of our servers and computing infrastructure to *360 Cloud* operated by Qihoo Group. The Directors believe that the procurement of high-quality services from Qihoo Group, especially

CONNECTED TRANSACTIONS

technological services, will provide us with the necessary technologies to further develop our business, and we can leverage on the wide spectrum of services offered by Qihoo Group to reduce unnecessary costs in reconciling and integrating the differences between different systems.

Historical Amount

During the years ended December 31, 2019, 2020, 2021 and the five months ended May 31, 2022, the service fees paid by our Group to Qihoo Group was approximately RMB40.2 million, RMB38.4 million, RMB34.6 million and RMB13.0 million, respectively.

Annual Cap and Basis for Annual Cap

Our Directors estimate that the service fees payable by our Group to Qihoo Group will not exceed RMB41.0 million, RMB43.0 million and RMB45.0 million for the year ending December 31, 2022, 2023 and 2024, respectively.

In determining such annual caps, our Directors have considered (i) historical transaction amount, (ii) prices offered from other service providers of comparable services, (iii) the potential fluctuations in the market price for comparable services in the future; and (iv) increase in our demand for related technical services in line with the expansion of our business operation. The annual cap for the year ending December 31, 2022 was determined with reference to the average historical amount for the three years ended December 31, 2021, i.e. RMB37.7 million, and the annual caps for the year ending December 31, 2023 and 2024 were calculated based on approximately 5% year-over-year increase, considering the anticipated growth and development of our business and operation.

The decrease in the service fees paid to Qihoo Group for the years ended December 31, 2019, 2020 and 2021 is due to the Group's gradual switch to the engagement of other independent third party cloud service providers. However, having considered (i) the uncertainties in the quality of service provided by those independent third party cloud service providers, and (ii) the fluctuation of the quotation from those independent third party cloud service providers, the Group has decided to continue to purchase the technical services from Qihoo Group to a larger extent.

Pricing Policies

In respect of server lease and custody services, we shall pay Qihoo Group on the basis of the quality of servers, the number of servers leased or maintained and the service term. The service fees payable by us to Qihoo Group shall be based on arm's length commercial negotiations subject to our internal control measures on connected transactions and be comparable to the service fees paid by us to Independent Third Party suppliers for similar services.

CONNECTED TRANSACTIONS

In respect of cloud services, we shall pay Qihoo Group on the basis of amount of services provided taking into account number of devices, traffic volume and storage space volume involved. The service fees payable by us to Qihoo Group shall be based on arm's length commercial negotiations subject to our internal control measures on connected transactions and shall be comparable to the service fees paid by us to Independent Third Party suppliers for similar services.

In respect of the procedures for obtaining quotations, the management normally solicit at least two other contemporaneous transactions with unrelated third parties for comparable services to determine if the price and terms offered by Qihoo Group are fair and reasonable and comparable to those offered by unrelated third parties.

Listing Rule Implications

The Master Technical Service Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of our business and on normal commercial terms or better and our Directors currently expect that one or more of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of such transactions will exceed 0.1% but will be lower than 5%. Pursuant to Rule 14A.76(2)(a) of the Listing Rules, the transactions will be exempt from circular and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules, but will be subject to reporting, annual review and announcement requirements.

Waiver Application

Given the transactions under the Master Technical Service Framework Agreement will be carried out from time to time after the Listing and the related framework agreement is disclosed in this prospectus, our Directors consider that strict compliance with the announcement requirement in respect thereof would be impractical and unduly burdensome, and would add unnecessary administrative cost to us. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the Master Technical Service Framework Agreement. In case of any future amendment to the Listing Rules which is stricter than the requirements applicable to continuing connected transactions disclosed in this prospectus, we will take appropriate measures to ensure the compliance by us of relevant requirements within a reasonable time period.

Directors' Views

Our Directors (including our independent non-executive Directors) consider that the non-exempt continuing connected transactions under the Master Technical Service Framework Agreement, including but not limited to terms and annual caps thereof, have been entered into and will be entered into, as applicable, (1) in the ordinary and usual course of our business; (2)

CONNECTED TRANSACTIONS

on normal commercial terms or better; (3) are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (4) the proposed annual caps of the non-exempt continuing connected transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Joint Sponsors' Views

The Joint Sponsors have (1) reviewed the relevant documents and historical figures prepared and provided by the Company in relation to the above non-exempt continuing connected transactions; and (2) discussed with the Company with respect to the above non-exempt continuing connected transactions. Based on the above and the representations and confirmations from the Group, the Joint Sponsors are of the view that the proposed annual caps of the above non-exempt continuing connected transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and that such transactions have been and will be, as applicable, entered into in the ordinary and usual course of the Company's business, on normal commercial terms or better, and are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Non-exempt continuing connected transactions (subject to reporting, annual review, announcement and independent Shareholders' approval requirements)

Contractual Arrangements

Background

As disclosed in the section headed "Contractual Arrangements" in this prospectus, due to regulatory restrictions on foreign ownership in the PRC, we conduct our business through Huafang Technology and its subsidiaries, being our Consolidated Affiliated Entities. We do not hold any equity interests in Huafang Technology, which is held by the Registered Shareholders. Instead, we effectively control Huafang Technology and are able to derive substantially all of its economic benefits through the Contractual Arrangements and expect to continue to do so. The Contractual Arrangements among WFOE, Huafang Technology and the Registered Shareholders enable us to, (1) receive substantially all of the economic benefits from Huafang Technology in consideration for the services provided by WFOE; (2) exercise effective control over Huafang Technology; and (3) hold an exclusive option to purchase all or part of the equity interests in Huafang Technology when and to the extent permitted by PRC laws. The Contractual Arrangements consist of various types of documents. For detailed terms of these documents, see "Contractual Arrangements."

Listing Rules Implications

Huafang Technology is an entity owned as to more than 30% by Mr. Zhou and Songcheng Performance respectively, our controlling shareholders, and thus is a connected person of our Group pursuant to Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions

CONNECTED TRANSACTIONS

of our Company under the Listing Rules upon the Listing. One or more of the applicable percentage ratios of transactions contemplated under the Contractual Arrangements are expected to be more than 5%. Therefore, the transactions will constitute non-exempt continuing connected transactions of our Group and will be subject to reporting, announcement, circular, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reasons for the Waiver Application

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business operations, that such transactions have been and shall be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms or better, which are fair and reasonable and in the interests of our Group and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing agreements to be entered into between our Consolidated Affiliated Entities and any member of our Group ("New Intergroup Agreements" and each of them, a "New Intergroup Agreement") technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the reporting, announcement, circular, independent shareholders' approval requirements.

Application for Waiver

In view of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (1) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (2) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (3) the requirement of limiting the terms for the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

- (a) No change without independent non-executive Directors' approval

No change to the Contractual Arrangements (including with respect to any fees payable to WFOE thereunder) will be made without the approval of the independent non-executive Directors.

CONNECTED TRANSACTIONS

(b) No change without independent Shareholders' approval

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through: (1) our Group's option (if and when so allowed under the applicable PRC laws) to acquire, all or part of the entire equity interests in the Consolidated Affiliated Entities for consideration equivalent to the minimum purchase price permitted by applicable PRC laws and regulations; (2) the business structure under which the profit generated by the Consolidated Affiliated Entities (after deduction of any accumulated deficit in respect of the preceding financial years, operating costs, expenses, taxes and other statutory contributions) is retained by our Group, such that no annual cap shall be set on the amount of service fees payable to WFOE under the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement; and (3) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the Consolidated Affiliated Entities.

(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on one hand, and our Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executives or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

CONNECTED TRANSACTIONS

(e) Ongoing reporting and approvals

- Our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
 - the Contractual Arrangements in place during each financial period will be disclosed in our Company’s annual report in accordance with relevant provisions of the Listing Rules;
 - our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company’s annual report and accounts for the relevant year that (1) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (2) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (3) any new contract entered into, renewed or reproduced between our Group and our Consolidated Affiliated Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to the Shareholders, so far as our Group is concerned and in the interests of our Shareholders as a whole;
 - our Company’s auditors will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange, confirming that the transactions have received the approval of our Directors and have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;
 - for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, our Consolidated Affiliated Entities will be treated as our Company’s wholly-owned subsidiaries, and the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of our Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding for the purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and

CONNECTED TRANSACTIONS

- our Consolidated Affiliated Entities will undertake that, for so long as our Shares are listed on the Stock Exchange, our Consolidated Affiliated Entities will provide our Group's management and our Company's auditors full access to its relevant records for the purpose of our Company's auditors' review of the continuing connected transactions.

In addition, we have also applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of (1) the announcement, circular and independent shareholders' approval in respect of the transactions contemplated under any New Intergroup Agreements (as defined above) pursuant to Rule 14A.105 of the Listing Rules, (2) setting an annual cap for the transactions contemplated under any New Intergroup Agreements under Rule 14A.53 of the Listing Rules, and (3) limiting the term of any New Intergroup Agreement to three years or less under Rule 14A.52 of the Listing Rules, for so long as Shares are listed on the Stock Exchange. The waiver is subject to the conditions that the Contractual Arrangements subsist and that the Consolidated Affiliated Entities will continue to be treated as the Company's subsidiary, and the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their respective associates will be treated as connected persons of the Company (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and the Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the New Intergroup Agreements, will be subject to requirements under Chapter 14A of the Listing Rules. The Company will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

In the event of any future amendments to the Listing Rules imposing more stringent requirement than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

Directors' Views

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our legal structure and business operation, and have been entered into in the ordinary and usual course of business of our Group on normal commercial terms or better, which are fair and reasonable and in the interests of our Group and our Shareholders as a whole. With respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, it is a justifiable and normal business practice to ensure that (1) the financial and operation of our Consolidated Affiliated Entities can be effectively controlled by WFOE, (2) WFOE can obtain the economic benefits derived from our Consolidated Affiliated Entities, and (3) any possible leakages of assets and values of our Consolidated Affiliated Entities can be prevented, on an uninterrupted basis.

CONNECTED TRANSACTIONS

Joint Sponsors' Views

The Joint Sponsors have reviewed the relevant documents and information provided by our Group, have obtained necessary representations and confirmations from our Company and our Directors and have participated in the due diligence and discussions with our management and our PRC Legal Advisor. Based on the above, the Joint Sponsors are of the view that the Contractual Arrangements are fundamental to our legal structure and business operations and that the Contractual Arrangements have been entered into in our ordinary and usual course of business on normal commercial terms or better, which are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

The Joint Sponsors are also of the view that with respect to the term of the relevant agreements underlying the Contractual Arrangements, which is of a duration of longer than three years, it is a justifiable and normal business practice to ensure that (1) the financial and operation of the Consolidated Affiliated Entities can be effectively controlled by WFOE; (2) WFOE can obtain the economic benefits derived from the Consolidated Affiliated Entities; and (3) any possible leakages of assets and values of the Consolidated Affiliated Entities can be prevented, on an uninterrupted basis.

INTERNAL CONTROL MEASURES

We will adopt the following internal control and corporate governance measures to closely monitor connected transactions and ensure future compliance with the Listing Rules:

- (1) we will adopt and implement a management system on connected transactions and our Board and various internal departments of our Company will be responsible for the control and daily management in respect of the continuing connected transactions;
- (2) our Board and various internal departments of our Company will be jointly responsible for evaluating the terms of the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps (if applicable) under each transaction;
- (3) our Board and the finance department of our Group will regularly monitor the connected transactions and our management will regularly review the pricing policies to ensure connected transactions to be performed in accordance with the relevant agreements;
- (4) we shall engage our auditors to, and our independent non-executive Directors will, conduct annual review on the connected transactions to ensure that the transactions contemplated thereunder have been conducted pursuant to the requirements of the Listing Rules and have fulfilled the relevant disclosure requirements; and
- (5) we will comply with the relevant requirements under Chapter 14A of the Listing Rules for the continuing connected transactions, and comply with the conditions prescribed under the waiver submitted to the Stock Exchange in connection with the continuing connected transactions in this regard.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board of Directors comprises seven Directors, including one executive Director, three non-executive Directors and three independent non-executive Directors. The following table sets forth information regarding our current Directors.

Name	Age	Position	Date of appointment as Directors	Time of joining our Group	Responsibilities	Relationship with other Directors and senior management
Directors						
Mr. ZHOU Hongyi (周鴻禕)	52	Chairman of the Board, non-executive Director	June 1, 2021	April 2019	Overall strategy planning, corporate governance and business direction of our Group	None
Ms. YU Dan (于丹)	45	Executive Director, chief executive officer	July 29, 2021	March 2017	Overall strategy planning, corporate governance, business direction, and business management of our Group	None
Mr. CHEN Shengmin (陳勝敏)	51	Non-executive Director	July 29, 2021	September 2017	Providing guidance and advice on the business strategies of our Group	None
Mr. ZHAO Dan (趙丹)	42	Non-executive Director	July 29, 2021	August 2020	Providing guidance and advice on the business strategies of our Group	None
Mr. CHEN Weiguang (陳偉光)	58	Independent non-executive Director	November 21, 2022	November 21, 2022	Supervising and providing independent opinion to our Board	None
Mr. LI Bing (李冰)	52	Independent non-executive Director	November 21, 2022	November 21, 2022	Supervising and providing independent opinion to our Board	None
Ms. QIAN Aimin (錢愛民)	52	Independent non-executive Director	November 21, 2022	November 21, 2022	Supervising and providing independent opinion to our Board	None

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed below, none of the Directors had held any directorships in listed companies during the three years immediately prior to the Latest Practicable Date, there is no other information in respect of the Directors to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules, and there is no other matter that needs to be brought to the attention of Shareholders or potential investors.

Executive Director and Non-executive Directors

Mr. ZHOU Hongyi (周鴻禕), aged 52, is a non-executive Director and our chairman of the Board, appointed on June 1, 2021. He is primarily responsible for overall strategy planning, corporate governance and business direction of our Group. Mr. Zhou joined our Group in April 2019 and has served as the chairman of the board at Huafang Technology and Mijing Hefeng since April 2019 and September 2020, respectively.

Prior to joining our Group, Mr. Zhou has served as the chairman of the board and the general manager at 360 Security Technology Inc. (三六零安全科技股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 601360), since February 2018, and the chief executive officer at Qihoo 360 Technology Co., Ltd., a company previously listed on New York Stock Exchange since August 2006. Mr. Zhou has also been a director and the chairman of the board of directors of 360 DigiTech, Inc. (“360 DigiTech”), a company listed on NASDAQ (QFIN.NASDAQ) and expected to be listed on the Stock Exchange (stock code: 3660) according to the prospectus of 360 DigiTech dated November 18, 2022, since July 25, 2016 and since September 2018, respectively. He also served as a director at Opera Limited, a company listed on NASDAQ (OPRA.NASDAQ) from November 2016 to October 2022 and the chairman of the board at Qihoo 360 Technology Co., Ltd. between March 2011 and July 2016, respectively. Prior to that, Mr. Zhou worked at IDG Ventures Capital.

Mr. Zhou graduated from Xi’an Jiaotong University (西安交通大學) with a bachelor’s degree in computer software in 1992. He further obtained a master’s degree in system engineering from Xi’an Jiaotong University in June 1995.

Ms. YU Dan (于丹), aged 45, is the executive Director, appointed on July 29, 2021 and the chief executive officer, appointed in March 2017. Ms. Yu is primarily responsible for overall strategy planning, corporate governance, business direction, and business management of our Group. Ms. Yu joined our Group in March 2017 and has served several positions in our Group, including serving as the chief executive officer and co-founder at Mijing Hefeng since March 2017, as the chief executive officer at Huafang Technology since October 2020 and as the executive director and the general manager at Chengdu Huayang Technology Co., Ltd. (成都花漾科技有限公司) since April 2019.

Prior to joining our Group, Ms. Yu worked as a senior director at Tianjin Qisi Technology Co., Ltd. (天津奇思科技有限公司) (currently known as 360 Technology Group Co., Ltd. (三六零科技集團有限公司)) from January 2016 to February 2017. She also worked as the chief executive editor at Baidu Online Network Technology (Beijing) Co., Ltd. (百度在線網絡技術(北京)有限公司) from November 2011 to July 2015.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Yu graduated from Xi'an Jiaotong University with a bachelor's degree in business administration in July 2000. She further obtained a master's degree in business administration from Xi'an Jiaotong University in April 2003.

Mr. CHEN Shengmin (陳勝敏), aged 51, is a non-executive Director, appointed on July 29, 2021, and is primarily responsible for providing guidance and advice on the business strategies of our Group. Mr. Chen joined our Group in September 2017 and has served as a director at Huafang Technology since September 2017 and as a director at Mijing Hefeng since September 2020.

Prior to joining our Group, Mr. Chen has served as the chief financial officer at Songcheng Performance since July 2007. Mr. Chen also served as a financial manager at Hangzhou Songcheng Landscape Real Estate Co., Ltd. (杭州宋城景觀房地產有限公司) from March 2005 to July 2007. He worked as the senior accountant of finance department and the finance manager at Hangzhou Leyuan Co., Ltd. (杭州樂園有限公司) from March 2002 to March 2004 and from April 2004 to February 2005, respectively.

Mr. Chen graduated from China University of Radio and Television (中央廣播電視大學) (currently known as The Open University of China (國家開放大學)) with an associate degree in accounting in July 2005. He obtained the certificate of board secretary granted by Shenzhen Stock Exchange in May 2017.

Mr. ZHAO Dan (趙丹), aged 42, is a non-executive Director, appointed on July 29, 2021, and is primarily responsible for providing guidance and advice on the business strategies of our Group. Mr. Zhao joined our Group in August 2020 and has served as a director at Huafang Technology since August 2020.

Mr. Zhao has been a non-executive director at 360 Ludashi Holdings Limited (360魯大師控股有限公司), a company listed on the Stock Exchange (stock code: 03601), since June 2020 and a director at 360 DigiTech since May 2020. Mr. Zhao has also been the vice president at 360 Technology Group Co., Ltd. (三六零科技集團有限公司) since January 2013. Prior to that, Mr. Zhao worked as a senior manager at Alibaba (China) Co., Ltd. (阿里巴巴(中國)有限公司) from November 2007 to January 2013. He also worked as an assistant manager at KPMG Huazhen LLP (畢馬威華振會計師事務所(特殊普通合夥)) from September 2006 to November 2007.

Mr. Zhao graduated from University of Shanghai for Science and Technology (上海理工大學) with a bachelor's degree in international business management in July 2002. He further obtained a master's degree in international business and economics at University of Konstanz, Germany in December 2004. He obtained a professional qualification of Certified Internal Auditor in November 2008.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. CHEN Weiguang (陳偉光), aged 58, is our independent non-executive Director, appointed on November 21, 2022, and is primarily responsible for supervising and providing independent opinion to our Board.

Mr. Chen served multiple positions at Zhejiang Branch of Industrial and Commercial Bank of China (中國工商銀行浙江省分行), including serving as the general manager of evaluation and analysis department from September 2017 to January 2021, as the general manager of credit approval department from September 2006 to September 2017 and serving as other positions, including the director, the deputy director, the assistant director and the officer of credit approval division from March 1998 to September 2006.

Mr. Chen obtained a bachelor's degree in finance from Hangzhou University (杭州大學) (currently known as Zhejiang University (浙江大學)) in June 1996.

Mr. LI Bing (李冰), aged 52, is our independent non-executive Director, appointed on November 21, 2022, and is primarily responsible for supervising and providing independent opinion to our Board.

Mr. Li has served as the dean at New Silk Road School of Fashion Design and Physical Education of Haikou University of Economics (海口經濟學院新絲路時尚•體育學院) since April 2020, as a chairman of the board at New Silk (Beijing) Culture Promotion Co., Ltd. (新絲路(北京)文化傳播有限公司) since May 2016 and as the chairman of the board at Shenzhen Hongcheng Capital Holding Co., Ltd. (深圳宏成資本控股有限公司) since March 2016. Prior to that, Mr. Li served as the chairman of the board at Shenzhen Yan Tian Port Holdings Co., Ltd. (深圳市鹽田港股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000088) from June 2010 to April 2016. He also served several positions at Shenzhen Energy Group Co., Ltd. (深圳能源集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000027), including serving as the deputy secretary of party committee, the director and the general manager from November 2007 to May 2010. He worked as the chairman of the board at Shenzhen Energy Finance Co., Ltd. (深圳能源財務有限公司) from September 2007 to April 2011.

Mr. Li graduated from Shenyang College of Technology (瀋陽工業學院) (Currently known as Shenyang Ligong University (瀋陽理工大學)) with a bachelor's degree in mechanical design and manufacturing in July 1993. He further obtained an EMBA degree in advanced business administration from Peking University in January 2006.

DIRECTORS AND SENIOR MANAGEMENT

Ms. QIAN Aimin (錢愛民), aged 52, is our independent non-executive Director, appointed on November 21, 2022, and is primarily responsible for supervising and providing independent opinion to our Board.

Ms. Qian has been a professor of accounting at the University of International Business and Economics (對外經濟貿易大學) since September 1995.

Ms. Qian was also appointed as an independent director of the following listed companies in China:

Company name	Place of listing and stock code	Period of time
Minsheng Holdings Co., Ltd. (民生控股股份有限公司)	Shenzhen Stock Exchange (stock code: 000416)	from May 2017 to April 2019 and from May 2011 to December 2015
TBEA Co., Ltd. (特變電工股份有限公司)	Shanghai Stock Exchange (stock code: 600089)	from June 2012 to August 2016
LandOcean Petroleum and Natural Gas Technology Service Co., Ltd. (恒泰艾 普石油天然氣技術服務股 份有限公司) (currently known as LandOcean Energy Services Co., Ltd. (恒泰艾普集團股份有限 公司))	Shenzhen Stock Exchange (stock code: 300157)	from May 2011 to December 2015
Zhejiang Addison Fluid Control Co., Ltd. (浙江艾 迪西流體控制股份有限公 司) (currently known as STO Express Co., Ltd. (申通快遞股份有限公 司))	Shenzhen Stock Exchange (stock code: 002468)	from August 2009 to September 2014
Qifeng New Material Co., Ltd. (齊峰新材料股份有限 公司)	Shenzhen Stock Exchange (stock code: 002521)	from December 2008 to January 2011
Gree Electric Appliances Inc. of Zhuhai (珠海格力 電器股份有限公司)	Shenzhen Stock Exchange (stock code: 000651)	from June 2008 to May 2014

DIRECTORS AND SENIOR MANAGEMENT

Ms. Qian graduated from China Textile University (中國紡織大學) (currently known as Donghua University (東華大學)) with a bachelor's degree in engineering in July 1992. She obtained a master's degree in economics from Liaoning University (遼寧大學) in June 1995. She further obtained a doctorate degree in economics from the University of International Business and Economics in January 2010. Ms. Qian was accredited as a certified public accountant by the Chinese Institute of Certified Public Accountants in July 2011. She was selected as a member of Accounting Education Professional Committee of the Accounting Society of China (中國會計學會會計教育專業委員會) in 2015 and a member of Accountant Master Training Project (會計名家培養工程) by the Ministry of Finance of the People's Republic of China in 2019.

Legal Proceedings Involving One Director

Background

Mr. ZHOU Hongyi ("Mr. Zhou"), our non-executive Director and our chairman of the Board, has been named as a defendant in an ongoing securities class action lawsuit (the "Lawsuit") filed by certain investors against Qihoo 360 Technology Co., Ltd. ("360 Technology"), a company previously listed on New York Stock Exchange since August 2006, and other individual defendants, namely *Altimeo Asset Management v. Qihoo 360 Technology Co., Ltd. et al, No. 1:19-cv-10067* (the "Qihoo Class Action") in the United States District Court for the Southern District of New York ("NYSD Court"). Mr. Zhou served as the chairman of board of directors of 360 Technology from March 2011 to July 2016 and has been the chief executive officer of 360 Technology since August 2006. As of the Latest Practicable Date, apart from the Qihoo Class Action, we were not aware of any other regulatory investigation or litigation in the United States that is against or involves Mr. Zhou.

In the Qihoo Class Action, the plaintiffs seek monetary damages for allegedly suffered damage as a result of alleged false and misleading statements in the public disclosure documents of 360 Technology (including certain proxy materials and other transaction-related filings) in connection with its going-private transaction in 2016. On August 14, 2020, NYSD Court dismissed the complaint filed by the lead plaintiff. On September 10, 2020, the lead plaintiff appealed to the United States Court of Appeals for the Second Circuit. On November 24, 2021, the United States Court of Appeals for the Second Circuit vacated the dismissal and remanded to the NYSD Court for further proceedings. On April 29, 2022, Mr. Zhou filed a motion to dismiss.

As of the Latest Practicable Date, to the best of our knowledge, the Qihoo Class Action is in the preliminary stage and pending for further procedures, and the Court has not ruled on the substance of the plaintiff's claims in respect of the Qihoo Class Action.

DIRECTORS AND SENIOR MANAGEMENT

Director's suitability

Mr. Zhou confirmed that he has consistently acted in good faith when discharging his duties and responsibilities as a director and chief executive officer of 360 Technology and to the best of his knowledge, had not directly or indirectly induced any act that may constitute misconduct in management, or a breach of fiduciary duties under any applicable securities laws, acts or regulations. Mr. Zhou and his litigation counsel in respect of the Qihoo Class Action believe that the Qihoo Class Action is without merit and should be dismissed as a matter of law, and Mr. Zhou and 360 Technology intend to defend the Qihoo Class Action vigorously.

Mr. Zhou joined our Group in April 2019 and has served as the chairman of the Board since then. Given that (1) Mr. Zhou has consistently acted in good faith in the interests of our Company when serving as our non-executive Director and has duly applied his extensive experiences and profound resources to support our development; (2) as advised by Mr. Zhou's litigation counsel, the Qihoo Class Action has no merit, and has no bearing on Mr. Zhou's suitability as a director in public companies; (3) based on the background check and litigation searches conducted by an independent third party, we are not aware of any other ongoing disputes, litigations or regulatory disciplinary actions or investigations against Mr. Zhou, our Directors are of the view that the Qihoo Class Action does not impact Mr. Zhou's integrity or his suitability to serve as a Director of our Company under Rules 3.08 and 3.09 of the Listing Rules.

Impact on our Company

Our Directors believe that the Qihoo Class Action is not uncommon among companies listed in the United States and is in the preliminary stage. Given that (1) the Qihoo Class Action does not involve any companies within our Group; and (2) Mr. Zhou, as a non-executive Director of our Company, has not participated in the day-to-day management of our Company, our Directors do not believe that the Qihoo Class Action will have any material adverse impact on the business and/or operations of our Group despite the uncertainty of their outcomes. After due consideration of (i) the currently available information in relation to the Qihoo Class Action, (ii) the views of our Directors and (iii) relevant independent due diligence work conducted, the Joint Sponsors are not aware of any material findings from the independent due diligence work conducted that would reasonably cause the Joint Sponsors to disagree with the views of our Directors as set out above. Our Company will closely monitor the developments of the Qihoo Class Action and will review the above should the facts change, new information become available or the cases proceed further.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The following table sets forth information regarding the senior management members of our Company:

Name	Age	Position	Date of appointment as senior management	Time of joining our Group	Responsibilities	Relationship with other Directors and senior management
Ms. YU Dan (于丹)	45	Executive Director, chief executive officer	March 2017	March 2017	Overall strategy planning, corporate governance, business direction, and business management of our Group	None
Mr. TAO Sha (陶沙)	30	Chief innovation officer	December 2020	August 2014	Overall management of our business and overseeing innovation strategies and overseas business of our Group	None
Mr. JIAO Yang (焦陽)	37	Vice president and joint company secretary	April 2020	April 2020	Overall strategic planning and overseeing the financial and legal matters of our Group	None
Mr. LIU Kaiyin (劉鑑寅)	36	Vice president	December 2016	December 2016	Overall strategy planning, business management and development of <i>Huajiao</i>	None
Mr. WANG Wangji (王望記)	37	Vice president	July 2015	February 2009	Overall strategy planning, business management and development of <i>6.cn</i>	None
Mr. TANG Geng (唐賡)	45	Vice president	July 2016	July 2016	Overseeing the technological affairs of our Group	None

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed below, none of the senior management had held any directorships in listed companies during the three years immediately prior to the Latest Practicable Date, there is no other information in respect of the senior management to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules, and there is no other matter that needs to be brought to the attention of Shareholders or potential investors.

Ms. YU Dan (于丹), aged 45, is our executive Director and chief executive officer. See “— Board of Directors” for her biographical details.

Mr. TAO Sha (陶沙), aged 30, is our chief innovation officer, appointed in December 2020. He is primarily responsible for overall management of our business and overseeing innovation strategies and overseas business of our Group. Mr. Tao joined our Group in August 2014 and has served as a director of EXU INC. since August 2014.

Mr. Tao enrolled at Rose-Hulman Institute of Technology majoring in Computer Science in 2010. Mr. Tao was named on the Forbes China 30 Under 30 List – Consumer Technology 2017 (2017福布斯中國30位30歲以下精英榜), Forbes Asia 30 Under 30 List – Consumer Technology 2018 (2018福布斯亞洲30位30歲以下精英榜) and Hurun China Top Under 30s 2019 (2019胡潤30歲以下創業領袖).

Mr. JIAO Yang (焦陽), aged 37, is our vice president, appointed in April 2020. He is primarily responsible for overall strategic planning and overseeing the financial and legal matters of our Group. Mr. Jiao joined our Group in April 2020 and has served as a vice president and the secretary of the Board of our Group since April 2020.

Prior to joining our Group, Mr. Jiao served as the senior vice president at ORIX Asia Capital Limited (歐力士亞洲資本有限公司). He worked as a vice president at Lianxin Strategic Investment Management (Beijing) Co., Ltd. (聯信策為投資管理(北京)有限責任公司) from August 2015 to February 2018. He also worked as a vice president at Huatai United Securities Co., Ltd. (華泰聯合證券有限責任公司) from June 2013 to August 2015, and a senior associate at Beijing Branch of KPMG Advisory (China) Limited (畢馬威企業諮詢(中國)有限公司北京分公司) from January 2012 to June 2013.

Mr. Jiao graduated from Shanghai Jiao Tong University (上海交通大學) with a bachelor’s degree in economics in July 2008. He further obtained a master’s degree in Business Analytics and Consulting from University of Warwick in November 2010 and a master’s degree in Strategic Marketing from University of Glasgow in December 2009. He was recognized as the Chartered Financial Analyst by Chartered Financial Analyst Institution in September 2016.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LIU Kaiyin (劉鏞寅), aged 36, is our vice president, appointed in December 2016. He is primarily responsible for overall strategy planning, business management and development of *Huajiao*. Mr. Liu joined our Group in December 2016 and has served as the chief operation officer at Mijing Hefeng since December 2016.

Prior to joining our Group, Mr. Liu served as the senior operations manager at Beijing Star World Technology Company Ltd. (北京世界星輝科技有限責任公司) from June 2009 to November 2016.

Mr. Liu obtained an associate degree in computer from Beijing Institute of Translation Studies (北京翻譯研修學院) (previously known as Northern Institute of Business Management (北方工商管理研修學院)) in July 2010.

Mr. WANG Wangji (王望記), aged 37, is our vice president, appointed in July 2015. He is primarily responsible for overall strategy planning, business management and development of *6.cn*. Mr. Wang joined our Group in February 2009 and has served as various positions at Huafang Technology since February 2009 including serving as senior engineer from February 2009 to June 2015, vice president from July 2015 to October 2020, chief operation officer from November 2020 to December 2020 and president of *6.cn* since January 2021. Mr. Wang has also served as the executive director and general manager of Beijing Huafang Canlan Technology Co., Ltd. (北京花房燦爛科技有限公司) and Tianjin Maijike Network Technology Co., Ltd. (天津邁即刻網絡科技有限公司) since January 2022.

Prior to joining our Group, Mr. Wang worked at Beijing Haoke Technology Co., Ltd. (北京浩科科技有限公司) from September 2008 to January 2009.

Mr. Wang graduated from Jiangxi Modern Polytechnic College (江西現代職業技術學院) with an associate degree in computer network and multimedia in July 2006.

Mr. TANG Geng (唐廣), aged 45, is our vice president, appointed in July 2016. He is primarily responsible for overseeing the technological affairs of our Group. Mr. Tang joined our Group in July 2016 and served as the technology director at Mijing Hefeng from July 2016 to December 2020 and vice president at Mijing Hefeng from January 2021 to March 2021.

Prior to joining our Group, Mr. Tang served as the director of technology department at Beijing Qihu Technology Co., Ltd. (北京奇虎科技有限公司) from May 2015 to June 2016. He worked at Mobei Magic Beijing Information Technology Co., Ltd. (摩比神奇(北京)信息技術有限公司) from August 2013 to April 2015. He also worked as a senior technical manager at Youku Network Technology (Beijing) Co., Ltd. (優酷網絡技術(北京)有限公司) (previously known as Verge Internet Technology (Beijing) Co., Ltd. (合一網絡技術(北京)有限公司)) from March 2012 to February 2014. He served as the director of technology department and the director of sales department at Beijing XiliCentury Corporation (北京曦力世紀軟件信息技術有限公司) from July 2008 to August 2011.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tang graduated from North China University of Technology (北方工業大學) with a bachelor's degree in industrial automation in July 2000. He further obtained a doctorate degree in business administration from Victoria University, Switzerland in November 2011.

JOINT COMPANY SECRETARIES

Mr. JIAO Yang (焦陽), aged 36, is our vice president and one of our joint company secretaries. See “— Senior Management” for his biographical details.

Ms. Lai Janette Tin Yun (賴天恩), aged 34, was appointed as one of our joint company secretaries in October 2021.

Ms. Lai has over 10 years of experience in the corporate secretarial field. She has been a core team member for providing company secretarial services to several companies listed on the Stock Exchange since 2012.

Ms. Lai is currently the company secretary of Goldstream Investment Limited (stock code: 1328).

Ms. Lai graduated from Hong Kong Shue Yan University with a bachelor's degree in accounting on July 22, 2011. She is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.

BOARD COMMITTEES

Audit Committee

Our Company has established an Audit Committee on November 22, 2022, with effect from the Listing Date, with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consist of three members, namely Ms. QIAN Aimin, Mr. LI Bing and Mr. CHEN Shengmin. Ms. QIAN Aimin has been appointed as the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of our Group, oversee the audit process, review and oversee the existing and potential risks of our Group and perform other duties and responsibilities as assigned by our Board.

DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

Our Company has established a Remuneration Committee on November 22, 2022, with effect from the Listing Date, with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee has three members, namely Mr. CHEN Weiguang, Ms. QIAN Aimin and Ms. YU Dan. Mr. CHEN Weiguang has been appointed as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for our Directors and senior management and make recommendations on employee benefit arrangement.

Nomination Committee

Our Company has established a Nomination Committee on November 22, 2022, with effect from the Listing Date, with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members, namely Mr. ZHOU Hongyi, Mr. CHEN Weiguang and Mr. LI Bing. Mr. ZHOU Hongyi has been appointed as the chairman of the Nomination Committee. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment and removal of Directors of our Company.

BOARD DIVERSITY

We have adopted our board diversity policy which sets out the objective and approach to achieve and maintain diversity on our Board in order to enhance the effectiveness of our Board. Our board diversity policy provides that our Company should endeavor to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy, and when nominate and appoint a Director, with the assistance of the nomination committee, the Board will consider a number of factors to diversify our board composition, including but not limited to professional experience, skills, knowledge, gender, age, cultural and educational background, ethnicity, length of service and the potential contributions that the candidate is expected to bring to our Board, in order to better serve the needs and development of our Company. All Board appointments will be based on merits and candidates will be considered against objective criteria, having due regard to the benefits of diversity to our Board.

Upon Listing, our Board will comprise seven members, including one executive Director, three non-executive Directors and three independent non-executive Directors. Our Directors have a balanced mix of knowledge, skills, gender, perspectives and experience, including computer software, business administration, accounting, finance, mechanical design and manufacturing, and engineering. They obtained professional and academic qualifications including certificate of board secretary, professional qualification of Certified Internal Auditor, certified public accountant. In addition, each of Ms. Yu Dan, our executive Director and chief

DIRECTORS AND SENIOR MANAGEMENT

executive officer and Ms. Qian Aimin, our independent non-executive Directors is a female. Taking into account our existing business model and specific needs as well as the different background of our Directors, the composition of the Board satisfies our board diversity policy.

Our Company aims to maintain at least one female representation in our Board. We will maintain a focus on gender diversity when recruiting staff at mid to senior level so as to develop a pipeline of potential female successors to our Board. Our Group also plan to provide career opportunities and training programs to female employees whom we consider to have the suitable experience, skills and knowledge of our operation and business. We confirm that our nomination committee will use its best efforts to identify and recommend female candidates to our Board for consideration on the appointment as Director of our Company and the nomination committee of our Company will assess the diversity of the Board composition regularly.

Our nomination committee is delegated by our Board to be responsible for compliance with relevant codes governing board diversity under the Corporate Governance Code. After the Listing, our nomination committee will review our board diversity policy and evaluate the implementation of the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of our board diversity policy on an annual basis.

CORPORATE GOVERNANCE

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. In order to accomplish this, we expect to comply with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

DIRECTORS' REMUNERATION

Our Directors and members of our senior management receive remuneration from our Company in the form of fees, salaries, contributions to pension schemes, discretionary bonuses, allowances and other benefits in kind.

The aggregate amount of remuneration our Directors have received (including fees, salaries, contributions to pension schemes, discretionary bonuses, allowances and other benefits in kind) for the three years ended December 31, 2021 and the five months ended May 31, 2022 was approximately RMB7.3 million, RMB8.2 million, RMB31.8 million and RMB5.7 million, respectively. It is estimated that remuneration and benefits in kind (excluding discretionary bonus and any options granted pursuant to share incentive schemes) equivalent to approximately RMB12.9 million in aggregate will be paid and granted to our Directors by us in respect of the financial year ending December 31, 2022 under arrangements in force as of the date of this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

The five highest paid individuals of our Group for the three years ended December 31, 2021 and the five months ended May 31, 2022 included one, one, one and one Director, respectively, whose emolument is included in the aggregate amount we paid to the relevant Directors set out above. For the three years ended December 31, 2021 and the five months ended May 31, 2022, the aggregate amount of emolument paid to the remaining four, four, four and four highest paid individuals who are not Directors of our Group were RMB5.1 million, RMB7.8 million, RMB34.8 million and RMB9.9 million, respectively.

During the Track Record Period, no remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office. Further, none of our Directors had waived any remuneration during the same period.

See the section headed “Appendix IV — Statutory and General Information — D. Pre-IPO Share Option Scheme” for details regarding the incentive plan for our senior management.

Save as disclosed above, no other payments have been paid, or are payable, by our Group to our Directors or the five highest paid individuals of our Company during the Track Record Period.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management on which, following the Listing, advice will be received from the remuneration committee taking into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of our Group.

COMPETITION

Each of the Directors confirms that as of the Latest Practicable Date, he or she did not have any interest in a business which materially competes or is likely to compete, directly or indirectly, with our business, and requires disclosure under Rule 8.10 of the Listing Rules.

COMPLIANCE ADVISOR

We have appointed Goldlink Capital (Corporate Finance) Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us in the following circumstances:

- (a) before publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might constitute a notifiable or connected transaction under the Listing Rules, is contemplated, including share issues and share repurchases;

DIRECTORS AND SENIOR MANAGEMENT

- (c) where we propose to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results of operation deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which we distribute the annual report of the first full financial year commencing after the Listing and such appointment may be subject to extension by mutual agreement.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company as of the date of this prospectus and immediately after completion of the Capitalization Issue and the Global Offering:

	Aggregate nominal value of Shares (US\$)
As of the date of this prospectus	
<i>Authorized share capital</i>	
500,000,000 Shares with par value of US\$0.0001 each	50,000
<i>Issued share capital</i>	
53,333,333 Shares of a par value of US\$0.0001 each	5,333.3
Immediately after completion of the Capitalization Issue and the Global Offering	
<i>Authorized share capital</i>	
2,000,000,000 Shares with par value of US\$0.0001 each	200,000
<i>Issued share capital</i>	
53,333,333 Shares of a par value of US\$0.0001 each in issue	5,333.3
900,666,667 Shares of a par value of US\$0.0001 each to be issued pursuant to the Capitalization Issue	90,066.7
46,000,000 Shares of a par value of US\$0.0001 each to be issued under the Global Offering	4,600
1,000,000,000 Shares of a par value of US\$0.0001 each in total	100,000

ASSUMPTIONS

The above table assumes that (1) the Global Offering becomes unconditional and the Shares are issued pursuant to the Capitalization Issue and the Global Offering; and (2) the Over-allotment Option or any option granted under the Pre-IPO Share Option Scheme is not exercised. The above table also does not take into account any Shares which may be issued or repurchased by us under the general mandates granted to our Directors as referred to below.

RANKING

The Offer Shares are ordinary shares of US\$0.0001 each in the share capital of our Company and upon completion of the Capitalization Issue and the Global Offering, and will rank *pari passu* in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this prospectus.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Pursuant to the Cayman Companies Act and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (1) increase its capital; (2) consolidate and divide its capital into shares of larger amount; (3) subdivide its shares into shares of smaller amount; and (4) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Companies Act reduce its share capital or capital redemption reserve by its Shareholders passing a special resolution. See “Appendix III — Summary of the Articles of Association and Cayman Islands Company Law — 2 Articles of Association — 2.5 Alteration of capital” for details.

GENERAL MANDATE TO ISSUE SHARES AND GENERAL MANDATE TO REPURCHASE SHARES

Subject to conditions set forth in “Structure of the Global Offering — Conditions of the Global Offering”, our Directors have been granted a general unconditional mandate to allot, issue and deal with and repurchase Shares.

See “Appendix IV — Statutory and General Information — A. Further Information about Our Company — 3. Resolutions of the Shareholders of our Company passed on November 21, 2022” for further details.

PRE-IPO SHARE OPTION SCHEME

We have conditionally adopted the Pre-IPO Share Option Scheme. The principal terms of the Pre-IPO Share Option Scheme are summarized in the section headed “Appendix IV — Statutory and General Information — D. Pre-IPO Share Option Scheme” of this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option or any option granted under the Pre-IPO Share Option Scheme is not exercised), the following persons will have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

LONG POSITIONS IN OUR COMPANY

Name	Capacity/Nature of interest	As of the Latest Practicable Date ⁽¹⁾		Approximate percentage of shareholding immediately after completion of Capitalization Issue and the Global Offering (Assuming the Over-allotment Option or any option granted under the Pre-IPO Share Option Scheme is not exercised) ⁽¹⁾	
		Number of Shares	Approximate percentage	Number of Shares	Approximate percentage
Pepper Blossom Limited ⁽²⁾	Beneficial Interest	20,380,418 (L)	38.21%	364,554,724 (L)	36.46%
Blossom Glory Limited ⁽²⁾	Interested in controlled corporation	20,380,418 (L)	38.21%	364,554,724 (L)	36.46%
Blossom Eternity Limited ⁽²⁾	Interested in controlled corporation	20,380,418 (L)	38.21%	364,554,724 (L)	36.46%
Mr. Zhou ⁽²⁾	Interested in controlled corporation	20,380,418 (L)	38.21%	364,554,724 (L)	36.46%
Global Bacchus Limited ⁽³⁾	Beneficial Interest	19,764,706 (L)	37.06%	353,541,181 (L)	35.35%
Songcheng Performance ⁽³⁾	Interested in controlled corporation	19,764,706 (L)	37.06%	353,541,181 (L)	35.35%
Ms. Yu Dan (于丹) ⁽⁴⁾	Beneficial interest and interested in controlled corporation	3,333,333 (L)	6.25%	79,026,995 (L)	7.90%
Blossom Bliss Limited ⁽⁴⁾	Beneficial Interest	3,333,333 (L)	6.25%	59,624,995 (L)	5.96%
Tianjin Huafang Feiteng Technology Center (L.P.) (天津花房飛騰科技中心(有限合夥)) (“Huafang Feiteng”) ⁽⁴⁾	Interested in controlled corporation	3,333,333 (L)	6.25%	59,624,995 (L)	5.96%

SUBSTANTIAL SHAREHOLDERS

Name	Capacity/Nature of interest	As of the Latest Practicable Date ⁽¹⁾		Approximate percentage of shareholding immediately after completion of Capitalization Issue and the Global Offering (Assuming the Over-allotment Option or any option granted under the Pre-IPO Share Option Scheme is not exercised) ⁽¹⁾	
		Number of Shares	Approximate percentage	Number of Shares	Approximate percentage
Tianjin Huafang Feiteng No. 2 Technology Center (L.P.) (天津花房飛騰貳號科技中心(有限合伙)) (“Huafang Feiteng No. 2”) ⁽⁴⁾	Interested in controlled corporation	3,333,333 (L)	6.25%	59,624,995 (L)	5.96%
Tianjin Yongsheng Technology Co., Ltd. (天津咏升科技有限责任公司) ⁽⁴⁾	Interested in controlled corporation	3,333,333 (L)	6.25%	59,624,995 (L)	5.96%
Ms. Li Rui (李蕊) ⁽⁴⁾	Interested in controlled corporation	3,333,333 (L)	6.25%	59,624,995 (L)	5.96%

(1) The letter “L” denotes the person’s long position in the Shares.

(2) Blossom Deluxe Holdings Limited has entered into a voting proxy with Blossom Glory Limited to entrust 42.69% voting rights held by Blossom Deluxe Holdings Limited in Pepper Blossom Limited to Blossom Glory Limited, which enables Blossom Glory Limited to exercise 90.26% of voting rights at the general meeting of Pepper Blossom Limited. Therefore, Blossom Glory Limited is deemed to be interested in the entire interests held by Pepper Blossom Limited. Blossom Glory Limited is held by Blossom Eternity Limited as to 71.94%, and Blossom Eternity Limited is wholly owned by Mr. Zhou, therefore, both Mr. Zhou and Blossom Eternity Limited is deemed to be interested in the entire interests held by Pepper Blossom Limited.

(3) Global Bacchus Limited is wholly owned by Songcheng Performance, a company listed on the Shenzhen Stock Exchange (stock code: 300144) in the PRC. Therefore, Songcheng Performance is deemed to be interested in the entire interests upon Listing held by Global Bacchus Limited.

(4) Blossom Bliss Limited is wholly owned by Huafang Feiteng. Huafang Feiteng No. 2, as a limited partner, holds as to 51.8305% of the partnership interest in Huafang Feiteng. The general partner of both of Huafang Feiteng and Huafang Feiteng No. 2 is Tianjin Yongsheng Technology Co., Ltd. (天津咏升科技有限责任公司), which is wholly owned by Ms. Li Rui (李蕊), our employee. Ms. Yu Dan, our executive Director and chief executive officer, is a limited partner of Huafang Feiteng No. 2 and holds 45.2191% of the partnership interest in Huafang Feiteng No. 2. Therefore, each of Huafang Feiteng, Huafang Feiteng No. 2, Ms. Li Rui and Ms. Yu Dan, is deemed to be interested in the Shares held by Blossom Bliss Limited under the SFO. In addition, on November 22, 2022, Ms. Yu Dan was granted 19,402,000 Options under the Pre-IPO Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS

For details of the substantial shareholders who will, directly or indirectly, have interests in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of our Group other than our Company, see “History, Reorganization and Corporate Structure — Our Corporate Structure.”

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Capitalization Issue and the Global Offering (taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any option granted under the Pre-IPO Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

FINANCIAL INFORMATION

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

OVERVIEW

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

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

FINANCIAL INFORMATION

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

BASIS OF PRESENTATION

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

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

Reverse Acquisition and Carve-out Basis

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

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

FINANCIAL INFORMATION

During the Track Record Period, the Group also engaged in mobile gaming development and operation after Huajiao-6.cn Merger, which was managed by Beijing Lingdong Shikong Technology Co., Ltd., a subsidiary of the Group (the “Other Business”). The Other Business is separately managed and operated, its assets, liabilities, revenues and expenditures are clearly identifiable. On the basis that the entire equity interest in the Other Business had been disposed by the Group in December 2019, and the Other Business are clearly delineated from the Group’s Listing Business, the historical financial information excludes the assets, liabilities and results of operations associated with the Other Business and, accordingly, the fair value of Other Business has been excluded from the deemed consideration transferred when accounting for the Huajiao-6.cn Merger (see APP-I note 27(a)). The impact of the acquisition and the disposal of the Other Business are reflected in the historical financial information as changes to the consolidated equity attributable to the equity shareholders of the Company.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

Market Development

People’s growing demand for quality content and innovative social entertainment, backed by the increase in per capita disposable income, have contributed to the increase in the demand for online social entertainment content. We focus on offering video- and audio-based live streaming entertainment and social networking services to users in China and globally. China’s online video and audio social entertainment market, in terms of revenues, grew from RMB61.8 billion in 2017 to RMB499.4 billion in 2021 at a CAGR of 68.6% and is expected to reach RMB1,326.5 billion in 2027 at a CAGR of 17.7% from 2021 to 2027. China’s online video social entertainment live streaming market, in terms of revenues, is expected to grow from RMB246.2 billion in 2021 to RMB645.0 billion in 2027 at a CAGR of 17.4%, according to the same source. China’s online audio social entertainment market, which primarily consists of online music platforms, online audio platforms, online karaoke platforms, and other innovative platforms providing real-time audio interactive services, had a market size of RMB72.5 billion in terms of revenues in 2021. Driven by the pursuit of emotional companionships among the growing younger population in China, the market size in terms of revenues of the emerging services in audio-based social discovery and gaming championship increased from RMB2.6 billion in 2017 to RMB22.5 billion in 2021 at a CAGR of 70.8% and is expected to reach RMB80.1 billion in 2027 at a CAGR of 23.5% from 2021 to 2027.

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

FINANCIAL INFORMATION

Market Competition

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

Regulatory Environment in China

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

Seasonality

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

FINANCIAL INFORMATION

decrease their online time or suspend virtual social events temporarily for offline activities. We expect our revenue to continue to fluctuate based on seasonal factors that affect the online video and audio entertainment market in China and globally.

SPECIFIC FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

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

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

Our Ability to Enhance Brand Recognition

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

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

FINANCIAL INFORMATION

Our Ability to Control Costs and Expenses

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

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

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

Our Research and Development Efforts and Technological Capability

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

FINANCIAL INFORMATION

Strategic Investments and Acquisitions

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

IMPACT OF COVID-19 ON OUR OPERATIONS AND FINANCIAL PERFORMANCE

Since the beginning of 2020, normal economic life throughout China and around the world has been significantly curtailed due to the outbreak of COVID-19. As a result, governments around the world imposed quarantine measures and travel bans to various extents. Since January 2020, the PRC government has imposed quarantine measures across China, and local governments have also imposed temporary mobility restrictions or travel bans to control the spread of the COVID-19. There has been a significant decrease in the number of existing confirmed COVID-19 cases in China since the second quarter of 2020. The PRC government has gradually lifted domestic travel restrictions and other quarantine measures, and economic activities have begun to recover and return to normal since the second half of 2020. However, there was a significant rise in COVID-19 cases, including the COVID-19 Delta and Omicron variant cases, in various cities in China in 2022. The local governments of the affected cities have reinstated certain COVID-related measures, including travel restrictions, quarantine policy and stay-at-home orders. Our Directors have carried out a holistic review of the impact of the COVID-19 on our operations and confirmed that as of the Latest Practicable Date, COVID-19 did not have any long-term material adverse impact on our operations, based on the following grounds.

Impact on Our Business and Financial Condition. During the outbreak of COVID-19, as China adopted various social distancing initiatives in response to the pandemic, many people turned to online social entertainment activities in lieu of physical gatherings. Consequently, there was a surge in the demand for internet and mobile services, and compared with 2019, we experienced increases in user engagement and average MAUs in 2020, and higher user traffic on our platform. However, as compared to mobile-based live streaming, the COVID-19 pandemic has had a disproportionately greater effect on PC-based live streaming as a result of the government-mandated mobility restrictions or stay-at-home orders, which could impede

FINANCIAL INFORMATION

certain PC-based hosts from accessing their streaming studios. PC-based hosts typically require more streaming equipment (such as external camera and lighting) to achieve higher streaming quality, so they traditionally conduct live streaming session in studios that can provide such streaming equipment and other services such as lighting arrangement, sound collection and enhancement, green screen, and virtual background. On the other hand, mobile phones have smaller screens and thus lower pixel requirement, so hosts using mobile phones to stream could do so at home with camera in their phones. As such, 6.cn, which was deeply rooted in PC-client based live streaming since its inception, began to experience a decline in business performance in 2020. In order to maintain its competitive edge, 6.cn strategically focuses on attracting hosts and users and continued to introduce new products to keep abreast of the evolving industry trends. For example, 6.cn provided more favorable revenue-sharing policy to retain viable hosts in 2020, and continued to promote its mobile-based applications and enhanced marketing efforts for mobile-based apps in user traffic referrals, and incurred significant marketing expense in 2020. As a result of the foregoing, we recognized an impairment loss of RMB1,777.7 million in 2020 for the goodwill arising from the Huajiao-6.cn Merger. See “— Key Components of Our Results of Operation — Impairment Loss of Goodwill—Huajiao-6.cn Merger.” In addition, due to the extended quarantine measures in certain overseas markets, we have invested in and expanded our overseas social networking business line to meet the increasing demand for online social discovery and friend-making services.

The recent rise in COVID-19 variant cases and reinstated COVID-related measures did not materially affect our business, as the number of monthly active hosts and the average daily streaming time per host on 6.cn, our PC client flagship product, remained relatively stable during the first five months in 2022. Although 6.cn experienced a decrease of approximately 2% to 3% in streaming time per active host from April 2022 to May 2022, the recent outbreak of COVID-19 did not otherwise materially affect our operations.

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

FINANCIAL INFORMATION

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

Although many of the quarantine measures within China have since been relaxed, relaxation of restrictions over economic and social activities may also lead to new cases, which may lead to reinstated restrictions. As a result, the extent of disruption to our business and the related impact on our financial results and outlook for 2022 cannot be reasonably estimated at this time. Our results of operations and financial condition for 2022 will depend on the future development of the outbreak, including its local and global severity and actions taken to contain it, which are highly uncertain and unpredictable. For more details, see “Risk Factors — Risks Related to Our Business — We face risks related to natural disasters, health epidemics and other outbreaks, such as the COVID-19 pandemic, which could significantly disrupt our operations.”

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

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

Revenue

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

FINANCIAL INFORMATION

Live streaming service

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

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

Social networking service

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

Other services

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

Share-based payments

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

FINANCIAL INFORMATION

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

Income tax

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

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

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

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

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

FINANCIAL INFORMATION

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

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - o the same taxable entity; or
 - o different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

Goodwill

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

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

FINANCIAL INFORMATION

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

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

Investments other than equity investments

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

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

- amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.
- fair value through other comprehensive income (“FVOCI”)-recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- FVPL, if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF RESULTS OF OPERATIONS

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

	Years ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(Unaudited)</i>									
	<i>(RMB in thousands except for percentages)</i>									
Revenue	2,830,872	100.0	3,683,475	100.0	4,599,690	100.0	1,801,646	100.0	2,087,441	100.0
Cost of sales	(2,125,207)	(75.1)	(2,672,103)	(72.5)	(3,377,109)	(73.4)	(1,301,973)	(72.3)	(1,545,712)	(74.0)
Gross profit	705,665	24.9	1,011,372	27.5	1,222,581	26.6	499,673	27.7	541,729	26.0
Other income, net	34,129	1.2	61,709	1.7	68,852	1.5	22,166	1.2	27,636	1.3
Selling and marketing expenses	(361,991)	(12.8)	(451,406)	(12.3)	(544,839)	(11.8)	(227,308)	(12.6)	(218,077)	(10.4)
General and administrative expenses	(41,987)	(1.5)	(68,867)	(1.9)	(146,011)	(3.2)	(44,898)	(2.5)	(44,361)	(2.1)
Research and development expenses	(132,052)	(4.7)	(156,243)	(4.2)	(207,850)	(4.5)	(87,928)	(4.9)	(93,577)	(4.5)
Impairment loss on goodwill and intangible assets	-	-	(1,872,543)	(50.8)	-	-	-	-	-	-
Profit/(loss) from operations	203,764	7.2	(1,475,978)	(40.1)	392,733	8.5	161,705	9.0	213,350	10.2
Finance costs	(624)	(0.0)	(776)	(0.0)	(484)	(0.0)	(223)	(0.0)	(1,101)	(0.1)
Profit/(loss) before taxation	203,140	7.2	(1,476,754)	(40.1)	392,249	8.5	161,482	9.0	212,249	10.2
Income tax	(11,842)	(0.4)	(47,917)	(1.3)	(67,226)	(1.5)	(25,298)	(1.4)	(34,358)	(1.6)
Profit/(loss) for the year/period attributable to equity shareholders of the Company	<u>191,298</u>	<u>6.8</u>	<u>(1,524,671)</u>	<u>(41.4)</u>	<u>325,023</u>	<u>7.1</u>	<u>136,184</u>	<u>7.6</u>	<u>177,891</u>	<u>8.5</u>

FINANCIAL INFORMATION

Non-IFRS Measure

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

	Year ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	<i>(Unaudited)</i>				
	<i>(RMB in thousands except for percentages)</i>				
Profit/(loss) for the year/period	191,298	(1,524,671)	325,023	136,184	177,891
Add:					
Share-based compensation expenses ⁽¹⁾	19,307	18,796	83,993	20,035	13,857
Listing expenses	–	–	21,601	–	2,289
Adjusted net profit/(loss) (non-IFRS measure)	210,605	(1,505,875)	430,617	156,219	194,037

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

We had adjusted net loss (non-IFRS measure) of RMB1,505.9 million in 2020 and adjusted net profit (non-IFRS measure) of RMB210.6 million, RMB430.6 million, RMB156.2 million and RMB194.0 million in 2019, 2021 and the five months ended May 31, 2021 and 2022, respectively.

FINANCIAL INFORMATION

KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

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

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Unaudited)									
	(RMB in thousands except for percentages)									
Live streaming										
<i>Huajiao</i> ⁽¹⁾	2,165,742	76.5	2,825,843	76.7	3,469,218	75.4	1,360,484	75.5	1,493,171	71.5
6.cn	653,614	23.1	843,723	22.9	1,007,875	21.9	403,206	22.4	527,760	25.3
Subtotal	2,819,356	99.6	3,669,566	99.6	4,477,093	97.3	1,763,690	97.9	2,020,931	96.8
Social networking	-	-	-	-	118,243	2.6	35,613	2.0	66,387	3.2
Others	11,516	0.4	13,909	0.4	4,354	0.1	2,343	0.1	123	0.0
Total	<u>2,830,872</u>	<u>100.0</u>	<u>3,683,475</u>	<u>100.0</u>	<u>4,599,690</u>	<u>100.0</u>	<u>1,801,646</u>	<u>100.0</u>	<u>2,087,441</u>	<u>100.0</u>

(1) *Huajiao*'s revenue included that of *Naitang* (formerly known as *Huazhi* until the official change of name in August 2022), a stand-alone audio-based product introduced in May 2019.

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

FINANCIAL INFORMATION

Live streaming revenue

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

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

FINANCIAL INFORMATION

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

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(Unaudited)</i>									
	<i>(RMB in thousands except for percentages)</i>									
Video-based live streaming										
<i>Huajiao (video)</i>	1,972,791	70.0	2,302,787	62.8	2,362,812	52.8	983,763	55.8	927,544	45.9
<i>6.cn</i>	653,614	23.2	843,723	23.0	1,007,875	22.5	403,206	22.9	527,760	26.1
Subtotal	2,626,405	93.2	3,146,510	85.7	3,370,687	75.3	1,386,969	78.7	1,455,304	72.0
Audio-based live streaming										
<i>Huajiao (audio)</i>	192,951	6.8	506,671	13.8	889,129	19.9	328,887	18.6	451,737	22.4
<i>Naitang</i>	-	-	16,385	0.4	217,277	4.9	47,834	2.7	113,890	5.6
Subtotal	192,951	6.8	523,056	14.3	1,106,406	24.7	376,721	21.3	565,627	28.0
Total	<u>2,819,356</u>	<u>100.0</u>	<u>3,669,566</u>	<u>100.0</u>	<u>4,477,093</u>	<u>100.0</u>	<u>1,763,690</u>	<u>100.0</u>	<u>2,020,931</u>	<u>100.0</u>

Social networking

After the financial results of HOLLA Group have been consolidated into our historical financial statement since December 31, 2020, we began to generate revenue from social networking services offered by HOLLA Group. In 2021 and the five months ended May 31, 2021 and 2022, we generated revenue of RMB118.2 million, RMB35.6 million and RMB66.4 million from our social networking services, respectively, representing 2.6%, 2.0% and 3.2% of our total revenue, respectively.

Others

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

FINANCIAL INFORMATION

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

Cost of sales

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

Cost of sales by nature

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

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(Unaudited)</i>									
	<i>(RMB in thousands except for percentages)</i>									
Host costs	1,919,503	90.3	2,446,221	91.5	3,084,993	91.4	1,182,938	90.9	1,431,732	92.6
Employee expenses	49,795	2.3	46,695	1.7	65,571	1.9	28,410	2.2	29,081	1.9
Bandwidth expenses and server custody costs	50,703	2.4	53,264	2.0	51,868	1.5	17,601	1.3	16,763	1.1
Payment processing costs	41,508	2.0	43,823	1.6	73,909	2.2	28,604	2.2	34,171	2.2
Share-based compensation expenses	10,110	0.5	9,242	0.3	32,188	1.0	7,412	0.6	5,391	0.3
Depreciation and amortization	18,022	0.8	30,568	1.1	28,591	0.8	11,378	0.9	12,540	0.8
Service fees	22,402	1.1	15,599	0.6	15,791	0.5	12,457	0.9	8,739	0.6
Others ⁽¹⁾	13,164	0.6	26,691	1.0	24,198	0.7	13,173	1.0	7,295	0.5
Total	2,125,207	100.0	2,672,103	100.0	3,377,109	100.0	1,301,973	100.0	1,545,712	100.0

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

FINANCIAL INFORMATION

Host costs

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

Employee expenses

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

Bandwidth expenses and server custody cost

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

Payment processing costs

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

Share-based compensation expenses

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

Depreciation and amortization cost

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

Service fee

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

FINANCIAL INFORMATION

Cost of sales by business line

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

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(Unaudited)</i>									
	<i>(RMB in thousands except for percentages)</i>									
Live streaming										
<i>Huajiao</i> ⁽¹⁾	1,742,577	82.0	2,143,324	80.2	2,645,561	78.3	1,017,249	78.1	1,130,182	73.1
<i>6.cn</i>	381,036	17.9	523,127	19.6	664,761	19.7	260,063	20.0	380,290	24.6
Subtotal	2,123,613	99.9	2,666,451	99.8	3,310,322	98.0	1,277,312	98.1	1,510,472	97.7
Social										
networking	-	-	-	-	62,851	1.9	22,833	1.8	35,145	2.3
Others	1,594	0.1	5,652	0.2	3,936	0.1	1,828	0.1	95	0.0
Total	<u>2,125,207</u>	<u>100.0</u>	<u>2,672,103</u>	<u>100.0</u>	<u>3,377,109</u>	<u>100.0</u>	<u>1,301,973</u>	<u>100.0</u>	<u>1,545,712</u>	<u>100.0</u>

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

FINANCIAL INFORMATION

Gross Profit and Gross Profit Margin

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

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

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

Our gross profit was RMB705.7 million, RMB1,011.4 million, RMB1,222.6 million, RMB499.7 million and RMB541.7 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively, representing a gross profit margin of 24.9%, 27.5%, 26.6%, 27.7% and 26.0% for the same periods, respectively.

FINANCIAL INFORMATION

Selling and Marketing Expenses

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

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(Unaudited)</i>									
	<i>(RMB in thousands except for percentages)</i>									
Promotion and advertising	314,857	87.0	410,140	90.9	495,642	91.0	209,500	92.2	196,113	89.9
Operating expenses	10,401	2.9	1,853	0.4	3,236	0.6	353	0.2	673	0.3
Employee expenses	23,558	6.5	24,109	5.3	26,478	4.9	9,852	4.3	15,211	7.0
Share-based compensation expenses	2,185	0.6	1,316	0.3	2,908	0.5	639	0.3	633	0.3
Depreciation and amortization	465	0.1	738	0.2	471	0.1	211	0.1	697	0.3
Agency service fees	8,024	2.2	10,645	2.4	11,506	2.1	5,246	2.3	3,902	1.8
Others ⁽¹⁾	2,501	0.7	2,605	0.5	4,598	0.8	1,507	0.6	848	0.4
Total	361,991	100.0	451,406	100.0	544,839	100.0	227,308	100.0	218,077	100.0

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

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

FINANCIAL INFORMATION

General and Administrative Expenses

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

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(Unaudited)</i>									
	<i>(RMB in thousands except for percentages)</i>									
Employee expenses	20,434	48.7	37,003	53.7	56,691	38.8	22,690	50.5	25,382	57.2
Professional service fees	5,485	13.1	7,362	10.7	6,361	4.4	2,377	5.3	1,914	4.3
Listing expenses	-	-	-	-	21,601	14.8	-	-	2,289	5.2
Share-based compensation expenses	1,172	2.8	4,081	5.9	34,368	23.5	8,226	18.3	5,312	12.0
Depreciation and amortization	2,543	6.1	3,649	5.3	1,992	1.4	691	1.6	1,551	3.5
Travel expenses and entertainment expenses	3,479	8.3	2,452	3.6	3,946	2.7	1,614	3.6	930	2.1
Taxes and surcharges	3,908	9.3	8,572	12.4	10,162	7.0	4,061	9.0	2,600	5.9
Office leasing expenses	1,977	4.7	2,658	3.9	4,428	3.0	2,767	6.2	1,967	4.4
Others ⁽¹⁾	2,989	7.0	3,090	4.5	6,462	4.4	2,472	5.5	2,416	5.4
Total	41,987	100.0	68,867	100.0	146,011	100.0	44,898	100.0	44,361	100.0

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

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

FINANCIAL INFORMATION

Research and Development Expenses

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

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

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(Unaudited)</i>									
	<i>(RMB in thousands except for percentages)</i>									
Employee expenses	108,607	82.2	128,323	82.1	157,498	75.8	65,934	75.0	74,128	79.2
Technical service fees	7,865	6.0	13,155	8.4	23,323	11.2	10,654	12.1	9,695	10.4
Share-based compensation expenses	5,840	4.4	4,157	2.7	14,529	7.0	3,758	4.3	2,521	2.7
Depreciation and amortization	2,171	1.6	2,888	1.8	4,374	2.1	2,175	2.5	4,003	4.3
Office leasing	6,021	4.6	5,340	3.4	5,800	2.8	4,313	4.9	2,270	2.4
Travel expenses	539	0.4	326	0.2	389	0.2	176	0.2	187	0.2
Others ⁽¹⁾	1,009	0.8	2,054	1.4	1,937	0.9	918	1.0	773	0.8
Total	132,052	100.0	156,243	100.0	207,850	100.0	87,928	100.0	93,577	100.0

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

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

Impairment Loss of Goodwill

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

FINANCIAL INFORMATION

Key assumptions used for VIU calculations are set forth below.

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

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

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

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

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

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

FINANCIAL INFORMATION

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

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

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

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

FINANCIAL INFORMATION

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

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

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

Huajiao-6.cn Merger

In June 2018, Beijing 6.cn Technology Co., Ltd. (currently known as Huafang Technology) agreed to issue 60% of its shares to the Mijing Hefeng's then shareholders in return for the entire equity interest of Mijing Hefeng. The valuation of equity interest of Huafang Technology (the entity operating 6.cn) was determined based on, among others, a valuation report of Huafang Technology as of December 31, 2017 as appraised by an independent asset valuer (the "2017 Valuation Report"). After the completion of the Huajiao-6.cn Merger in April 2019, we have accounted for the Huajiao-6.cn Merger as a reverse acquisition in accordance with IFRS 3 "Business Combinations" and recognized goodwill of approximately RMB2,459.5 million calculated with reference to the fair value of the consideration transferred and the fair value of the 6.cn's net identifiable assets as of April 29, 2019, both of which were revalued by an independent asset valuer, excluding the valuation of Beijing Lingdong. See "Financial Information — Basis of Presentation." The underlying forecast taken into account in arriving at the valuation of Huafang Technology set out in the 2017 Valuation Report was based on various assumptions and factors, primarily including the then projected growth rate of China's live streaming market, as well as Huafang Technology's historical growth rate. Taking into account, among others, historical performance of Huafang Technology and market projections of China's live streaming market for 2018 to 2020 released during the material time, our management considered the expected growth rates adopted in 2017 Valuation Report and the goodwill recognized for the Huajiao-6.cn Merger reasonable.

FINANCIAL INFORMATION

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

In 2020, the market competition in the live streaming industry continued to intensify, as platforms competed more vigorously for user time and viable hosts, and new players, including major internet companies in China, continued to enter into the entertainment live streaming industry. For example, Douyin, a leading short-video platform, began to invest significantly in its live streaming business and implemented business initiatives to attract top-tier streamers and increase user traffic referrals in 2020. Similarly, other platforms also increased their efforts to attract quality hosts by enhancing host recruitment efforts and offering favorable incentive policies in the second half of 2020. The business initiatives undertaken by major internet companies in the live streaming industry created competitive pressure in terms of user and host retention, as well as gross billing generated from virtual gifting. In order to remain competitive, 6.cn began to strategically focus on attracting hosts and users to its mobile-based live streaming products and continued to introduce new products to keep abreast of the evolving industry trends. For example, 6.cn provided more favorable revenue-sharing policy to retain and attract more viable hosts and talent agencies, evidenced by the increase in actual revenue-sharing ratios from approximately 50.0% in 2019 to 52.0% in 2020, resulting in a decrease in gross profit margin of 6.cn from 41.7% in 2019 to 38.0% in 2020. In addition, 6.cn continued to promote its mobile-based applications and enhanced marketing efforts for mobile-based apps in user traffic referrals, and incurred significant marketing expense in 2020.

In addition, the COVID-19 pandemic had disproportionately greater effect on PC-based live streaming due to the government-mandated mobility restrictions which could impede access to streaming studios, which typically offer live streaming equipment such as camera, lighting kits and stage setups, that could help to enhance the quality and effectiveness of streaming. In particular, due to our hosts' inability to access streaming studios during relevant period, our hosts could not utilize high-definition cameras that are more expensive than cameras for daily use, and could not receive professional adjustment assistance for lights, microphones and live streaming background settings, all of which are conducive to improving the live streaming quality and atmosphere. As more PC-based hosts were forced to stream at home during the initial stage of the COVID-19 pandemic, their streaming quality was less attractive to users, especially top users, and as a result, monthly ARPPU of 6.cn decreased significantly by approximately 36% from RMB682 in 2019 to RMB436 in 2020, albeit the average MAUs increased mildly by approximately 4% from 21.9 million in 2019 to 22.7 million in 2020.

FINANCIAL INFORMATION

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

Acquisition of Holla Technology

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

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

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

FINANCIAL INFORMATION

Finance Costs

Finance costs primarily consisted of interest on lease liabilities.

Other Income

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

	Year ended December 31,						Five months ended May 31,			
	2019		2020		2021		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(Unaudited)</i>									
	<i>(RMB in thousands except for percentages)</i>									
Income from financial products issued by banks	18,221	53.4	19,412	31.5	7,593	11.0	3,394	15.3	4,316	15.6
Changes in fair value of financial products issued by banks	(734)	(2.2)	626	1.0	(999)	(1.5)	(1,005)	(4.5)	66	0.3
Interest income	3,698	10.8	9,553	15.5	20,375	29.6	7,817	35.3	10,261	37.1
Government grants	1,361	4.0	8,600	13.9	9,862	14.3	140	0.6	575	2.1
Gain/(loss) on disposal of long-term assets	118	0.3	(9)	0.0	866	1.3	(264)	(1.2)	(274)	(1.0)
Additional deduction of input VAT	11,774	34.5	19,127	31.0	26,809	38.9	10,622	47.9	11,469	41.5
Others	(309)	(0.8)	4,400	7.1	4,346	6.4	1,462	6.6	1,223	4.4
Total	34,129	100.0	61,709	100.0	68,852	100.0	22,166	100.0	27,636	100.0

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

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

FINANCIAL INFORMATION

Other Net Gains/(Losses)

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

Taxation

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

Cayman Islands

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

Hong Kong

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

United States

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

China

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

FINANCIAL INFORMATION

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

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

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

FINANCIAL INFORMATION

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

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

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

FINANCIAL INFORMATION

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

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

Revenue

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

- *Live streaming.* Our revenue generated from live streaming services increased by 14.6% from RMB1,763.7 million in the five months ended May 31, 2021 to RMB2,020.9 million in the five months ended May 31, 2022, primarily due to the following reasons:
 - *Huajiao.* Revenue attributable to *Huajiao* increased by 9.8% from RMB1,360.5 million in the five months ended May 31, 2021 to RMB1,493.2 million in the five months ended May 31, 2022, primarily due to (1) the business growth of audio contents on *Huajiao*, the revenue generated from which increased significantly from RMB328.9 million in the five months ended May 31, 2021 to RMB451.7 million in the five months ended May 31, 2022, (2) our continuous efforts in exploring cooperation opportunities with different talent agencies, which we believe increased the overall performance of hosts at *Huajiao*, and (3) more diversified promotional events that led to improved user stickiness, which in turn increased the average MPUs of *Huajiao*. Revenue attributable to video contents on *Huajiao* decreased from RMB983.8 million in the five months ended May 31, 2021 to RMB927.5 million in the five months ended May 31, 2022, primarily because we focused more on the business operations of audio contents on *Huajiao*, as evidenced by the significant business growth of audio contents on *Huajiao* in the five months ended May 31, 2022.
 - *6.cn.* Revenue attributable to *6.cn* increased by 30.9% from RMB403.2 million in the five months ended May 31, 2021 to RMB527.8 million in the five months ended May 31, 2022, as we continued to improve the user experience on *6.cn* and enhanced our operations, both of which led to increases in the number of paying users and monthly ARPPU for *6.cn* in the five months ended May 31, 2022.
- *Social networking.* We began to generate revenue from social networking products and services from overseas social networking products operated under HOLLA Group after the consolidation of HOLLA Group's financial results on December 31, 2020. Revenue generated from our overseas social networking products increased by 86.4% from RMB35.6 million in the five months ended May 31, 2021 to RMB66.4

FINANCIAL INFORMATION

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

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

Cost of sales

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

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

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

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

FINANCIAL INFORMATION

Gross profit and gross profit margin

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

- *Live streaming.* Our gross profit margin for live streaming remained relatively stable at 27.6% and 25.3% in the five months ended May 31, 2021 and 2022, respectively.
- *Huajiao.* The gross profit margin for *Huajiao* remained relatively stable at 25.2% and 24.3% in the five months ended May 31, 2021 and 2022, respectively, which was primarily due to the stable revenue-sharing ratio of *Huajiao* in the five months ended May 31, 2021 and 2022, respectively.
- *6.cn.* The gross profit margin for *6.cn* decreased from 35.5% in the five months ended May 31, 2021 to 27.9% in the five months ended May 31, 2022, primarily because *6.cn* focused on promoting hosts associated with talent agencies, who generally enjoy a relatively higher revenue-sharing ratio than individual hosts, as evidenced by the increase in the revenue generated from hosts associated with talent agencies as a percentage of our total revenue from 93.7% in the five months ended May 31, 2021 to 96.2% in the five months ended May 31, 2022.
- *Social networking.* The gross profit margin for social networking services increased from 35.9% in the five months ended May 31, 2021 to 47.1% in the five months ended May 31, 2022, primarily because we had preliminarily established our overseas operation teams with local experience and international perspective to provide local operation supports and customer service, which reduced our costs for engaging relevant third-party service providers. The relatively high gross profit margin of social networking products was mainly due to the relatively low host costs for social networking products, as a portion of its revenue was generated from purchases of services.
- *Others.* The gross profit margin for others remained relatively stable at 22.0% and 22.8% in the five months ended May 31, 2021 and 2022, respectively.

Selling and marketing expenses

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

FINANCIAL INFORMATION

General and administrative expenses

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

Research and development expenses

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

Other income

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

Finance costs

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

Income tax expense

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

Profit for the period

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

FINANCIAL INFORMATION

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

Revenue

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

- *Live streaming.* Our revenue generated from live streaming services increased by 22.0% from RMB3,669.6 million in 2020 to RMB4,477.1 million in 2021, primarily due to the following reasons:
 - *Huajiao.* Revenue attributable to *Huajiao* increased by 22.8% from RMB2,825.8 million in 2020 to RMB3,469.2 million in 2021, primarily due to the business growth of audio contents on *Huajiao*. In particular, revenue generated from audio contents on *Huajiao* increased significantly from RMB506.7 million in 2020 to RMB889.1 million in 2021. In addition, revenue from *Naitang* increased from RMB16.4 million in 2020 to RMB217.3 million in 2021. We believe the growth of audio-based products was due to (1) our targeted strategy to optimize the operations of audio-based products and increase user stickiness, and (2) the popularity of audio-based products among Generation Z users. In 2019, 2020 and 2021, Generation Z users contributed to 46.6%, 46.4% and 43.7% of revenue generated from *Huajiao*'s audio contents, respectively. In 2020 and 2021, 87.9% and 69.3% of revenue generated from *Naitang* was contributed by Generation Z users, respectively.
 - *6.cn.* Revenue attributable to *6.cn* increased by 19.5% from RMB843.7 million in 2020 to RMB1,007.9 million in 2021, as we continued to improve the content offered on *6.cn*, and enhance our operations, which led to increases in the number of paying users and monthly ARPPU for *6.cn* in 2021.
- *Social networking.* We began to generate revenue from social networking products and services from overseas social networking products operated under HOLLA Group after the consolidation of HOLLA Group's financial results on December 31, 2020. In 2021, our social networking products generated revenue of RMB118.2 million.
- *Others.* Our revenue generated from other services decreased by 68.3% from RMB13.9 million in 2020 to RMB4.4 million in 2021, primarily due to our strategic focus on live streaming and social networking business.

FINANCIAL INFORMATION

Cost of sales

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

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

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

Gross profit and gross profit margin

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

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

FINANCIAL INFORMATION

- *6.cn*. The gross profit margin for *6.cn* decreased from 38.0% in 2020 to 34.0% in 2021, primarily because *6.cn* focused on promoting hosts associated with talent agencies, who tended to enjoy a relatively higher revenue-sharing ratio than individual hosts. From 2020 to 2021, the number of hosts associated with talent agencies increased by 35.2%.
- *Social networking*. The gross profit margin for social networking services was 46.8% in 2021. The relatively high gross profit margin of social networking products was mainly due to the relatively low host costs for social networking products, as a portion of its revenue was generated from purchases of services.
- *Others*. The gross profit margin for others decreased from 59.4% in 2020 to 9.6% in 2021, due to a strategic shift away from technical services, which tended to have a higher profit margin.

Selling and marketing expenses

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

General and administrative expenses

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

Research and development expenses

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

FINANCIAL INFORMATION

Impairment loss of goodwill and intangible assets

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

Other income

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

Finance costs

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

Income tax expense

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

Profit for the year

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

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

Revenue

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

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

FINANCIAL INFORMATION

- *Huajiao*. Revenue attributable to *Huajiao* increased by 30.5% from RMB2,165.7 million in 2019 to RMB2,825.8 million in 2020, primarily due to (1) increased revenue generated from video- and audio-based live streaming services, as we continue to attract and retain top-tier talent agencies for viable hosts, who in turn served to drive user engagement, and (2) a significant increase in revenue contribution from audio-based live streaming services, which increased from RMB193.0 million in 2019 to RMB506.7 million in 2020. In addition, revenue from *Naitang* was RMB16.4 million in 2020.
- *6.cn*. Revenue attributable to *6.cn* increased by 29.1% from RMB653.6 million in 2019 to RMB843.7 million in 2020, primarily due to the consolidation of *6.cn*'s full year's financial statement in 2020 following the *Huajiao-6.cn* Merger in April 2019.
- *Others*. Our revenue generated from other services increased by 20.8% from RMB11.5 million in 2019 to RMB13.9 million in 2020, primarily due to increased revenue generated from technical services.

Cost of sales

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

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

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

Gross profit and gross profit margin

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

FINANCIAL INFORMATION

- *Live streaming.* Our gross profit margin for our live streaming services increased from 24.7% in 2019 to 27.3% 2020, primarily due to an increase in the profit margin of *Huajiao* from 19.5% in 2019 to 24.2% in 2020, as a result of our improved brand recognition, which enabled us to attract viable hosts while lowering revenue-sharing ratio. The increase in gross profit margin of our live streaming business was partially offset by a decrease in *6.cn*'s gross profit margin from 41.7% in 2019 to 38.0% in 2020, as we focused on strengthening cooperation with talent agencies that could bring more viable hosts to our platform, who generally enjoy higher revenue-sharing ratio than individual hosts.
- *Others.* Our gross profit margin for other services decreased from 86.2% in 2019 to 59.4% in 2020 primarily due to relatively higher cost of sales in connection with the advertisement services.

Selling and marketing expenses

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

General and administrative expenses

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

Research and development expenses

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

FINANCIAL INFORMATION

Impairment loss of goodwill and intangible assets

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

Other income

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

Finance costs

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

Income tax expense

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

Profit/(loss) for the year

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

FINANCIAL INFORMATION

DISCUSSION OF MAJOR BALANCE SHEET ITEMS

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

	As of December 31,			As of
	2019	2020	2021	May 31, 2022
	<i>(RMB in thousands)</i>			
Non-current assets				
Property and equipment	34,901	25,204	83,073	82,391
Intangible assets	157,699	153,310	132,641	124,097
Goodwill	2,459,472	699,778	699,778	699,778
Other financial assets	67,075	39,400	65,960	92,541
Deferred tax assets	139,045	108,184	63,848	41,063
Total non-current assets	2,858,192	1,025,876	1,045,300	1,039,870
Current assets				
Trade receivables	2,864	2,870	621	524
Prepayments, deposits and other receivables	55,467	75,198	138,457	139,170
Other financial assets	384,319	258,145	45,346	533,792
Cash at bank and on hand	789,678	1,068,149	1,614,783	1,371,355
Total current assets	1,232,328	1,404,362	1,799,207	2,044,841
Current liabilities				
Trade payables	217,159	206,456	143,150	226,815
Contract liabilities	66,355	79,546	85,781	83,907
Accrued expenses and other payables	247,576	67,345	80,840	52,721
Lease liabilities	7,168	5,763	12,246	12,596
Current taxation	5,351	4,028	8,871	7,415
Total current liabilities	543,609	363,138	330,888	383,454
Net current assets	688,719	1,041,224	1,468,319	1,661,387
Total assets less current liabilities	3,546,911	2,067,100	2,513,619	2,701,257

FINANCIAL INFORMATION

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

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

FINANCIAL INFORMATION

Property and Equipment

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

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

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

Intangible Assets

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

FINANCIAL INFORMATION

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

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

Goodwill

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

Trade Receivables

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

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

FINANCIAL INFORMATION

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

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

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

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

Prepayments, Deposits and Other Receivables

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

FINANCIAL INFORMATION

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

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

FINANCIAL INFORMATION

Prepayments for purchase of services

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

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

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

FINANCIAL INFORMATION

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

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

Loan to third parties

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

Other Financial Assets

Other financial assets primarily consisted of financial products issued by banks and financial assets measured at FVOCI, including our equity investment in certain technology companies during the Track Record Period. We have implemented a policy concerning

FINANCIAL INFORMATION

purchases and management of financial assets, which sets out, among others, approval procedures, approval authority matrices, and accounting treatments for financial assets. The following table sets forth the breakdown of our financial assets by nature as of the date indicated.

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

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

FINANCIAL INFORMATION

internal control measures over financial investment to minimize relevant investment risks. See “— Investment Policies and Internal Control over Financial Investment” for our internal control policy for financial products issued by banks.

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

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

Investment Policies and Internal Control over Financial Investment

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

FINANCIAL INFORMATION

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

Investment policies on financial products issued by banks:

- our operation committee, consisting of all of our senior management, is responsible for the overall planning in respect of our investment in financial products issued by banks, and the finance directors of respective subsidiaries of ours, our chief executive officer and/or our Board are responsible for the approval for such investment;
- our finance department are responsible for the analysis and research of investment in financial products issued by banks, as well as the long-term routine management of such investment;
- any dealing in financial products issued by banks must be operated by at least two employees;
- investments in financial products issued by banks could be made when we have surplus cash that is not required for our short-term working capital purposes and in no event beyond the amount authorized by our Board;
- we mainly make investments in short-term financial products issued by banks with low risk, high liquidity and reasonable returns, which primarily consist of principal-guaranteed products issued by reputable commercial banks;
- specific approvals from our Board are required for financial products issued by banks with medium or higher risk ratings; and
- we assess the risk associated with the underlying financial instruments based on the risk classification provided by the issuing licensed commercial bank.

Equity investment policies:

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

FINANCIAL INFORMATION

- the strategic investment team will report their due diligence and analysis results to our investment committee, who will evaluate the merits of the investment and report their decision to our Board for approval, as applicable; and
- our investment committee will regularly review the performance of the investment targets and adjust our investment strategies accordingly.

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

Fair value valuation

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

FINANCIAL INFORMATION

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

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

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

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

FINANCIAL INFORMATION

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

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

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

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

FINANCIAL INFORMATION

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

Contract Liabilities

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

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

Our contract liabilities were RMB66.4 million, RMB79.5 million, RMB85.8 million and RMB83.9 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. The contract liabilities in connection with our live streaming services increased from RMB66.4 million as of December 31, 2019 to RMB78.4 million as of December 31, 2020, and further increased to RMB85.8 million as of December 31, 2021, which was due to the growth of our live streaming business during the Track Record Period, as evidenced by a general increase of average MPUs of our platform from approximately 923,000 to 1.4 million in 2021, and further to 1.6 million in the five months ended May 31, 2022, which ultimately contributed to the continuous increase in prepayment of top-up on our platform. The contract liabilities in connection with our advertising services decreased from RMB1.1 million as of December 31,

FINANCIAL INFORMATION

2020 to nil as of December 31, 2021, as we strategically focused on live streaming and social networking business, which led to a decrease in prepayment for advertising services. As of September 30, 2022, RMB75.0 million, or 89.4%, of our contract liabilities as of May 31, 2022 had been subsequently recognized as revenue.

Accrued Expenses and Other Payables

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

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

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

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

FINANCIAL INFORMATION

Cash and Cash Equivalents

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

Trade Payables

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

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

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

FINANCIAL INFORMATION

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Working Capital

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

FINANCIAL INFORMATION

Cash Flows

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

	Year ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	<i>(Unaudited)</i>				
	<i>(RMB in thousands)</i>				
Operating cash flows before movements in working capital ⁽¹⁾	226,367	423,934	484,211	185,951	231,487
Add:					
Changes in working capital ⁽²⁾	231,865	(208,248)	(114,549)	(59,783)	85,099
Income tax paid	(11,256)	(29,502)	(21,118)	(13,299)	(14,263)
Net cash generated from operating activities	446,976	186,184	348,544	112,869	302,323
Net cash generated from/(used in) investing activities	107,996	67,223	213,044	203,878	(541,077)
Net cash (used in)/generated from financing activities	(4,794)	25,064	(14,659)	(3,316)	(5,001)
Net increase/(decrease) in cash and cash equivalents	550,178	278,471	546,929	313,431	(243,755)
Cash and cash equivalents at beginning of the year/period	239,500	789,678	1,068,149	1,068,149	1,614,783
Effect of exchange rate changes on the balance of cash held in foreign currencies	–	–	(295)	(248)	327
Cash and cash equivalents at the end of the year/period	789,678	1,068,149	1,614,783	1,381,332	1,371,355

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

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

FINANCIAL INFORMATION

Net cash generated from operating activities

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

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

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

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

FINANCIAL INFORMATION

Net cash generated from investing activities

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

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

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

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

Net cash generated from/(used in) financing activities

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

Net cash used in financing activities was RMB14.7 million in 2021, primarily due to capital element of lease rentals in the amount of RMB9.9 million and listing expenses paid in the amount of RMB4.3 million.

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

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

FINANCIAL INFORMATION

Current Assets and Current Liabilities

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

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

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

Taking into consideration of financial resources presently available to us, our Directors are of the view that our available cash and cash equivalents, anticipated cash flow from operations and net proceeds from the Global Offering will be sufficient to meet our present and anticipated cash requirements for the next 12 months from the date of this prospectus.

FINANCIAL INFORMATION

CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

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

We plan to fund our planned capital expenditure by using the cash flow generated from our operations, the net proceeds received from the Global Offering. See “Future Plans and Use of Proceeds” for the portion of capital expenditures to be funded by the proceeds from the Global Offering.

INDEBTEDNESS

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

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

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

FINANCIAL INFORMATION

CONTINGENT LIABILITIES

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

LISTING EXPENSES

Our listing expenses in connection with the Global Offering consist primarily of underwriting commission and professional fees, and are estimated to be approximately RMB51.0 million, representing approximately 38.3% of our gross proceeds from the Global Offering (assuming that the Global Offering is conducted at the mid-point of the Offer Price range and the Over-allotment Option is not exercised). We recognized listing expenses of RMB23.9 million in the consolidated income statements during the Track Record Period. We estimate that approximately RMB19.9 million of the remaining listing expense will be charged to the consolidated income statements and RMB7.2 million will be charged to equity upon completion of the Capitalization Issue and the Global Offering.

The listing expenses we incurred during the Track Record Period and expect to incur for this Offering would consist of (1) approximately RMB5.3 million in underwriting-related expenses, and (2) approximately RMB45.7 million in non-underwriting-related expenses, which include (i) approximately RMB36.4 million in fees and expenses of legal advisors and accountants, and (ii) approximately RMB9.3 million in other fees and expenses.

KEY FINANCIAL RATIOS

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

FINANCIAL INFORMATION

- (1) The calculation of gross profit margin is based on gross profit for the period divided by revenue for the respective period and multiplied by 100.0%.
- (2) The calculation of net profit/(loss) margin is based on profit or loss for the period divided by revenue for the respective period and multiplied by 100.0%.
- (3) The calculation of adjusted net profit/(loss) margin (non-IFRS measure) is based on adjusted profit or loss for the period divided by revenue for the respective period and multiplied by 100.0%.
- (4) The calculation of current ratio is based on current assets divided by current liabilities as of period end.

Analysis of Key Financial Ratios

Gross profit margin and net profit/(loss) margin

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

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

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

Current ratio

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

FINANCIAL INFORMATION

RELATED PARTY TRANSACTIONS

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

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

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

Credit Risk

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

Liquidity Risk

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

FINANCIAL INFORMATION

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

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

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

FINANCIAL INFORMATION

As of December 31, 2021

Contractual undiscounted cash outflow

	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	More than five years	Total	Carrying amount
<i>(RMB in thousands)</i>						
Trade payables	143,150	–	–	–	143,150	143,150
Accrued expenses and other payables	80,840	–	–	–	80,840	80,840
Lease liabilities	14,732	13,564	36,762	–	65,058	58,309
	<u>238,722</u>	<u>13,564</u>	<u>36,762</u>	<u>–</u>	<u>289,048</u>	<u>282,299</u>

As of May 31, 2022

Contractual undiscounted cash outflow

	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	More than five years	Total	Carrying amount
<i>(RMB in thousands)</i>						
Trade payables	226,815	–	–	–	226,815	226,815
Accrued expenses and other payables	52,721	–	–	–	52,721	52,721
Lease liabilities	14,862	13,002	33,290	–	61,154	55,489
	<u>294,398</u>	<u>13,002</u>	<u>33,290</u>	<u>–</u>	<u>340,690</u>	<u>335,025</u>

DIVIDEND POLICY

According to our dividend policy adopted on November 21, 2022, the Articles of Association and applicable laws and regulations, the determination to pay dividends will be made at the discretion of our Directors, subject to the Listing Rules, and will depend upon, among others, the financial results, cashflow, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, any restrictions on payment of dividends, and other factors that our Directors may consider relevant. Our Company in general meeting may from time to time by ordinary resolution declare dividends in any currency to be paid to the Shareholders but no dividend shall be declared in excess of the amount recommended by the Board, provided always that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall

FINANCIAL INFORMATION

due in the ordinary course of business. We do not have a pre-determined dividend payout ratio. We will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic environment. During the Track Record Period and up to the Latest Practicable Date, we had not declared or paid any dividends.

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

DISTRIBUTABLE RESERVES

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

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

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

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, as of the date of this prospectus, there has been no material adverse change in our financial and trading positions or prospects since May 31, 2022, being the date on which our latest audited consolidated financial statements were prepared, and there is no event since May 31, 2022 which would materially affect the information in the Accountants' Report set out in Appendix I to this prospectus.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

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

FINANCIAL INFORMATION

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

	Consolidated net tangible assets attributable to equity shareholders of the Company as of 31 May 2022⁽¹⁾ <i>(RMB in thousands)</i>	Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company	Unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company per Share⁽³⁾ <i>(RMB)</i>	adjusted net tangible assets attributable to equity shareholders of the Company per Share⁽³⁾ <i>(HK\$)⁽⁴⁾</i>
Based on an Offer Price of HK\$2.8 per Share	1,816,222	89,379	1,905,601	1.91	2.11
Based on an Offer Price of HK\$3.6 per Share	1,816,222	122,349	1,938,571	1.94	2.14

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

(2) The estimated net proceeds from the Global Offering are based on the estimated Offer Prices of HK\$2.8 per share and HK\$3.6 per share, being the lower end price and higher end price of the indicative Offer Price range respectively, after deduction of the estimated underwriting fees and other related expenses related to Global Offering (excluding approximately RMB23,890,000 listing expenses which has been charged to the consolidated statements of profit or loss up to May 31, 2022), and does not take into account of any shares that may be issued upon exercise of the Over-Allotment Option. The estimated net proceeds from the Global Offering is converted into RMB at an exchange rate of HK\$1.00: RMB0.9044.

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

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company per Share is arrived at after the adjustment referred to in the preceding paragraph and on the basis that 1,000,000,000 Shares were in issue, being the number of shares expected to be in issue following the completion of the Capitalization Issue and the Global Offering, and does not take into account any shares which may be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme.

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

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

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Growth Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK\$3.20 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$2.80 and HK\$3.60 per Offer Share), we estimate that we will receive net proceeds of approximately HK\$90.8 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering. We intend to use the net proceeds from the Global Offering for the following purposes and in the amounts set out below, subject to changes in light of our evolving business needs and changing market conditions:

	For the year ending December 31,		
	2023	2024	2025
	<i>(HK\$ in millions)</i>		
Product and service diversification and enhancement	5.5	7.4	9.8
Marketing initiatives	10.0	10.6	11.2
Selective acquisition and investment	4.1	6.0	8.0
Research & development	2.4	3.0	3.7
Working capital and other general purposes	3.0	3.0	3.1
Total	25.0	30.0	35.8

The basis and details of our estimated use of the net proceeds are set out as below:

- approximately 25.0%, or HK\$22.7 million, will be used over the next three years to further diversify and enrich our products, content and services by adopting measures including but not limited to:
 - o approximately 4.6%, or HK\$4.2 million will be used to continue recruiting and training our hosts to improve the talent and live streaming skills of our hosts and attract new hosts, including establishing host training teams, leasing properties for offline live streaming bases, and setting up host training camps. Specifically, we plan to establish a dedicated host training team consisting of approximately 12 members in the next two to three years to provide hosts with training on live streaming operations, content creation, communication

FUTURE PLANS AND USE OF PROCEEDS

techniques and performance skills. We also plan to lease additional office spaces close to our headquarters in Beijing to provide administrative support and accommodate this expanding host training team;

- o approximately 4.5%, or HK\$4.1 million will be used to incubate MCNs to groom and recruit talented hosts, such as establishing our own MCNs and leasing properties for the operation of MCNs. We plan to recruit approximately 10 staff specializing in the fields of talent recruitment and discovery, content production and distribution, media and public relations, to incubate two to three MCNs in the next two to three years, in order to ensure the continuous supply of viable hosts to our platform. In particular, we will focus on recruiting hosts that are more relatable for Generation Z users to foster a content ecosystem catering to the interest of Generation Z users. We will also lease office spaces in suitable locations to accommodate the in-house MCNs and their staff;
- o approximately 6.4%, or HK\$5.8 million will be used to continue developing our overseas operations through (1) establishing our overseas operation teams with local experience and international perspective to provide local operation supports and customer service, and (2) leasing properties in overseas markets, such as North America and Southeast Asia, to establish regional offices and seize the emerging opportunities from the rapidly developing live streaming market. In the next two to three years, we plan to set up overseas operation teams, consisted of approximately eight staff to station in Singapore, to provide customer service and conduct local marketing and brand promotion activities. We plan to expand our operations to Singapore primarily because our planned Singapore regional office could be the hub of our overall overseas operations, leveraging diversified talent market, financial resources and supportive government policies for technology companies in Singapore. We will lease office spaces in the corresponding overseas market as the branch offices of our overseas operation teams;
- o approximately 4.1%, or HK\$3.7 million will be used to continue developing and expanding our product and service offerings to fulfill evolving user needs that naturally arise from our ecosystem, including innovative audio-based products, social discovery and networking, and other relevant products and services; and
- o approximately 5.4%, or HK\$4.9 million will be used to continue upgrading and diversifying our offline operational events, including talent contests, variety shows, and other offline events in collaboration with hosts and local businesses to promote our hosts and enrich our content.

FUTURE PLANS AND USE OF PROCEEDS

The following table sets forth a breakdown of our implementation plan to further diversify and enrich our products, content and services from 2023 to 2025, based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

	For the year ending December 31,		
	2023	2024	2025
	<i>(HK\$ in millions)</i>		
Host recruitment and training	0.9	1.4	1.9
Developing host training and operation team	0.5	0.9	1.3
Lease and other operating expenses	0.4	0.5	0.6
MCN incubation	1.1	1.4	1.6
Developing MCN management and operation team	0.7	0.9	1.0
Lease and other operating expenses	0.4	0.5	0.6
Overseas expansion	1.4	1.8	2.6
Recruiting local staff and management team	0.4	0.6	1.3
Lease and other operating expenses for overseas offices	1.0	1.2	1.3
Product and service development	0.9	1.2	1.6
Offline events	1.2	1.6	2.1
Total	5.5	7.4	9.8

China's online video and audio social entertainment market, in terms of revenues, grew from RMB61.8 billion in 2017 to RMB499.4 billion in 2021 at a CAGR of 68.6%, and it is expected to reach RMB1,326.5 billion in 2027 at a CAGR of 17.7% from 2021 to 2027. According to the same source, the global video and audio social entertainment market, in terms of revenues, increased from RMB411.3 billion in 2017 to RMB1,566.3 billion in 2021 at a CAGR of 39.7% and is expected to reach RMB3,516.0 billion in 2027 at a CAGR of 14.4% from 2021 to 2027. Based on the expected growth in the Chinese and global social entertainment market in the next five years, the Directors of the Company are of the view that there will be sufficient market demand for our products and services. In addition, China's entertainment live streaming market are highly-fragmented. We believe that we can capture the industry trend toward consolidation in this highly competitive yet fragmented market by focusing on product diversification and upgrades, marketing and brand promotion, as well as selective acquisition of targets that maximize the expected return for us and minimize the risks and exposure associated with the acquisition.

FUTURE PLANS AND USE OF PROCEEDS

- approximately 35.0%, or HK\$31.8 million, will be used to implement our marketing initiatives to expand our user base and promote our brand in China and overseas by adopting measures including but not limited to:
 - o approximately 30.4%, or HK\$27.6 million will be used to conduct performance-based marketing activities to increase user traffic, including placing performance-based online advertisements and engaging third-party service providers to refer user traffic to our various products, which may include placing news feed advertisements on various media channels, search engines and app stores, engaging mobile pre-installment campaigns, and collaborating with influencers and sponsoring their participation on our live streaming and social networking products in China and overseas. Specifically, in order to increase Generation Z user traffic to our platform, we plan to strategically focus on cooperation with channels that are more likely to attract Generation Z users, such as TikTok, Instagram, and Douyin; and
 - o approximately 4.6%, or HK\$4.2 million will be used to promote our brand recognition among hosts and users, which may include sponsoring popular variety shows, promoting our key products on mainstream media channels and launching offline activities, such as the “*prettiest*” and the “*pinnacle*” contests to promote our brand image.

The following table sets forth a breakdown of our marketing initiatives from 2023 to 2025 to expand our user base and promote our brand in China and overseas, based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

	For the year ending December 31,		
	2023	2024	2025
	<i>(HK\$ in millions)</i>		
Performance-based marketing and advertisement	8.7	9.2	9.7
China market	6.6	6.9	7.3
Overseas market	2.1	2.3	2.4
Brand promotion	1.3	1.4	1.5
Total	10.0	10.6	11.2

FUTURE PLANS AND USE OF PROCEEDS

We plan to implement marketing initiatives in China and overseas for the next two to three years. Our Directors are of the view that our marketing initiatives will help broaden our user base in this highly fragmented market, and in light of the increased time spent on video and audio social entertainment content by internet users in China, according to the iResearch Report;

- approximately 20.0%, or HK\$18.1 million, will be used for selective acquisitions of or investment in products, services and businesses, particularly in areas such as content, social entertainment and software, that are complementary to our business and are in line with our corporate philosophy and growth strategies. Specifically, we will consider investing or acquiring equity interest in MCNs and companies that offer products related to social networking, augmented reality effects, virtual reality effects, or audio-based products, thereby forming synergy effect with our existing business and expansion strategy as the acquisition targets may provide us popular hosts with huge fan bases, user traffic for our existing products and even supplemental technologies to our business. As of the Latest Practicable Date, we had not identified any other target of potential acquisition.

When selecting potential investment targets, we will consider various criteria, including (1) synergy with or complement to our business operations, (2) R&D capabilities in technologies relevant to our existing business, (3) geographic locations, (4) growth potential, (5) financial performance or projections and (6) background of management team. Specifically, we intend to invest in emerging companies whose businesses are complementary to our existing business and with 50 to 100 employees. When selecting potential acquisition targets, in addition to investment criteria listed before, we will also require the potential acquisition targets to achieve annual revenue of no less than RMB200 million. According to the iResearch Report, there are approximately no fewer than 600 companies operating social entertainment live streaming platforms in China, and there are approximately no fewer than 1,000 companies operating in the global social entertainment live streaming industry, which may be considered as potential targets for investments and acquisitions, subject to further commercial consideration and assessment. Based on the abundant number of potential acquisition targets in the global social entertainment live streaming industry, as well as other complementary businesses such as MCNs and technology companies offering social networkings, augmented and virtual reality products that could become our potential acquisition targets, our Directors are of the view that there are sufficient acquisition targets satisfy our criteria to implement our investment and acquisition plans;

- approximately 10.0%, or HK\$9.1 million, will be used to strengthen our R&D and technology capability and upgrade our IT infrastructure by adopting measures including but not limited to:

FUTURE PLANS AND USE OF PROCEEDS

- o approximately 2.3%, or HK\$2.1 million will be used to invest in areas such as AI, data processing, 3D engine, audio and video engine and augmented reality, including to (1) continue developing machine learning algorithms and multi-objective optimization technology to further enhance our personalized recommendation engine to gather deeper insights into user preferences and improve the quality of our content and services, (2) invest in our machine learning, computer vision and computer graphics capabilities to provide new and attractive content creation tools and further encourage content creation and interaction on our platform, and (3) upgrade live streaming technology to improve user experience by ensuring higher video quality, lower latency and transmission stability under various network conditions.

- o approximately 4.0%, or HK\$3.6 million will be used to continue retaining and providing incentive to our research and development talents and to attract and groom top-notch experts, researchers and other talents in relevant fields such as 3D engine, audio and video engine and augmented reality in order to support our research and development initiatives targeting (1) the improvement of our streaming technologies to further enhance performance on our platform, and (2) the refinement of our technology-driven features and functions on our platform such as augmented reality, filters and other special effects.

Specifically, within three years from the Listing, we plan to recruit approximately five and one additional R&D personnel who will be responsible for the improvement of our streaming technologies and upgrade of live streaming visual effects, respectively. Ideal candidates for our R&D positions shall have at least five years relevant industry experience or a bachelor's degree or above; and

- o approximately 3.7%, or HK\$3.4 million will be used to continue upgrading and scaling our IT infrastructure, including cloud service and computing bandwidth, to support our growing ecosystem as well as product and content offerings; and

FUTURE PLANS AND USE OF PROCEEDS

The following table sets forth a breakdown of our planned investment in enhancing our R&D and technology capability from 2023 to 2025, based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

	For the year ending December 31,		
	2023	2024	2025
	<i>(HK\$ in millions)</i>		
R&D staff recruitment	0.9	1.2	1.5
R&D and technology investment	1.5	1.8	2.2
Technology investment	0.5	0.7	0.9
<i>AI, 3D and augment reality</i>			
<i>development and purchases</i>	0.2	0.3	0.4
<i>Big data and AI computing</i>			
<i>development and purchases</i>	0.3	0.4	0.5
IT infrastructure upgrades	1.0	1.1	1.3
<i>Cloud service purchases</i>	0.7	0.8	0.9
<i>Bandwidth purchases</i>	0.3	0.3	0.4
	2.4	3.0	3.7
Total	2.4	3.0	3.7

- approximately 10.0%, or HK\$9.1 million, will be used for working capital and general corporate purposes.

To the extent that our actual net proceeds from the Global Offering is higher or lower than our estimate above, we will increase or decrease our allocation of the net proceeds for the purposes set out above on a pro rata basis.

After deducting the underwriting fees, commissions and estimated expenses payable by us in relation to the Global Offering, we estimate that we will receive net proceeds of approximately HK\$108.9 million from the Global Offering, assuming the Offer Price is determined to be HK\$3.60 per Offer Share, being the high-end of the indicative Offer Price range stated in this prospectus, approximately HK\$90.8 million, assuming the Offer Price is determined to be HK\$3.20 per Offer Share, being the mid-end of indicative Offer Price range stated in this prospectus and approximately HK\$72.4 million, assuming the Offer Price is determined to be HK\$2.80 per Offer Share, being the low-end of the indicative Offer Price range stated in this prospectus.

Assuming the Over-allotment Option was exercised in full, after deducting the underwriting commission and estimated related expenses payable by us, we estimate that the total net proceeds that we would receive would be (1) HK\$132.7 million (assuming an Offer Price of HK\$3.60 per Offer Share, being the high-end of the indicative Offer Price range stated

FUTURE PLANS AND USE OF PROCEEDS

in this prospectus), (2) HK\$112.4 million (assuming an Offer Price of HK\$3.20 per Offer Share, being the mid-end of the indicative Offer Price range stated in this prospectus) and (3) HK\$91.7 million (assuming an Offer Price of HK\$2.80 per Offer Share, being the low-end of the indicative Offer Price range stated in this prospectus).

In the event that the net proceeds from the Global Offering are not sufficient to fund our growth strategies and future plans as disclosed above, we plan to utilize our internal resources to fund such strategies and plans. To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if we are unable to put into effect any part of our plan as intended, we will hold such funds in short-term interest-bearing accounts at licensed commercial banks and/or other authorized financial institutions in Hong Kong (as defined under the Securities and Futures Ordinance) and the PRC (as defined under the PRC Laws). We will issue announcements, where required, if there is any material change in the use of proceeds mentioned above.

UNDERWRITING

HONG KONG UNDERWRITERS

(in no particular order)

Haitong International Securities Company Limited

CCB International Capital Limited

ABCI Securities Company Limited

Daiwa Capital Markets Hong Kong Limited

Eddid Securities and Futures Limited

Huatai Financial Holdings (Hong Kong) Limited

Tiger Brokers (HK) Global Limited

Valuable Capital Limited

Zhongtai International Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering 4,600,000 Hong Kong Offer Shares (subject to reallocation) for subscription by the public in Hong Kong at the Offer Price on the terms and subject to the conditions of this prospectus.

Subject to the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein (including any additional Shares which may be made available pursuant to the exercise of the Over-allotment Option), and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally, but not jointly or jointly and severally, to subscribe for or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed between our Company and the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Global Offering will not proceed.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

UNDERWRITING

Grounds for Termination

The Joint Sponsors and the Overall Coordinators and Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled, in their sole and absolute discretion, by notice (orally or in writing) to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any change, or any development involving a prospective change, or any event or series of events or circumstance resulting or likely to result in or representing any change or development involving a prospective change in local, national, regional or international financial, economic, political, military, industrial, fiscal, legal, regulatory, currency, credit or market conditions or exchange control or any monetary or trading settlement system (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the inter-bank markets or credit markets, a change in the system under which the Hong Kong currency is linked to that of the currency of the United States or a material change in the value of Hong Kong dollars or of the Renminbi against any foreign currencies) or the implementation of any exchange control in or affecting Hong Kong, the PRC, the Cayman Islands, the BVI, the United States or any other jurisdiction relevant to any member of the Group or the Global Offering (each a “**Relevant Jurisdiction**”); or
 - (ii) the imposition or declaration of any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
 - (iii) the imposition or declaration of any general moratorium on commercial banking activities or foreign exchange trading or securities settlement or clearance services in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Authority (as defined in the Hong Kong Underwriting Agreement)), New York (imposed at Federal or New York State level or other competent Authority) or any other Relevant Jurisdiction, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or in any Relevant Jurisdiction; or
 - (iv) any new Laws (as defined in the Hong Kong Underwriting Agreement), or any change or development or announcement or publication involving a prospective change in existing Laws (as defined in the Hong Kong Underwriting Agreement), or any change, development or announcement or publication involving a prospective change, or any event or series of events

UNDERWRITING

resulting in or representing a change or a development involving a prospective change, in the interpretation or application thereof by any court or other competent Authority (as defined in the Hong Kong Underwriting Agreement), in each case, in or affecting any Relevant Jurisdiction; or

- (v) a change or development involving a prospective change in Taxation (as defined in the Hong Kong Underwriting Agreement) or currency exchange rates or foreign investment regulations in or affecting any Relevant Jurisdiction; or
- (vi) save as disclosed in this prospectus, any litigation or claim of any third party being threatened or instigated against any member of the Group or any Director or any of the Warrantors (as defined in the Hong Kong Underwriting Agreement); or
- (vii) the chairman or chief executive officer of the Company vacating his office; or
- (viii) any material adverse change or development involving a prospective adverse change in the assets, liabilities, conditions, business, prospects (financial or otherwise), earnings, profits, losses or financial or trading position of the Group taken as a whole and/or any member of the Group which has a substantial business operation; or
- (ix) an Authority (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction commencing any investigation, claims, proceedings or other action, or announcing an intention to investigate or take other action, against any member of the Group or any Director or any of the Warrantors (as defined in the Hong Kong Underwriting Agreement); or
- (x) any contravention by any member of the Group or any Director of any applicable Laws (as defined in the Hong Kong Underwriting Agreement) (including, without limitation, the Listing Rules); or
- (xi) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws (as defined in the Hong Kong Underwriting Agreement); or
- (xii) except with the prior written consent of the Overall Coordinators and Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), the issue or requirement to issue by our Company of any supplement or amendment to this prospectus, the **GREEN** Application Forms, Preliminary Offering Circular (as defined in the Hong Kong Underwriting Agreement) or Offering Circular (as defined in the Hong Kong Underwriting Agreement) or any other documents used in connection with the contemplated

UNDERWRITING

offer and sale of the Shares pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

- (xiii) any change or development involving a prospective change which has the effect of materialization of any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xiv) an order or petition for the winding up or liquidation of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up or liquidation of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group; or
- (xv) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xvi) any local, national, regional or international event, or series of events, or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, lock-outs, economic sanctions, strikes, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed)) in or affecting any Relevant Jurisdiction; or
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group prior to its stated maturity;

which, individually or in the aggregate, in the sole and absolute opinion of the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), (1) has or will have a material adverse effect, whether directly or indirectly, on the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or (2) has or will have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (3) makes or will make or may make it inadvisable or inexpedient or impracticable for any material

UNDERWRITING

part of the Hong Kong Underwriting Agreement, or for any part of the Hong Kong Public Offering or the Global Offering to be performed or implemented or proceed or to market, the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by this prospectus, the **GREEN** Application Forms, the Formal Notice (as defined in the Hong Kong Underwriting Agreement), the Preliminary Offering Circular (as defined in the Hong Kong Underwriting Agreement) or the Offering Circular (as defined in the Hong Kong Underwriting Agreement); or (4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing or delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Overall Coordinators and the Joint Global Coordinators:
 - (i) that any statement contained in any of the Offering Documents (as defined in the Hong Kong Underwriting Agreement) and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect, inaccurate in any material respect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation expressed in the Offering Documents (as defined in the Hong Kong Underwriting Agreement) and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a misstatement or omission from any of the Hong Kong Offering Documents (as defined in the Hong Kong Underwriting Agreement) and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
 - (iii) that either (i) there has been a breach of, or any matter, event, act, omission or circumstance rendering untrue, incorrect, incomplete in any material respect or misleading in any respect, any of the Warranties (as defined in the Hong Kong Underwriting Agreement) or (ii) there has been any matter, event, act, omission or circumstance which gives or is likely to give rise to any liability of any of

UNDERWRITING

the Warrantors (as defined in the Hong Kong Underwriting Agreement) pursuant to the indemnities given by any of the Warrantors (as defined in the Hong Kong Underwriting Agreement) under the Hong Kong Underwriting Agreement; or

- (iv) any material breach of any of the obligations imposed upon any of the Warrantors (as defined in the Hong Kong Underwriting Agreement) under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (v) a prohibition on the Company for whatever reason from allotting, issuing or selling the Shares (including the Shares to be issued by the Company pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (vi) that any expert described under the paragraph headed “Appendix IV – Statutory and General Information – E. Other Information – 9. Qualifications of experts” in this prospectus has withdrawn its respective consent (other than the Joint Sponsors) to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (vii) any adverse change, or any development involving a prospective adverse change, in the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, properties, results of operations, in the position or condition, financial or otherwise, or prospects of any member of the Group taken as a whole; or
- (viii) that the grant by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares on the Main Board of the Stock Exchange (including the Shares in issue, the Shares to be issued pursuant to the Capitalization Issue and the Global Offering (including any additional Shares to be issued pursuant to the exercise, whether fully or partially, of the Over-Allotment Option) and any Shares to be issued pursuant to any exercise of the options granted under the Pre-IPO Share Option Scheme) is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions), revoked or withheld; or
- (ix) the Company withdraws any of the Offering Documents (as defined in the Hong Kong Underwriting Agreement) and/or any other documents issued or used in connection with the Global Offering; or
- (x) that a material portion of the orders in the book-building process have been withdrawn, terminated or cancelled.

UNDERWRITING

Undertakings to the Stock Exchange Pursuant to the Listing Rules

By our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by our Company or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of shares or our securities will be completed within six months from the commencement of dealings) except pursuant to the Global Offering (including the Over-allotment Option), or in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

By the Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of the controlling shareholders has undertaken to the Stock Exchange that he/it shall not and shall procure that the relevant registered holder(s) of Shares shall not:

- (a) in the period commencing on the date by reference to which disclosure of his/its shareholding is made in this prospectus and ending on the date which is nine months from the Listing Date (the “**First Nine-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “**Relevant Securities**”); and
- (b) in the period of the following three months commencing from the expiry of the First Nine-Month Period (the “**Following Three-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the controlling shareholders has also undertaken to the Stock Exchange and us that, within the period commencing on the date by reference to which disclosure of his/its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it will:

- (a) when he/it pledges or charges any securities of our Company beneficially owned by him/it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of Shares of our Company so pledged or charged; and

UNDERWRITING

- (b) when he/it receives any indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company in writing of such indications.

We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by the controlling shareholders and disclose such matters by way of an announcement to be published as required under the Listing Rules.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

By our Company

Except pursuant to the Capitalization Issue, the Global Offering, the exercise of the Over-allotment Option and the Pre-IPO Share Option Scheme and the issue of Shares thereof, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date falling six months after the Listing Date (the “**First Six-Month Period**”), we have undertaken to each of the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Capital Market Intermediaries, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters not to, without the prior written consent of the Joint Sponsors and the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, make any short sale or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, either directly or indirectly, conditionally or unconditionally, any Shares or other equity securities of our Company or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other equity securities of our Company), or deposit any Shares or other equity securities of the Company with a depositary in connection with the issue of depositary receipts except where such transaction is made solely with other members of the Group; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or any other equity securities of our Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any equity securities of the Company); or

UNDERWRITING

- (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by the delivery of Shares or such other equity securities of our Company, in cash or otherwise (whether or not the issue of such Shares or other equity securities will be completed within the First Six-Month Period).

In the event that, at any time during the period of six months commencing on the expiry of the First Six-Month Period (the “**Second Six-Month Period**”), our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not, and no other act of the Company will, create a disorderly or false market for any Shares or any other securities of the Company. Each of the controlling shareholders undertakes to each of the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Capital Market Intermediaries, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters to procure the Company to comply with the undertakings in (a), (b), (c) and (d) above.

By the Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of the controlling shareholders has undertaken to each of our Company, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Capital Market Intermediaries, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except as pursuant to the Global Offering and the exercise of the Over-allotment Option and the issue of the Shares thereof, without the prior written consent of the Joint Sponsors and the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) he/it will not, and will procure that the relevant registered holder(s), any nominee or trustee holding on trust for him/it and the companies controlled by him or it and/or entities which entrusted him/it to exercise their voting rights will not at any time during the First Nine-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, either directly or indirectly, conditionally or unconditionally, any Shares or other equity securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that

UNDERWRITING

represent the right to receive, or any warrants or other rights to purchase, any Shares or any other equity securities of our Company or any interest in any of the foregoing) (the foregoing restriction is expressly agreed to preclude the controlling shareholders from engaging in any hedging or other transactions which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of any Shares even if such Shares would be disposed of by someone other than the controlling shareholders, respectively. Such prohibited hedging or other transactions would include without limitation any put or call option with respect to any Shares or with respect to any security that includes, relates to or derives any significant part of its value from such Shares); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of any Shares or other equity securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any interest in any of the foregoing); or (iii) enter into any transaction with the same economic effect as any transaction specified in (a)(i) or (a)(ii) of this paragraph; or (iv) offer to or agree to or announce any intention to effect any transaction specified in (a)(i), (a)(ii) or (a)(iii) of this paragraph, in each case, whether any of the transactions specified in (a)(i), (a)(ii) or (a)(iii) of this paragraph is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Nine-Month Period);

- (b) he/it will not, during the Following Three-Month Period, enter into any of the transactions specified in (a)(i), (a)(ii) or (a)(iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance (as defined in the Hong Kong Underwriting Agreement) pursuant to such transaction, he/it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company; and
- (c) until the expiry of the Following Three-Month Period, in the event that he/it enters into any of the transactions specified in (a)(i), (a)(ii) or (a)(iii) above or offers to or agrees to or announces any intention to effect any such transaction, he/it will take all reasonable steps to ensure that it will not create a disorderly or false market for any Shares or other securities of our Company,

provided that, subject to strict compliance with any requirements of applicable Laws (including, without limitation and for the avoidance of doubt, the requirements of the Stock Exchange or of the SFC or of any other relevant Authority (as defined in the Hong Kong Underwriting Agreement)), nothing in paragraphs (a), (b) and (c) above shall prevent any of the controlling shareholders from (i) using Shares or other securities of the Company beneficially owned by it/him after consummation of the Global Offering as security in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155) of the laws of Hong

UNDERWRITING

Kong); (ii) purchasing additional securities of the Company on or after the Listing Date and disposing of such securities thus purchased in the relevant period, subject to compliance with the requirements of Rule 8.08 of the Listing Rules to maintain an open market in the securities and a sufficient public float and compliance with the undertaking in respect of maintenance of public float as detailed in the Hong Kong Underwriting Agreement; and (iii) entering into any share lending arrangement pursuant to an agreement in relation to the public offering of equity securities to facilitate settlement of over-allocations in compliance with requirements of applicable Laws (as defined in the Hong Kong Underwriting Agreement) (including, without limitation, the Listing Rules).

Commission and Expenses

Our Company will pay an underwriting commission of 2.5% of the aggregate Offer Price of all of the Offer Shares, including Offer Shares to be issued pursuant to the Over-allotment Option (the “**Fixed Fees**”), out of which the Underwriters will pay any sub-underwriting commission. In addition, our Company may, at our sole discretion, pay an incentive fee of up to 1.5% of the Offer Price for each Offer Share (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option) (the “**Discretionary Fees**”). Assuming the Discretionary Fees are paid in full, the ratio of the Fixed Fees and Discretionary Fees payable is therefore 62.5:37.5. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the relevant International Underwriters and not the Hong Kong Underwriters.

Assuming an Offer Price of HK\$3.20 per Share (being the mid-point of the indicative Offer Price range) and assuming that the Over-allotment Option is not exercised at all, the aggregate commissions and fees, together with listing fees, SFC transaction levy, the Stock Exchange trading fee, the AFRC transaction levy, legal and other professional fees, and printing and other expenses relating to the Global Offering are estimated to be approximately HK\$56.4 million in total and are payable by our Company.

Hong Kong Underwriters’ interests in our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement and as disclosed in this prospectus, as of the Latest Practicable Date, none of the Hong Kong Underwriters is interested directly or indirectly in any Shares or securities in our Company or any other member of the Group or has any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any Shares or securities in our Company or any other member of the Group.

Following completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

UNDERWRITING

International Offering

In connection with the International Offering, we expect to enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally but not jointly agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares initially being offered pursuant to the International Offering.

Under the International Underwriting Agreement, we intend to grant to the International Underwriters the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Overall Coordinators and the Joint Global Coordinators on behalf of the International Underwriters from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering to require us to allot and issue up to an aggregate of 6,900,000 additional Shares, representing 15.0% of the number of Offer Shares initially available under the Global Offering at the Offer Price to cover over-allocations in the International Offering, if any.

The International Underwriting Agreement is conditional on and subject to the Hong Kong Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that undertakings similar to those given to the Hong Kong Underwriters will be given by our Company to the International Underwriters under the International Underwriting Agreement.

ACTIVITIES BY SYNDICATE MEMBERS

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and the International Offering, together referred to as “**Syndicate Members**”, may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- (a) under the agreement among the Syndicate Members, all of them (except for Haitong International Securities Company Limited and its affiliates as the stabilizing manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

UNDERWRITING

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares and entering into over-the-counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares.

All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilizing period described under the section headed “Structure of the Global Offering – Stabilizing Action” in this prospectus. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

THE JOINT SPONSORS’ INDEPENDENCE

The Joint Sponsors satisfy the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises of:

- (a) the Hong Kong Public Offering of initially 4,600,000 Offer Shares (subject to adjustment) in Hong Kong as described in the paragraph headed “– The Hong Kong Public Offering” in this section; and
- (b) the International Offering of an aggregate of 41,400,000 Offer Shares (subject to reallocation and the Over-allotment Option) outside the United States in reliance on Regulation S or other available exemption from the registration requirements of the US Securities Act.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest, if qualified to do so, for the International Offering Shares under the International Offering, but may not do both.

The number of Hong Kong Offer Shares and International Offering Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in the paragraph headed “– Pricing and Allocation” in this section.

References in this prospectus to applications, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

We are initially offering 4,600,000 Hong Kong Offer Shares at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to the reallocation of Shares between (i) the International Offering, and (ii) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent 0.46% of our Company’s enlarged issued share capital immediately after completion of the Capitalization Issue and the Global Offering, assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

STRUCTURE OF THE GLOBAL OFFERING

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “– Conditions of the Global Offering” in this section.

Allocation

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) will be divided into two pools for allocation purposes, with any odd board lots being allocated to pool A.

- **Pool A:** The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with a total subscription price of HK\$5 million (excluding the brokerage, SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy payable) or less.
- **Pool B:** The Hong Kong Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with a total subscription price of more than HK\$5 million (excluding the brokerage, SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy payable) and up to the total value of pool B.

For the purpose of this sub-section only, the “subscription price” for Hong Kong Offer Shares means the price payable on application (without regard to the Offer Price as finally determined).

Applicants should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the two pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B, but not from both pools. Multiple or suspected multiple applications and any application for more than 2,300,000 Hong Kong Offer Shares will be rejected.

STRUCTURE OF THE GLOBAL OFFERING

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to the discretion of the Overall Coordinators and the Joint Global Coordinators, subject to the following:

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 13,800,000 Shares, representing 30% of Offer Shares initially available under the Global Offering.
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 18,400,000 Shares, representing 40% of the Offer Shares initially available under the Global Offering.
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 23,000,000 Shares, representing 50% of Offer Shares initially available under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the sole discretion of the Overall Coordinators and the Joint Global Coordinators. Subject to the foregoing paragraph, the Overall Coordinators and the Joint Global Coordinators may in their sole discretion reallocate Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In addition, where the International Offer Shares are fully subscribed or oversubscribed, if the Hong Kong Public Offering is not fully subscribed, the Overall Coordinators and the Joint Global Coordinators will have the sole discretion (but shall not be under any obligation) to reallocate to the International Offering all or any unsubscribed Hong Kong Offer Shares in such amounts as they deem appropriate.

STRUCTURE OF THE GLOBAL OFFERING

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Overall Coordinators and the Joint Global Coordinators deem appropriate. In the event of reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering in the circumstances where (a) the International Offering shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed by less than 15 times, or (b) the International Offer Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed, then up to 4,600,000 Offer Shares, representing 10% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), may be reallocated from the International Offering to the Hong Kong Public Offering, so that the total number of Offer Shares available for subscription under the Hong Kong Public Offering will increase up to 9,200,000 Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and the Offer Price shall be fixed at HK\$2.80 per Offer Share (being the low-end of the indicative Offer Price range) in accordance with Guidance Letter HKEx-GL91-18.

In the event that both the International Offer Shares and the Hong Kong Offer Shares are under-subscribed, the Global Offering shall not proceed unless fully underwritten by the Underwriters.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest in, and will not apply for or take up, or indicate an interest in, any International Offering Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offering Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$3.60 per Offer Share in addition to the brokerage, SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy payable on each Offer Share, equal to a total of HK\$3,636.29 for one board lot of 1,000 Shares. If the Offer Price, as finally determined in the manner described in the paragraph headed “– Pricing and Allocation” in this section, is less than the maximum price of HK\$3.60 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

References in this prospectus to applications, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of Offer Shares Offered

Subject to the reallocation as described above, the number of Offer Shares to be initially offered under the International Offering will be 41,400,000 Shares (subject to reallocation and the Over-allotment Option), representing 90% of the total number of Offer Shares initially available under the Global Offering.

Subject to the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Offer Shares initially offered under the International Offering will represent 4.14% of our Company's enlarged issued share capital immediately after completion of the Capitalization Issue and the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

Pursuant to the International Offering, the International Offering Shares will be conditionally placed on behalf of our Company by the International Underwriters or through selling agents appointed by them. The International Offering will include selective marketing of Offer Shares to certain professional and institutional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed "– Pricing and Allocation" in this section and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell, Shares, after the listing of our Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid Shareholder base to the benefit of our Company and our Shareholders as a whole.

The Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Overall Coordinators and the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in the paragraph headed “– The Hong Kong Public Offering – Allocation” in this section, the exercise of the Over-allotment Option in whole or in part described in the paragraph headed “– Over-allotment Option” in this section, and any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering and/or any Offer Shares from the International Offering to the Hong Kong Public Offering at the discretion of the Overall Coordinators and the Joint Global Coordinators.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that our Company will grant the Over-allotment Option to the International Underwriters, which will be exercisable by the Overall Coordinators and the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Overall Coordinators and the Joint Global Coordinators on behalf of the International Underwriters at any time from the Listing Date to the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require our Company to issue and allot up to 6,900,000 Shares, representing 15% of the maximum number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering, to cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional International Offering Shares to be issued pursuant thereto will represent approximately 0.69% of our Company’s enlarged issued share capital immediately following the completion of the Capitalization Issue and the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a public announcement will be made.

STABILIZING ACTION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to curb and, if possible, prevent any decline in the market price of the securities below the Offer Price. It may be effected in jurisdictions where it is permissible to do so and subject to all applicable laws and regulatory requirements. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited. The price at which stabilization is effected is not permitted to exceed the Offer Price.

STRUCTURE OF THE GLOBAL OFFERING

In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day of the lodging of applications under the Hong Kong Public Offering. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional Offer Shares or purchasing Shares in the open market. In determining the source of the Offer Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of Offer Shares in the open market as compared to the price at which they may purchase additional Offer Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or curbing a decline in the market price of the Offer Shares while the Global Offering is in progress. Any market purchases of the Shares will be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws, rules and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing action. Such stabilizing activity, if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time.

Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Offer Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely, 6,900,000 Offer Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) under the SFO include:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price of our Shares;
- (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares;

STRUCTURE OF THE GLOBAL OFFERING

- (c) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;
- (e) selling or agreeing to sell any of our Shares in order to liquidate any position held as a result of those purchases; and
- (f) offering or attempting to do anything as described in (b), (c), (d) or (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

Prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager or any person acting for it may, in connection with the stabilizing action, maintain a long position in our Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager or any person acting for it will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager or any person acting for it and selling in the open market, may have an adverse impact on the market price of our Shares;
- no stabilizing action can be taken to support the price of our Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Wednesday, January 4, 2023, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

As a result of effecting transactions to stabilize or maintain the market price of the Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person

STRUCTURE OF THE GLOBAL OFFERING

acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the Shares for longer than the stabilizing period, which begins on the day on which trading of the Shares commences on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on Wednesday, January 4, 2023. As a result, demand for the Shares and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the Shares. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations, if any, in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may choose to borrow up to 6,900,000 Shares (being the maximum number of Shares which may be issued pursuant to the exercise of the Over-allotment Option) from Blossom Bliss Limited, pursuant to the Stock Borrowing Agreement.

If the Stock Borrowing Agreement with Blossom Bliss Limited is entered into, the borrowing of Shares will only be effected by the Stabilizing Manager (or any person acting for it) for the settlement of over-allocations in the International Offering and such borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set out in Rule 10.07(3) of the Listing Rules, being that the Stock Borrowing Agreement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering, are complied with.

The same number of Shares so borrowed must be returned to Blossom Bliss Limited or its nominees, as the case may be, no later than 5:00 p.m. on the third business day following the earlier of (a) the last day for exercising the Over-allotment Option, (b) the day on which the Over-allotment Option is exercised in full and (c) such earlier time as may be agreed in writing between Blossom Bliss Limited and the Stabilizing Manager.

The Shares borrowing arrangement described above will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Blossom Bliss Limited by the Stabilizing Manager (or any person acting for it) in relation to such Shares borrowing arrangement.

STRUCTURE OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

Determining the Offer Price

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Monday, December 5, 2022 and, in any event, no later than Friday, December 9, 2022, by agreement between the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and our Company and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price per Offer Share under the Hong Kong Public Offering will be identical to the Offer Price per Offer Share under the International Offering based on the Hong Kong dollar price per Offer Share under the International Offering, as determined by the Overall Coordinators and the Joint Global Coordinators, on behalf of the Underwriters, and our Company.

The Offer Price will not be more than HK\$3.60 per Offer Share and is expected to be not less than HK\$2.80 per Offer Share, unless otherwise announced by the Company no later than the morning of the last day for lodging applications under the Hong Kong Public Offer, as further explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Overall Coordinators and the Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.huafang.com notices of the reduction. Upon issue of such a notice, the revised number of Offer Shares and/or indicative Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Overall Coordinators and the Joint Global Coordinators, for themselves and on behalf of the Underwriters, and our Company, will be fixed within such a revised Offer Price range. The Company will also, as

STRUCTURE OF THE GLOBAL OFFERING

soon as practicable following the decision to make such change, issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the Offer Price, extend the period under which the Hong Kong Public Offering was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Hong Kong Offer Shares the right to withdraw their applications in light of the change in the number of Offer Shares and/or the Offer Price. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in the prospectus, use of proceeds, and any other financial information which may change materially as a result of such reduction. All applicants who have already submitted an application need to confirm their applications in accordance with the procedures set out in the announcement and all unconfirmed applications will not be valid. In the absence of any such notice so published, the number of Offer Shares will not be reduced and the Offer Price, if agreed upon by the Overall Coordinators and the Joint Global Coordinators, for themselves and on behalf of the Underwriters, and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

Supplemental listing documents will also be issued by the Company in the event of a reduction in the number of Offer Shares and/or the Offer Price. Such supplemental listing documents will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this Prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares and/or the Offer Price will not be reduced.

In the event of a reduction in the number of Offer Shares, the Overall Coordinators and the Joint Global Coordinators may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of the Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised).

The final Offer Price, the level of indications of interest in the Global Offering, the results of allocations and the basis of allotment of the Hong Kong Offer Shares are expected to be announced on Friday, December 9, 2022 on the website of the Stock Exchange at www.hkexnews.hk and on the website of our Company at www.huafang.com.

STRUCTURE OF THE GLOBAL OFFERING

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Overall Coordinators and the Joint Global Coordinators, for themselves and on behalf of the Underwriters, agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the Hong Kong Underwriting Agreement and the International Underwriting Agreement, are summarized in the section headed “Underwriting” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares pursuant to the Global Offering will be conditional on:

- (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional Shares which may be available pursuant to the exercise of the Over-allotment Option), and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (b) the Offer Price having been duly agreed between us and the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters);
- (c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Overall Coordinators and the Joint Global Coordinators, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times as specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event no later than Friday, December 30, 2022 (i.e., the 30th day after the date of this prospectus).

STRUCTURE OF THE GLOBAL OFFERING

If, for any reason, the Offer Price is not agreed between our Company and the Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Friday, December 9, 2022, the Global Offering will not proceed and will lapse immediately.

The completion of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company and on the websites of Stock Exchange at www.hkexnews.hk and our Company at www.huafang.com on the next Business Day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares – 14. Dispatch/Collection of Share Certificates and Refund Monies”. In the meantime, all application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid evidence of title at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in the section headed “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination” has not been exercised.

Application for Listing on the Stock Exchange

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue and the Global Offering (including any Shares which may be issued under the exercise of the Over-allotment Option) and any Shares which may be issued upon the exercise of any option granted under the Pre-IPO Share Option Scheme on the Main Board of the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into the Central Clearing and Settlement System, or CCASS, established and operated by the Hong Kong Securities Clearing Company Limited, or HKSCC.

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with

STRUCTURE OF THE GLOBAL OFFERING

effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, December 12, 2022, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, December 12, 2022.

The Shares will be traded in board lots of 1,000 Shares each and the stock code of the Shares will be 3611.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this prospectus or any printed copies of any application forms for use by the public.

This prospectus is available at the website of the Stock Exchange at www.hkexnews.hk under the “*HKEXnews > New Listings > New Listing Information*” section, and our website at www.huafang.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar, Tricor Investor Services Limited, at +852 3907 7333 on the following dates:

Wednesday, November 30, 2022 – 9:00 a.m. to 6:00 p.m.
Thursday, December 1, 2022 – 9:00 a.m. to 6:00 p.m.
Friday, December 2, 2022 – 9:00 a.m. to 6:00 p.m.
Monday, December 5, 2022 – 9:00 a.m. to 12:00 noon

1. HOW TO APPLY

We will not provide any printed application forms for use by the public.

To apply for Hong Kong Offer Shares, you may:

- (1) apply online via the **HK eIPO White Form** service in the **IPO App** (which can be downloaded by searching “**IPO App**” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp) or at www.hkeipo.hk; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
- (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing CCASS Investor Participant) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Overall Coordinators, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

Eligibility for the Application

You can apply for Hong Kong Offer Shares if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address; and
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act).

HOW TO APPLY FOR HONG KONG OFFER SHARES

If an application is made by a person under a power of attorney, the Company, the Overall Coordinators and the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four.

Unless permitted by the Listing Rules and guidance letters issued by the Stock Exchange, or any relevant waivers that have been granted by the Stock Exchange, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- a close associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offering Shares or otherwise participate in the International Offering.

Items Required for the Application

If you apply for the Hong Kong Offer Shares online through the **HK eIPO White Form** service, you must provide a valid e-mail address and a contact telephone number. If you are a firm, the application must be in the individual members' names.

If you are applying for the Hong Kong Offer Shares online by instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

3. TERMS AND CONDITIONS OF AN APPLICATION

By applying through the application channels specified in this prospectus, you:

- (i) **undertake** to execute all relevant documents and instruct and authorize the Company, the Overall Coordinators and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) **agree** to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Cayman Companies Act and the Articles of Association;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (iii) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- (iv) **confirm** that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) **confirm** that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) **agree** that none of the Company, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Capital Market Intermediaries, the **HK eIPO White Form** Service Provider, their respective directors, officers, employees, partners, agents, advisors, and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) **undertake and confirm** that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) **agree** to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Capital Market Intermediaries and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, **agree and warrant** that you have complied with all such laws and none of the Company, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and the Capital Market Intermediaries nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus;
- (x) **agree** that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) **agree** that your application will be governed by the laws of Hong Kong;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xii) **represent, warrant and undertake** that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) **warrant** that the information you have provided is true and accurate;
- (xiv) **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) **authorize** the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned as set out in section “– Personal Collection” of this prospectus to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) **declare and represent** that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) **understand** that the Company, the Overall Coordinators and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) **warrant** that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider; and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as their agent.

HOW TO APPLY FOR HONG KONG OFFER SHARES

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant and CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

4. MINIMUM APPLICATION AMOUNT AND PERMITTED NUMBERS

Your application through the **HK eIPO White Form** service or the **CCASS EIPO** service must be for a minimum of 1,000 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
	HK\$		HK\$		HK\$		HK\$
1,000	3,636.29	9,000	32,726.54	80,000	290,902.61	700,000	2,545,397.82
2,000	7,272.56	10,000	36,362.82	90,000	327,265.44	800,000	2,909,026.08
3,000	10,908.85	20,000	72,725.65	100,000	363,628.26	900,000	3,272,654.34
4,000	14,545.13	30,000	109,088.48	200,000	727,256.52	1,000,000	3,636,282.60
5,000	18,181.42	40,000	145,451.31	300,000	1,090,884.78	2,000,000	7,272,565.20
6,000	21,817.69	50,000	181,814.13	400,000	1,454,513.04	2,300,000*	8,363,449.98
7,000	25,453.98	60,000	218,176.95	500,000	1,818,141.30		
8,000	29,090.26	70,000	254,539.78	600,000	2,181,769.56		

Note:

* Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Investors who meet the criteria set out in the sub-section headed “– 2. Who Can Apply” in this section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the **IPO App** or the designated website at www.hkeipo.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Detailed instructions for application through the **HK eIPO White Form** service are in the **IPO App** or on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the **IPO App** or the designated website, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

If you have any questions on how to apply through the **HK eIPO White Form** service for the Hong Kong Offer Shares, please contact the telephone enquiry line of the Hong Kong Share Registrar at +852 3907 7333 on the following dates:

Wednesday, November 30, 2022 – 9:00 a.m. to 6:00 p.m.
Thursday, December 1, 2022 – 9:00 a.m. to 6:00 p.m.
Friday, December 2, 2022 – 9:00 a.m. to 6:00 p.m.
Monday, December 5, 2022 – 9:00 a.m. to 12:00 noon

Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application to the **HK eIPO White Form** Service Provider in the **IPO App** or at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, November 30, 2022 until 11:30 a.m. on Monday, December 5, 2022 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, December 5, 2022 or such later time under the “– 10. Effects of Bad Weather on the Opening and Closing of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

If you are a nominee, in the box marked “For Nominees” you must include an account number or some other identification code for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner when you fill in the application details. If you do not include this information, the application will be treated as being made for your own benefit.

HOW TO APPLY FOR HONG KONG OFFER SHARES

6. APPLYING THROUGH CCASS EIPO SERVICE

General

You may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf. CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong if you complete an input request.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Overall Coordinators, the Joint Global Coordinators and our Hong Kong Share Registrar.

Applying through CCASS EIPO service

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares (either indirectly through a **broker** or **custodian** or directly) and an application is made by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that the Company, the Directors, the Overall Coordinators and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Capital Market Intermediaries, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving bank, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Capital Market Intermediaries and/or their respective advisors and agents;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- agree with the Company (for the Company itself and for the benefit of each shareholder of the Company) that the Shares are freely transferable by their holders;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- authorize the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Applying through CCASS EIPO service

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, November 30, 2022 – 9:00 a.m. to 8:30 p.m.
Thursday, December 1, 2022 – 8:00 a.m. to 8:30 p.m.
Friday, December 2, 2022 – 8:00 a.m. to 8:30 p.m.
Monday, December 5, 2022 – 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, November 30, 2022 until 12:00 noon on Monday, December 5, 2022 (24 hours daily, except on Monday, December 5, 2022, the last application day).

HOW TO APPLY FOR HONG KONG OFFER SHARES

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, December 5, 2022, the last application day or such later time as described in “–10. Effect of Bad Weather on the Opening and Closing of the Application Lists” in this section.

Note:

- (1) These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Personal Data

The following Personal Information Collection Statement applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Capital Market Intermediaries and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of the Company and its Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to the Company or its agents and the Hong Kong Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of the Company or its Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of share certificate(s) to which you are entitled.

HOW TO APPLY FOR HONG KONG OFFER SHARES

It is important that the holders of the Hong Kong Offer Shares inform the Company and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund cheque and e-Auto Refund payment instruction(s), where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of the Company's Shares including, where applicable, HKSCC Nominees;
- maintaining or updating the Company's Register of Members;
- verifying identities of the holders of the Company's Shares;
- establishing benefit entitlements of holders of the Company's Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and profiles of the holder of the Company's Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong Share Registrar to discharge their obligations to holders of the Company's Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

Transfer of personal data

Personal data held by the Company and its Hong Kong Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but the Company and its Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

HOW TO APPLY FOR HONG KONG OFFER SHARES

- the Company's appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to the Company or the Hong Kong Share Registrar in connection with their respective business operation;
- the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

Retention of personal data

The Company and its Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfill the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

Access to and correction of personal data

Holders of the Hong Kong Offer Shares have the right to ascertain whether the Company or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. The Company and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to the Company, at the Company's registered address disclosed in the section headed "Corporate Information" in this prospectus or as notified from time to time, for the attention of the secretary, or the Company's Hong Kong Share Registrar for the attention of the privacy compliance officer.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Sponsors, the Overall Coordinators, the Joint Global

HOW TO APPLY FOR HONG KONG OFFER SHARES

Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and the Capital Market Intermediaries take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, December 5, 2022, the last day for applications, or such later time as described in “– 10. Effect of Bad Weather on the Opening and Closing of the Application Lists” below.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your **broker** or **custodian**) or through the **HK eIPO White Form** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**), and the number of Hong Kong Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf.

For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

HOW TO APPLY FOR HONG KONG OFFER SHARES

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$3.60 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and the AFRC transaction levy of 0.00015%. This means that for one board lot of 1,000 Hong Kong Offer Shares, you will pay HK\$3,636.29.

You must pay the maximum Offer Price, brokerage, SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy in full upon application for the Hong Kong Offer Shares.

You may submit an application through the **HK eIPO White Form** service or the **CCASS EIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in “— 4. Minimum Application Amount and Permitted Numbers”, or as otherwise specified in the **IPO App** or on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy are paid to the Stock Exchange (in the case of the SFC transaction levy and the AFRC transaction levy, collected by the Stock Exchange on behalf of the SFC and the AFRC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, December 5, 2022. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, December 5, 2022 or if there is/are a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made on our website at www.huafang.com and the website of the website of the Stock Exchange at www.hkexnews.hk.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Friday, December 9, 2022 on the Company’s website at www.huafang.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers/certificate of incorporation numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.huafang.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Friday, December 9, 2022;
- from “IPO Results” function in the **IPO App** or the designated results of allocations website at www.tricor.com.hk/ipo/result or www.hkeipo.hk/IPOResult with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Friday, December 9, 2022 to 12:00 midnight on Thursday, December 15, 2022; and
- from the allocation results telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. on Friday, December 9, 2022 to Wednesday, December 14, 2022 (excluding any days which is a Saturday, Sunday or public holiday in Hong Kong).

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By applying through the **CCASS EIPO** service or through the **HK eIPO White Form** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of the opening of the application lists (excluding any days which is a Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- (a) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any days which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person’s responsibility for this prospectus; or
- (b) if any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation,

HOW TO APPLY FOR HONG KONG OFFER SHARES

and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Overall Coordinators, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offering Shares;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the **IPO App** or on the designated website at www.hkeipo.hk;
- your payment is not made correctly;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company, the Overall Coordinators or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

HOW TO APPLY FOR HONG KONG OFFER SHARES

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Maximum Offer Price per Offer Share (excluding brokerage, SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering – Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Friday, December 9, 2022.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application.

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Friday, December 9, 2022. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. Monday, December 12, 2022, provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Collection

(i) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Hong Kong Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, December 9, 2022, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of Share certificates and refund monies.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Friday, December 9, 2022 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) in your name (or, in the case of joint applications, the first-named applicant) by ordinary post at your own risk.

(ii) If you apply through CCASS EIPO service

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, December 9, 2022, or, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in “– 11. Publication of Results” above on Friday, December 9, 2022. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, December 9, 2022 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Friday, December 9, 2022. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, December 9, 2022.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second settlement day after any trading day.

HOW TO APPLY FOR HONG KONG OFFER SHARES

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-82, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HUAFANG GROUP INC., HAITONG INTERNATIONAL CAPITAL LIMITED AND CCB INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of the Huafang Group Inc. (the “Company”) and its subsidiaries (together, the “Group”) set out on page I-5 to I-82, which comprises the consolidated statements of financial position of the Group as at December 31, 2019, 2020 and 2021 and May 31, 2022, the statements of financial position of the Company as at December 31, 2021 and May 31, 2022, and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2022 (the “Track Record Period”), and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-5 to I-82 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated November 30, 2022 (the “Prospectus”) in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants' Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Group's financial position as at December 31, 2019, 2020 and 2021 and May 31, 2022 and the Company's financial position as at December 31, 2021 and May 31, 2022 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Group which comprises the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the five months ended May 31, 2021 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has

come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 24(d) to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared by the Company since its incorporation.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

November 30, 2022

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand yuan (RMB'000) except when otherwise indicated.

Consolidated statements of profit or loss*(Expressed in RMB)*

	Note	Years ended December 31,			Five months ended	
					May 31,	
		2019	2020	2021	2021	2022
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(unaudited)</i>				
Revenue	4	2,830,872	3,683,475	4,599,690	1,801,646	2,087,441
Cost of sales		(2,125,207)	(2,672,103)	(3,377,109)	(1,301,973)	(1,545,712)
Gross profit		705,665	1,011,372	1,222,581	499,673	541,729
Other income, net	5	34,129	61,709	68,852	22,166	27,636
Selling and marketing expenses		(361,991)	(451,406)	(544,839)	(227,308)	(218,077)
General and administrative expenses		(41,987)	(68,867)	(146,011)	(44,898)	(44,361)
Research and development expenses		(132,052)	(156,243)	(207,850)	(87,928)	(93,577)
Impairment loss on goodwill and intangible assets	6(c)	–	(1,872,543)	–	–	–
Profit/(loss) from operations		203,764	(1,475,978)	392,733	161,705	213,350
Finance costs	6(a)	(624)	(776)	(484)	(223)	(1,101)
Profit/(loss) before taxation		203,140	(1,476,754)	392,249	161,482	212,249
Income tax	7	(11,842)	(47,917)	(67,226)	(25,298)	(34,358)
Profit/(loss) for the year/period attributable to equity shareholders of the Company		<u>191,298</u>	<u>(1,524,671)</u>	<u>325,023</u>	<u>136,184</u>	<u>177,891</u>
Earnings per share (RMB)						
– Basic and diluted	10	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of profit or loss and other comprehensive income*(Expressed in RMB)*

	Years ended December 31,			Five months ended	
				May 31,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(unaudited)</i>				
Profit/(loss) for the year/period attributable to equity shareholders of the Company	191,298	(1,524,671)	325,023	136,184	177,891
Other comprehensive income for the year/period (after tax and reclassification adjustments):					
Item that will not be reclassified to profit or loss:					
– Changes in the fair value of financial assets at fair value through other comprehensive income	(3,432)	95	1,224	–	–
Item that may be reclassified subsequently to profit or loss:					
– Exchange differences on translation into presentation currency	–	–	(46)	(182)	215
Total comprehensive income for the year/period attributable to equity shareholders of the Company	187,866	(1,524,576)	326,201	136,002	178,106

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of financial position
(Expressed in RMB)

	Note	As at December 31,			As at
		2019	2020	2021	May 31,
		RMB'000	RMB'000	RMB'000	2022
				RMB'000	
Non-current assets					
Property and equipment	11	34,901	25,204	83,073	82,391
Intangible assets	12	157,699	153,310	132,641	124,097
Goodwill	13	2,459,472	699,778	699,778	699,778
Other financial assets	14	67,075	39,400	65,960	92,541
Deferred tax assets	23(b)	139,045	108,184	63,848	41,063
		<u>2,858,192</u>	<u>1,025,876</u>	<u>1,045,300</u>	<u>1,039,870</u>
Current assets					
Trade receivables	15	2,864	2,870	621	524
Prepayments, deposits and other receivables	16	55,467	75,198	138,457	139,170
Other financial assets	14	384,319	258,145	45,346	533,792
Cash at bank and on hand	17	789,678	1,068,149	1,614,783	1,371,355
		<u>1,232,328</u>	<u>1,404,362</u>	<u>1,799,207</u>	<u>2,044,841</u>
Current liabilities					
Trade payables	18	217,159	206,456	143,150	226,815
Contract liabilities	19	66,355	79,546	85,781	83,907
Accrued expenses and other payables	20	247,576	67,345	80,840	52,721
Lease liabilities	21	7,168	5,763	12,246	12,596
Current taxation	23(a)	5,351	4,028	8,871	7,415
		<u>543,609</u>	<u>363,138</u>	<u>330,888</u>	<u>383,454</u>
Net current assets		<u>688,719</u>	<u>1,041,224</u>	<u>1,468,319</u>	<u>1,661,387</u>
Total assets less current liabilities		<u>3,546,911</u>	<u>2,067,100</u>	<u>2,513,619</u>	<u>2,701,257</u>
Non-current liabilities					
Deferred tax liabilities	23(b)	22,158	22,572	19,501	18,267
Lease liabilities	21	12,069	6,965	46,063	42,893
		<u>34,227</u>	<u>29,537</u>	<u>65,564</u>	<u>61,160</u>
Net assets		<u>3,512,684</u>	<u>2,037,563</u>	<u>2,448,055</u>	<u>2,640,097</u>
Capital and reserves					
Share capital	24	–	–	33	33
Reserves		3,512,684	2,037,563	2,448,022	2,640,064
Total equity attributable to equity shareholders of the Company		<u>3,512,684</u>	<u>2,037,563</u>	<u>2,448,055</u>	<u>2,640,097</u>

The accompanying notes form part of the Historical Financial Information.

Statement of financial position of the Company

(Expressed in RMB)

		As at <u>December 31,</u>	As at <u>May 31,</u>
	<i>Note</i>	<u>2021</u>	<u>2022</u>
		<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Investment in a subsidiary	28	30,189	44,046
Current assets			
Cash at bank and on hand		<u>34</u>	<u>34</u>
TOTAL ASSETS		<u><u>30,223</u></u>	<u><u>44,080</u></u>
Equity			
Share capital	24(a)	33	33
Other reserve	24(b)	<u>30,190</u>	<u>44,047</u>
TOTAL EQUITY		<u><u>30,223</u></u>	<u><u>44,080</u></u>

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of changes in equity*(Expressed in RMB)*

	<i>Note</i>	Share capital	Other reserve	Share-based payment reserve	Translation reserve	Accumulated loss	Total equity
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at January 1, 2019		–	1,019,359	34,924	–	(811,878)	242,405
Changes in equity for 2019:							
Profit and other comprehensive income for the year		–	(3,432)	–	–	191,298	187,866
Capital injection from Huajiao-6.cn Merger	27(a)	–	3,414,667	–	–	–	3,414,667
Equity-settled share-based transaction	22	–	–	19,307	–	–	19,307
Net payment for the excluded Other Business	24(b)	–	(351,561)	–	–	–	(351,561)
Vesting of restricted share units		–	23,763	(23,763)	–	–	–
Balance at December 31, 2019 and January 1, 2020		–	4,102,796	30,468	–	(620,580)	3,512,684
Changes in equity for 2020:							
Loss and other comprehensive income for the year		–	95	–	–	(1,524,671)	(1,524,576)
Capital injection from shareholders of the Company	24	–	3,333	–	–	–	3,333
Equity-settled share-based transaction	22	–	(2,674)	18,796	–	–	16,122
Proceeds from excluded Other Business	24(b)	–	30,000	–	–	–	30,000
Acquisition of interest in a subsidiary		–	3,336	–	–	(3,336)	–
Vesting of restricted share units		–	19,834	(19,834)	–	–	–
Balance at December 31, 2020 and January 1, 2021		–	4,156,720	29,430	–	(2,148,587)	2,037,563
Changes in equity for 2021:							
Profit and other comprehensive income for the year		–	1,224	–	(46)	325,023	326,201
Capital injection from shareholders of the Company	24	33	–	–	–	–	33
Equity-settled share-based transaction	22	–	265	83,993	–	–	84,258
Disposal of an investment		–	(1,224)	–	–	1,224	–
Vesting of restricted share units		–	61,482	(61,482)	–	–	–
Balance at December 31, 2021		33	4,218,467	51,941	(46)	(1,822,340)	2,448,055

The accompanying notes form part of the Historical Financial Information.

<i>Note</i>	Share-based					
	Share capital	Other reserve	payment reserve	Translation reserve	Accumulated loss	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at January 1, 2022	33	4,218,467	51,941	(46)	(1,822,340)	2,448,055
Changes in equity for the period:						
Profit and other comprehensive income for the period	–	–	–	215	177,891	178,106
Equity-settled share-based transaction	22	79	13,857	–	–	13,936
Vesting of restricted share units	–	9,127	(9,127)	–	–	–
Balance at May 31, 2022	33	4,227,673	56,671	169	(1,644,449)	2,640,097
(Unaudited)						
Balance at January 1, 2021	–	4,156,720	29,430	–	(2,148,587)	2,037,563
Changes in equity for the period:						
Profit and other comprehensive income for the period	–	–	–	(182)	136,184	136,002
Equity-settled share-based transaction	22	238	20,035	–	–	20,273
Vesting of restricted share units	–	19,503	(19,503)	–	–	–
Balance at May 31, 2021	–	4,176,461	29,962	(182)	(2,012,403)	2,193,838

The accompanying notes form part of the Historical Financial Information.

Consolidated cash flow statements*(Expressed in RMB)*

	<i>Note</i>	Years ended December 31,			Five months ended	
					May 31,	
		2019	2020	2021	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						<i>(unaudited)</i>
Operating activities						
Profit/(loss) before taxation		203,140	(1,476,754)	392,249	161,482	212,249
<i>Adjustments for:</i>						
Finance costs	6(a)	624	776	484	223	1,101
Income from financial products						
issued by banks	5	(18,221)	(19,412)	(7,593)	(3,394)	(4,316)
Interest income	5	(3,698)	(9,553)	(20,375)	(7,817)	(10,261)
Depreciation	6(c)	9,349	13,619	13,583	5,357	9,761
Amortisation of intangible assets	6(c)	13,852	24,224	21,846	9,098	9,030
Share-based payment expenses	6(b)	19,307	18,796	83,993	20,035	13,857
Changes in fair value of financial						
products issued by banks	5	734	(626)	999	1,005	(66)
(Gain)/loss on disposal of long-term						
assets	5	(118)	9	(866)	264	274
Allowance for doubtful debts/ (reversal of allowance for doubtful debts)	6(c)	1,398	312	(109)	(302)	(142)
Impairment loss on goodwill and intangible assets	6(c)	–	1,872,543	–	–	–
Changes in working capital:						
Decrease/(increase) in trade receivables		11,001	3,933	2,247	(12,035)	97
(Increase)/decrease in prepayments, deposits and other receivables		(10,096)	(18,056)	(62,688)	(15,494)	20,371
Increase/(decrease) in contract liabilities		1,125	13,191	6,235	(6,373)	(1,874)
Increase/(decrease) in trade payables		10,297	(15,400)	(58,984)	26,180	84,108
Increase/(decrease) in accrued expenses and other payables		219,538	(191,916)	(1,359)	(52,061)	(17,603)
Cash generated from operations		458,232	215,686	369,662	126,168	316,586
Income tax paid	23(a)	(11,256)	(29,502)	(21,118)	(13,299)	(14,263)
Net cash generated from operating activities		446,976	186,184	348,544	112,869	302,323

The accompanying notes form part of the Historical Financial Information.

Note	Years ended December 31,			Five months ended	
				May 31,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(unaudited)</i>				
Investing activities					
Interest received	3,698	9,553	20,375	7,817	10,261
Income from financial products issued by banks	18,221	19,412	7,593	3,394	4,316
Purchase of financial products issued by banks	(2,924,510)	(3,807,430)	(2,161,640)	(642,600)	(2,429,690)
Proceeds from disposal of financial products issued by banks	3,015,440	3,936,645	2,373,440	836,440	1,941,310
Purchase of other financial assets	–	(34,000)	(17,308)	–	(40,652)
Loans to third parties	(8,360)	(20,000)	–	–	(20,942)
Proceed from disposal of an investment	–	–	6,840	–	–
Repayment from a third party	3,000	–	–	–	–
Payments for purchase of property and equipment	(3,348)	(2,235)	(16,289)	(1,094)	(5,524)
Proceeds on disposal of property and equipment	240	12	1,210	40	227
Payments for purchase of intangible assets	(115)	(314)	(1,177)	(119)	(472)
Proceeds on disposal of intangible assets	–	–	–	–	89
Acquisition of interests in subsidiaries	3,730	(34,420)	–	–	–
Net cash generated from/(used in) investing activities	107,996	67,223	213,044	203,878	(541,077)
Financing activities					
Capital element of lease rentals paid	17(b)	(4,170)	(7,493)	(9,886)	(3,457)
Interest element of lease rentals paid	17(b)	(624)	(776)	(484)	(1,101)
Listing expenses paid	17(b)	–	–	(4,322)	(443)
Capital injection from shareholder		–	3,333	33	–
Proceeds from the excluded Other Business	24(b)	–	30,000	–	–
Net cash (used in)/generated from financing activities		(4,794)	25,064	(14,659)	(3,316)
					(5,001)

Note	Years ended December 31,			Five months ended	
	2019	2020	2021	May 31,	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Net increase/(decrease) in cash and cash equivalents	550,178	278,471	546,929	313,431	(243,755)
Cash and cash equivalents at the beginning of the year/period	239,500	789,678	1,068,149	1,068,149	1,614,783
Effects of exchange rate changes on the balance of cash held in foreign currencies	–	–	(295)	(248)	327
Cash and cash equivalents at the end of the year/period	<u>789,678</u>	<u>1,068,149</u>	<u>1,614,783</u>	<u>1,381,332</u>	<u>1,371,355</u>

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

Huafang Group Inc. (the “Company”) was incorporated under the laws of the Cayman Islands as an exempted company with limited liability on June 1, 2021 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company and has not carried out any business since the date of its incorporation save for the group reorganisation mentioned below. The Company and its subsidiaries (together, the “Group”) are principally engaged in operating online social entertainment live streaming platforms and social networking services (the “Listing Business”) in the People’s Republic of China (the “PRC” or “China”).

Prior to the incorporation of the Company and the completion of the reorganisation as described below, the Listing Business was carried out by Beijing Huafang Technology Co., Ltd. (北京花房科技有限公司, “Huafang Technology”), formerly known as Beijing 6.cn Technology Ltd., and Beijing Mijing Hefeng Technology Co., Ltd. (北京密境和風科技有限公司, “Mijing Hefeng”) and their subsidiaries.

Pursuant to a series of share purchase agreements, Huafang Technology acquired Mijing Hefeng in two phases. In the first phase, Huafang Technology issued 5,987,000 shares in December 2018 to the then shareholders of Mijing Hefeng, namely Tianjin Huajiao No. 1 technology partnership (limited partnership) and Tianjin Huajiao No. 2 technology partnership (limited partnership), in exchange of 19.96% ownership of Mijing Hefeng. In the second phase, Huafang Technology issued 24,013,000 shares in April 2019 to the rest of the then shareholders of Mijing Hefeng, in exchange of the remaining 80.04% ownership of Mijing Hefeng. On April 29, 2019, Huafang Technology completed the acquisition of Mijing Hefeng (“Huajiao-6.cn Merger”). Upon the completion of the Huajiao-6.cn Merger, Mijing Hefeng became 100% owned by Huafang Technology and the original shareholders of Mijing Hefeng owned 60% of Huafang Technology.

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

In these consolidated financial statements, Huafang Technology Group refers to the Huafang Technology and its subsidiaries immediately before the completion of the Huajiao-6.cn Merger.

The consolidated financial statements of the Group represent a continuation of the consolidated financial statements of the Mijing Hefeng Group, the accounting acquirer, and reflect the following:

- (a) The assets and liabilities of the Mijing Hefeng Group have been recognised and measured in the consolidated statement of financial position at the carrying amounts before the completion of the Huajiao-6.cn Merger;
- (b) The identifiable assets and liabilities of Huafang Technology Group have been recognised and measured in the consolidated statement of financial position generally at the fair values at the completion date of the Huajiao-6.cn Merger;
- (c) The excess of the fair value of the consideration transferred by the Mijing Hefeng Group over the fair value of the identifiable assets and liabilities of Huafang Technology Group at the completion date of the Huajiao-6.cn Merger has been recognised as goodwill in the consolidated statement of financial position;
- (d) The retained earnings and other equity balances recognised in the consolidated statement of financial position reflect the retained earnings and other equity balances of Mijing Hefeng immediately before the completion of the Huajiao-6.cn Merger; and

- (e) The consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2019 reflect the results of the Mijing Hefeng Group for the whole year and the results of the Group after the completion of the Huajiao-6.cn Merger.

To rationalise the corporate structure in preparation for the initial public offering of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group underwent a reorganisation (the "Reorganisation"), as detailed in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus.

As the operating live streaming platforms are essential for the operations of the Listing Business, they are conducted by Huafang Technology and its subsidiaries registered in the PRC and are subject to foreign investment restrictions under the relevant PRC laws and regulations, as part of the Reorganisation, Chengdu Huafang Online Technology Co., Ltd. (成都花房在線科技有限公司, the "WFOE"), an indirectly wholly-owned subsidiary of the Company, entered into a series of contractual arrangements (the "Contractual Arrangements"), with Huafang Technology and its registered shareholders, as detailed in the section headed "Contractual Arrangements" in the Prospectus.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Huafang Technology, receive variable returns from involvement in Huafang Technology, has the ability to affect those returns through its power over Huafang Technology, and hence, has the control over Huafang Technology. Consequently, the Group regards Huafang Technology as controlled entities. The directors of the Company have determined that the Contractual Arrangements are in compliance with PRC laws and are legally enforceable.

Upon the completion of the Reorganisation, the Company became the holding company of the companies now comprising the Group. The Reorganisation only involved inserting certain investment holding companies with no substantive operations as the new holding companies of the Listing Business. There were no changes in the economic substance of the ownership and the business of the Group before and after the Reorganisation. Accordingly, the Historical Financial Information has been prepared and presented as a continuation of the financial information of the Listing Business with the assets and liabilities recognised and measured at their historical carrying amounts prior to the Reorganisation. Intra-group balances, transactions and unrealised gain/loss on intra-group transactions are eliminated in full in preparing the Historical Financial Information.

The consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the Track Record Period as set out in this report include the financial performance and cash flows of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the Track Record Period, or since their respective dates of incorporation or establishment, where this is a shorter period. The consolidated statements of financial position of the Group as at December 31, 2019, 2020 and 2021 and May 31, 2022 as set out in this report have been prepared to present the financial position of the companies now comprising the Group as of those dates as if the current group structure had been in existence as of the respective dates taking into account the respective dates of incorporation or establishment, where applicable.

During the Track Record Period, the Group also engaged in mobile gaming development and operation after Huajiao-6.cn Merger, which was managed by the Beijing Lingdong Shikong Technology Co., Ltd., a subsidiary of the Group (the "Other Business"). The Other Business is separately managed and operated, its assets, liabilities, revenues and expenditures are clearly identifiable. On the basis that the entire equity interest in the Other Business had been disposed by the Group in December 2019, and the Other Business are clearly delineated from the Group's Listing Business, the Historical Financial Information excludes the assets, liabilities and results of operations associated with the Other Business and, accordingly, the fair value of Other Business has been excluded from the deemed consideration transferred when accounting for the Huajiao-6.cn Merger (see note 27(a)). The impact of the acquisition and the disposal of the Other Business are reflected in the Historical Financial Information as changes to the consolidated equity attributable to the equity shareholders of the Company.

Upon completion of the Reorganisation and as at the date of this report, the Company has direct or indirect interests in the following principal subsidiaries, all of which are private companies.

Company Name	Country/Place and date of incorporation/establishment	Registered/ Issued and paid-up capital	Attributable interest of the Group	Principal activities	Name of statutory auditor
<i>Directly held –</i>					
Liuhua HK Limited	Hong Kong (“HK”)/ June 10, 2021	HKD10,000	100%	Investment holding	(iii)
<i>Indirectly held –</i>					
Chengdu Huafang (i)	The PRC/ June 28, 2021	USD100,000	100%	Investment holding	(ii)
Huafang Technology (i)	The PRC/ March 22, 2006	RMB50,000,000	100%	Operation of livestreaming platforms	(vi)
Mijing Hefeng (i)	The PRC/ December 24, 2014	RMB14,623,400	100%	Operation of livestreaming platforms	(iv)
Sichuan Huayin Technology Co., Ltd. (四川花音科技有限公司, “Sichuan Huayin”) (i)	The PRC/ March 30, 2019	RMB2,000,000	100%	Supporting service to operation of mobile livestreaming platforms, voice-centric apps	(v)
Hainan Kailin Technology Co., Ltd. (海南凱林科技有限公司, “Hainan Kailin”) (i)	The PRC/ May 22, 2020	RMB1,000,000	100%	Supporting service to operation of mobile livestreaming platforms	(v)
Beijing Huafang Canlan Technology Co., Ltd. (Former name: Beijing 6rooms Technic Ltd.) (北京花房燦爛科技有限公司, “Huafang Canlan”) (Former name: 北京六間房子科技有限公司) (i)	The PRC/ March 27, 2018	RMB10,000,000	100%	Investment holding in internet entities	(vi)
Beijing Holla Technology Co., Ltd. (Former name: Beijing Mizhi Technology Co., Ltd.) (北京猴啦科技有限公司, “HOLLA Group”) (Former name: 北京蜜枝科技有限公司, “Mizhi Technology”) (i)	The PRC/ July 22, 2016	RMB74,762,849	100%	Virtual idol design and operation of internet social application	(vii)

Company Name	Country/Place and date of incorporation/ establishment	Registered/ Issued and paid-up capital	Attributable equity interest of the Group	Principal activities	Name of statutory auditor
Chengdu Huayang Technology Co., Ltd. (成都花漾科技有限公司, "Huayang") (i)	The PRC/ April 16, 2019	RMB1,000,000	100%	Investment holding in internet entities/the PRC	(ii)
Tianjin Maijike Network Technology Co., Ltd. (Former name: Tianjin Hongxiu mutual Entertainment Technology Co., Ltd.) (天津邁即刻網絡科技有限公司, "Maijike") (Former name: 天津紅袖互娛科技有限公司) (i)	The PRC/ September 1, 2017	RMB10,000,000	100%	Operation of internet social application	(vii)
EXU (HK) LIMITED ("EXU")	HK/August 13, 2014	HKD10,000	100%	Operation of dating centric live social apps	(viii)
MONKEY, INC. ("Monkey")	The United States ("US")/ September 27, 2017	USD50	100%	Operation of dating centric live social apps	(ii)
CHATWITH, INC. ("Chatwith")	US/April 9, 2020	USD50	100%	Operation of dating centric live social apps	(ii)
OVIEDO INTERACTIVES LIMITED ("Oviedo")	HK/ September 11, 2019	HKD10,000	100%	Operation of dating centric live social apps	(viii)
MITU INC LIMITED ("Mitu")	HK/August 20, 2020	HKD10,000	100%	Operation of dating centric live social apps	(ix)

(i) The official names of these entities are in Chinese. The English translation of the company names is for reference only.

(ii) No statutory audited financial statements have been prepared by these subsidiaries.

(iii) The financial statements of Liuhua HK Limited for the year ended December 31, 2021 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and audited by RICHFUL CPA LIMITED (瑞豐會計師事務所有限公司).

(iv) The financial statements of these subsidiaries for the years ended December 31, 2019, 2020 and 2021 were prepared in accordance with the generally accepted accounting standards in the PRC and audited by Grant Thornton International (致同會計師事務所(特殊普通合夥)), BDO Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)) and Zhongxingcaiguanghua Certified Public Accountants Co. Ltd. (中興財光華會計師事務所有限公司) respectively.

- (v) The financial statements of these subsidiaries for the years ended December 31, 2020 and 2021 were prepared in accordance with the generally accepted accounting standards in the PRC and audited by BDO Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)) and Zhongxingcaiguanghua Certified Public Accountants Co. Ltd. (中興財光華會計師事務所有限公司) respectively.
- (vi) The financial statements of these subsidiaries for the years ended December 31, 2019, 2020 and 2021 were prepared in accordance with the generally accepted accounting standards in the PRC and audited by Grant Thornton International (致同會計師事務所(特殊普通合夥)), BDO Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)) and Zhongxintianhua Certified Public Accountants Co. Ltd. (北京中新天華會計師事務所有限公司) respectively.
- (vii) The financial statements of these subsidiaries for the years ended December 31, 2020 and 2021 were prepared in accordance with the generally accepted accounting standards in the PRC and audited by BDO Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)) and Zhongxintianhua Certified Public Accountants Co. Ltd. (北京中新天華會計師事務所有限公司) respectively.
- (viii) The financial statements of these subsidiaries for the years ended December 31, 2020 and 2021 were prepared in accordance with HKFRSs and audited by Rich Moral CPA Limited. (瑞德會計師事務所有限公司).
- (ix) The financial statements of these subsidiaries for the year ended December 31, 2021 were prepared in accordance with HKFRSs and audited by Rich Moral CPA Limited. (瑞德會計師事務所有限公司).

All companies now comprising the Group have adopted December 31 as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised IFRSs consistently throughout the Track Record Period. The Group has not adopted any new standards or interpretations that are not yet effective for the accounting period beginning on January 1, 2022. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on January 1, 2022 and not yet adopted by the Group are set out in Note 30.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except for the following assets which are stated at their fair values as explained in the accounting policies set out below:

- other financial assets at fair value through profit or loss (“FVPL”)
- other financial assets at fair value through other comprehensive income (“FVOCI”)

(b) Use of estimates and judgements

The preparation of the Historical Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised loss resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an interest in an associate or, when appropriate, the cost on initial recognition of an investment in an associate.

(d) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (See Note 2(h)(ii)).

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

(e) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 25(d). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

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

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(q)(ii)).
- fair value through other comprehensive income ("FVOCI")-recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

(f) Property and equipment

The following items of property and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)):

- right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and
- items of property and equipment, including right-of-use assets arising from leases of underlying property and equipment (see Note 2(g)).

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

	Estimated useful lives
– Office equipment and furniture	3 years
– Electronic equipment	3 years
– Vehicles	3 years
– Leasehold improvement	Shorter of lease term or 2 – 10 years
– Leasehold properties	Over the term of lease

Where parts of an item of property and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the estimated useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(g) Leased assets

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the Group has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(f) and 2(h)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit loss (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables).

Other financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls of fixed-rate financial assets, trade and other receivables and other financial assets measured at amortised cost are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables, contract assets and amounts due from related parties are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit

obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(q)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired, or an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment, including right-of-use assets;
- intangible assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

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

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(i) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(h)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(h)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The useful lives of copyrights, trademark and technology and software were estimated by management based on the respective periods over which such assets can bring economic benefits to the Group. The estimation of the useful lives has taken into account the patent protection period, the historical life and characteristics of similar assets, the iteration cycle of live streaming and social networking technologies, update frequency and market competition, and the useful lives adopted by comparable companies in the market. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Copyrights, trademark and technology	5 – 10 years
Software	3 – 10 years

Both the period and method of amortisation are reviewed annually.

(j) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(q)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 2(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(k)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(q)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(k)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(q)(ii)).

(k) Trade and other receivables

A receivable is recognised when the Group has unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of the consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, that amount is presented as contract assets (see Note 2(j)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(h)(i)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are assessed for ECLs in accordance with the accounting policy set out in Note 2(h)(i).

(m) Trade and other payables

Trade and other payables are initially recognised at fair value, subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Employee benefits**(i) Short-term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

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

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

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(o) Income tax

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

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

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

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

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

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

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue and other income

(i) Revenue

The Group principally derives its revenues from live streaming, social networking and other services. Revenue is recognised when control of a service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Live streaming service

The Group operates mobile and personal computer live streaming platforms, consisting of IT infrastructure, mobile applications and its proprietary algorithm, to offer live and interactive streaming services to individual users as customers. The Group creates and sells to individual users virtual items, so they can simultaneously present to hosts during their live streaming session to show their support. The Group considers the sale of virtual items in connection with live streaming service as a single performance obligation, and the associated revenue is recognized on a gross basis, as the Group has sole discretion in designing, pricing and monetizing the virtual items before they are transferred to individual users. Revenue is recognized at a point-in-time when the virtual items are consumed as they are presented to live streaming hosts, at an amount which becomes known at the time the items are consumed.

Individual user purchases virtual items using the Group's user token which is in turn acquired through third-party payment companies. User token is non-refundable, it is often used to acquire virtual items and consumed soon after it is purchased. As such, the Group does not expect any significant breakage. Unconsumed user token and virtual items are recorded as contract liabilities.

Social networking service

The Group also operates social networking platforms, which help users meet potential friends from all over the world. The Group creates and sells to individual users virtual items. Revenue from such sale is recognised at a point-in-time when the virtual items are consumed, as the consideration for matching the potential friends or chatting with hosts. Revenue is recognized on a gross basis as the Group is the principal with respect to the fulfillment of the associated promises.

Other services

The Group provide other services, such as advertisement and technical services. Revenues are recognised upon fulfillment of services obligation.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(h)(i)).

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in the profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and subsequently recognised in the profit or loss over the useful life of the assets.

(r) Translation of foreign currencies

Foreign currency transactions are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations which have a functional currency other than RMB, the Group's presentation currency, are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(t) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group.
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief operating decision-maker ("CODM") of the Group for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. The CODM has been identified as executive directors of the Group.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 22 and 25 contains information about the assumptions and their risk factors relating to fair value of equity-settled share-based transactions and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognised in accordance with accounting policy for impairment of non-current assets as described in Note 2(h)(ii). These assets are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(b) Deferred tax assets

Deferred tax assets are recognised for all temporary differences to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In assessing whether such temporary differences can be utilised in the future, the Group needs to make judgements and estimates on the ability of each of its subsidiaries to generate taxable income in the future years. The Group believes it has recorded adequate deferred taxes based on the prevailing tax rules and regulations and its current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to deferred taxation may be necessary which would impact the Group’s results or financial position.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group is principally engaged in providing live streaming services, social networking and other services. Disaggregation of revenue from contracts with customers by major service lines are as follows:

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Live streaming	2,819,356	3,669,566	4,477,093	1,763,690	2,020,931
Social networking	–	–	118,243	35,613	66,387
Others	11,516	13,909	4,354	2,343	123
	<u>2,830,872</u>	<u>3,683,475</u>	<u>4,599,690</u>	<u>1,801,646</u>	<u>2,087,441</u>

The Group’s customer base is diversified, where there was no customer with whom transactions have exceeded 10% of the Group’s revenue during the Track Record Period.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is as follows:

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Point in time	2,829,079	3,679,654	4,597,043	1,800,687	2,087,318
Over time	1,793	3,821	2,647	959	123
	<u>2,830,872</u>	<u>3,683,475</u>	<u>4,599,690</u>	<u>1,801,646</u>	<u>2,087,441</u>

The Group has applied the practical expedient in paragraph 121 of IFRS 15 and therefore the information about remaining performance obligations is not disclosed for contracts that have an original expected duration of one year or less.

(b) Segment reporting

For the purposes of assessing segment performance and allocating resources among segments, the CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

There are three segments in the Group, including 6.cn, Huajiao and HOLLA Group.

Information regarding the Group's reportable segments as provided to the CODM for the purposes of resource allocation and assessment of segment performance for the years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2021 and 2022 is set out below:

	Year ended December 31, 2019		
	6.cn	Huajiao	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment revenue	<u>659,195</u>	<u>2,171,677</u>	<u>2,830,872</u>
Reportable segment profit before taxation	<u>194,502</u>	<u>39,538</u>	<u>234,040</u>
Including:			
Host cost	327,128	1,592,375	1,919,503
Promotion and advertising expenses	34,939	279,918	314,857
Staff cost (excluded share-based payment expenses)	<u>58,910</u>	<u>143,487</u>	<u>202,397</u>

	Year ended December 31, 2020		
	6.cn	Huajiao	Total
	RMB'000	RMB'000	RMB'000
Reportable segment revenue	852,425	2,831,050	3,683,475
Reportable segment profit before taxation	179,283	257,724	437,007
Including:			
Host cost	438,493	2,007,728	2,446,221
Promotion and advertising expenses	68,455	341,685	410,140
Staff cost (excluded share-based payment expenses)	104,498	131,632	236,130

	Year ended December 31, 2021			
	6.cn	Huajiao	HOLLA Group	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment revenue	1,007,763	3,472,177	119,750	4,599,690
Reportable segment profit/(loss) before taxation	163,552	345,800	(13,855)	495,497
Including:				
Host cost	585,101	2,479,332	20,560	3,084,993
Promotion and advertising expenses	76,635	389,763	29,244	495,642
Staff cost (excluded share-based payment expenses)	106,353	169,395	30,491	306,239

	Five months ended May 31, 2021 (unaudited)			
	6.cn	Huajiao	HOLLA Group	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment revenue	404,590	1,361,443	35,613	1,801,646
Reportable segment profit/(loss) before taxation	70,319	126,650	(7,408)	189,561
Including:				
Host cost	225,423	952,581	4,934	1,182,938
Promotion and advertising expenses	34,601	168,430	6,469	209,500
Staff cost (excluded share-based payment expenses)	46,926	71,813	8,147	126,886

	Five months ended May 31, 2022			
	6.cn	Huajiao	HOLLA Group	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment revenue	527,882	1,493,172	66,387	2,087,441
Reportable segment profit/(loss) before taxation	91,103	158,297	(14,442)	234,958
Including:				
Host cost	349,003	1,069,073	13,656	1,431,732
Promotion and advertising expenses	20,722	163,339	12,052	196,113
Staff cost (excluded share-based payment expenses)	47,408	74,795	21,599	143,802

Reconciliations of reportable segment revenues, profit or loss before taxation:

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue					
Reportable segment revenue	2,830,872	3,683,475	4,599,690	1,801,646	2,087,441
Profit					
Reportable segment profit before taxation	234,040	437,007	495,497	189,561	234,958
Depreciation and amortisation resulted from revaluation of property and equipment, and intangible assets	(10,969)	(21,646)	(18,771)	(7,821)	(7,751)
Finance costs	(624)	(776)	(484)	(223)	(1,101)
Impairment loss on goodwill and intangible assets	–	(1,872,543)	–	–	–
Share-based payment expenses	(19,307)	(18,796)	(83,993)	(20,035)	(13,857)
Consolidated profit/(loss) before taxation	203,140	(1,476,754)	392,249	161,482	212,249

5 OTHER INCOME, NET

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Income from financial products issued by banks	18,221	19,412	7,593	3,394	4,316
Changes in fair value of financial products issued by banks	(734)	626	(999)	(1,005)	66
Interest income	3,698	9,553	20,375	7,817	10,261
Government grants	1,361	8,600	9,862	140	575
Gain/(loss) on disposal of long-term assets	118	(9)	866	(264)	(274)
Additional deduction of input VAT	11,774	19,127	26,809	10,622	11,469
Others	(309)	4,400	4,346	1,462	1,223
	<u>34,129</u>	<u>61,709</u>	<u>68,852</u>	<u>22,166</u>	<u>27,636</u>

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
(a) Finance costs					
Interest on lease liabilities	624	776	484	223	1,101
(b) Staff costs					
Salaries, wages, bonuses and other benefits	162,145	205,707	244,780	101,986	115,287
Contributions to defined retirement schemes	40,252	30,423	61,459	24,900	28,515
Share-based payment expenses (Note 22)	19,307	18,796	83,993	20,035	13,857
	<u>221,704</u>	<u>254,926</u>	<u>390,232</u>	<u>146,921</u>	<u>157,659</u>

The employees of certain subsidiaries of the Group established in the PRC (excluding Hong Kong) participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby the Group is required to contribute to the schemes at a rate ranged 16% to 20% of the employees' basic salaries. Employees of certain subsidiaries of the Group is entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (excluding Hong Kong), from the above mentioned retirement schemes at their normal retirement age.

The Group has no further material obligation for payment of other retirement benefits beyond the above contributions.

(c) *Other items*

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Depreciation charge (<i>Note 11</i>)					
– owned property and equipment	4,644	5,951	5,646	2,230	4,023
– right-of-use assets	4,705	7,668	7,937	3,127	5,738
	<u>9,349</u>	<u>13,619</u>	<u>13,583</u>	<u>5,357</u>	<u>9,761</u>
Host cost	1,919,503	2,446,221	3,084,993	1,182,938	1,431,732
Amortisation of intangible assets	13,852	24,224	21,846	9,098	9,030
Allowance for doubtful debts/(reversal of allowance for doubtful debts)	1,398	312	(109)	(302)	(142)
Impairment loss on goodwill and intangible assets (<i>Notes 12 and 13</i>)	–	1,872,543	–	–	–
Promotion and advertising expenses	314,857	410,140	495,642	209,500	196,113
Bandwidth expenses and server custody costs	50,703	53,264	51,868	22,500	21,373
Payment processing cost	41,508	43,823	73,909	28,604	34,171
Listing expenses	–	–	21,601	–	2,289

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(a) **Taxation in the consolidated statements of profit or loss represent:**

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Current taxation (<i>Note 23(a)</i>)					
Provision for the year	16,607	28,179	25,961	11,049	12,807
Deferred taxation (<i>Note 23(b)</i>)					
Origination and reversal of temporary differences	(4,765)	19,738	41,265	14,249	21,551
	<u>11,842</u>	<u>47,917</u>	<u>67,226</u>	<u>25,298</u>	<u>34,358</u>

(b) Reconciliation between tax expenses and accounting profits at applicable tax rates:

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) before taxation	203,140	(1,476,754)	392,249	161,482	212,249
Notional tax on profit/(loss) before taxation, calculated at the applicable rates in the jurisdictions concerned (i)	50,785	(369,189)	98,062	40,371	53,062
Effect of preferential tax rates applicable to certain subsidiaries of the Group (ii)	(31,948)	143,568	(42,795)	(17,232)	(22,592)
Tax effect of additional tax deduction on research and development expenses (iii)	(11,098)	(10,555)	(12,146)	(4,625)	(4,878)
Tax effect of non-deductible expenses	1,496	2,771	16,597	3,592	3,014
Tax effect of unused tax losses and temporary differences not recognised (iv)	2,607	281,322	7,508	3,192	5,752
Actual tax expenses	11,842	47,917	67,226	25,298	34,358

Notes:

(i) Income tax rate applies to the Group:

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

The Hong Kong Profits Tax rate during the Track Record Period is 16.5%.

The tax rate in Delaware state in United states is 8.7%.

In accordance with the Corporate Income Tax Law ("Income Tax Law") of the PRC, corporate income tax rate for the Group's PRC subsidiaries during the Track Record Period is 25%.

(ii) The PRC Corporate Income Tax Law allows enterprises to apply for certificate of "High and New Technology Enterprise" ("HNTE"), which entitles the qualified companies to a preferential income tax rate of 15%, subject to fulfilment of the recognition criteria.

Huafang Technology and Mijing Hefeng were qualified as a HNTE and entitled to the preferential tax rate of 15% for the three calendar years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2021 and 2022.

Subject to Caishui [2016] No. 85, Huocheng branch of Huafang Technology was entitled to full tax exemption for five years starting from 2016, its first profit-making year.

Subject to Caishui [2020] No. 31, Hainan Kailin was entitled to a preferential tax rate of 15% for the calendar year ended December 31, 2021 and the five months ended May 31, 2022.

(iii) According to the relevant tax rules in the PRC, qualified research and development expenses are allowed for additional tax deduction based on 75% of such expenses during the Track Record Period.

- (iv) Mainly represent unused tax losses and temporary differences not recognised during the year 2020 due to the impairment loss of the goodwill and intangible assets incurred.

8 DIRECTORS' EMOLUMENTS

Details of emoluments of the directors of the Company during the Track Record Period are as follows:

		Year ended December 31, 2019							
Note	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Chairman									
	Mr. Zhou Hongyi	(a)	-	-	-	-	-		
Executive director									
	Ms. Yu Dan	(b)(c)	-	1,396	66	50	1,512	5,836	7,348
Non-executive directors									
	Mr. Chen Shengmin	(b)	-	-	-	-	-	-	
			-	1,396	66	50	1,512	5,836	7,348
		Year ended December 31, 2020							
Note	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Chairman									
	Mr. Zhou Hongyi	(a)	-	-	-	-	-	-	
Executive director									
	Ms. Yu Dan	(b)(c)	-	957	132	4	1,093	7,115	8,208
Non-executive directors									
	Mr. Chen Shengmin	(b)	-	-	-	-	-	-	
	Mr. Zhao Dan	(b)	-	-	-	-	-	-	
			-	957	132	4	1,093	7,115	8,208

		Year ended December 31, 2021							
Note		Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments	Total	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Chairman									
	Mr. Zhou Hongyi	(a)	-	-	-	-	-	-	
Executive director									
	Ms. Yu Dan	(b)(c)	-	1,844	132	37	2,013	29,757	31,770
Non-executive directors									
	Mr. Chen Shengmin	(b)	-	-	-	-	-	-	
	Mr. Zhao Dan	(b)	-	-	-	-	-	-	
			-	1,844	132	37	2,013	29,757	31,770

		Five months ended May 31, 2022							
Note		Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments	Total	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Chairman									
	Mr. Zhou Hongyi	(a)	-	-	-	-	-	-	
Executive director									
	Ms. Yu Dan	(b)(c)	-	849	330	16	1,195	4,527	5,722
Non-executive directors									
	Mr. Chen Shengmin	(b)	-	-	-	-	-	-	
	Mr. Zhao Dan	(b)	-	-	-	-	-	-	
			-	849	330	16	1,195	4,527	5,722

Five months ended May 31, 2021 (unaudited)

	Note	Five months ended May 31, 2021 (unaudited)						Total RMB'000
		Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Chairman								
Mr. Zhou Hongyi	(a)	-	-	-	-	-	-	-
Executive director								
Ms. Yu Dan	(b)(c)	-	690	132	16	838	5,349	6,187
Non-executive directors								
Mr. Chen Shengmin	(b)	-	-	-	-	-	-	-
Mr. Zhao Dan	(b)	-	-	-	-	-	-	-
		-	690	132	16	838	5,349	6,187

Notes:

- (a) Mr. Zhou Hongyi joined the Group in April 2019 and appointed as the director of the Company in June 2021.
- (b) Ms. Yu Dan, Mr. Chen Shengmin and Mr. Zhao Dan joined the Group in March 2017, September 2017 and August 2020, respectively and were appointed as directors of the Company in July 2021.
- (c) The amount disclosed above included emoluments received before Ms. Yu Dan's appointment as an executive director.

During the Track Record Period, no emoluments were paid by the Company to directors as an inducement to join or upon joining the Company or as compensation for loss of office.

Mr. Chen Weiguang, Mr. Li Bing and Ms. Qian Aimin were appointed as independent non-executive directors in November 2022. No remuneration was paid to independent non-executive directors during the Track Record Period.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the Track Record Period, of the five individuals with the highest emoluments, 1, 1, 1, 1 (unaudited) and 1 are directors for each of the years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2021 and 2022, respectively, whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining individuals during the Track Record Period are as followings:

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and other emoluments	2,662	3,717	4,379	1,744	2,088
Discretionary bonuses	182	680	809	798	2,232
Share-based payment expenses	2,116	3,369	29,391	6,547	5,469
Retirement scheme contributions	156	21	176	75	77
	5,116	7,787	34,755	9,164	9,866

The emoluments of the above individuals with the highest emoluments are within the following bands:

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	Number of individuals	Number of individuals	Number of individuals	Number of individuals	Number of individuals
				<i>(unaudited)</i>	
Nil – HKD1,000,000	2	–	–	–	–
HKD1,000,001 – HKD1,500,000	–	–	–	1	1
HKD1,500,001 – HKD2,000,000	–	–	–	1	1
HKD2,000,001 – HKD2,500,000	1	4	–	1	1
HKD2,500,001 – HKD3,000,000	1	–	–	–	–
HKD3,000,001 – HKD3,500,000	–	–	1	1	–
HKD3,500,001 – HKD4,000,000	–	–	1	–	1
HKD4,000,001 – HKD4,500,000	–	–	1	–	–
HKD4,500,001 – HKD5,000,000	–	–	1	–	–
HKD5,000,001 – HKD5,500,000	–	–	1	–	–
HKD5,500,001 – HKD6,000,000	–	–	1	–	–
HKD6,000,001 – HKD6,500,000	–	–	1	–	–
HKD6,500,001 – HKD7,000,000	–	–	1	–	–
HKD7,000,001 – HKD7,500,000	–	–	1	–	–
HKD7,500,001 – HKD8,000,000	–	–	1	–	–
HKD8,000,001 – HKD8,500,000	–	–	1	–	–
HKD8,500,001 – HKD9,000,000	–	–	1	–	–
HKD9,000,001 – HKD9,500,000	–	–	1	–	–
HKD9,500,001 – HKD10,000,000	–	–	1	–	–
HKD10,000,001 – HKD10,500,000	–	–	1	–	–
HKD10,500,001 – HKD11,000,000	–	–	1	–	–
HKD11,000,001 – HKD11,500,000	–	–	1	–	–
HKD11,500,001 – HKD12,000,000	–	–	1	–	–
HKD12,000,001 – HKD12,500,000	–	–	1	–	–
HKD12,500,001 – HKD13,000,000	–	–	1	–	–
HKD13,000,001 – HKD13,500,000	–	–	1	–	–
HKD13,500,001 – HKD14,000,000	–	–	1	–	–
HKD14,000,001 – HKD14,500,000	–	–	1	–	–
HKD14,500,001 – HKD15,000,000	–	–	1	–	–
HKD15,000,001 – HKD15,500,000	–	–	1	–	–
HKD15,500,001 – HKD16,000,000	–	–	1	–	–
HKD16,000,001 – HKD16,500,000	–	–	1	–	–
HKD16,500,001 – HKD17,000,000	–	–	1	–	–
HKD17,000,001 – HKD17,500,000	–	–	1	–	–
HKD17,500,001 – HKD18,000,000	–	–	1	–	–
HKD18,000,001 – HKD18,500,000	–	–	1	–	–
HKD18,500,001 – HKD19,000,000	–	–	1	–	–
HKD19,000,001 – HKD19,500,000	–	–	1	–	–
HKD19,500,001 – HKD20,000,000	–	–	1	–	–
HKD20,000,001 – HKD20,500,000	–	–	1	–	–
HKD20,500,001 – HKD21,000,000	–	–	1	–	–
HKD21,000,001 – HKD21,500,000	–	–	1	–	–
HKD21,500,001 – HKD22,000,000	–	–	1	–	–
HKD22,000,001 – HKD22,500,000	–	–	1	–	–
HKD22,500,001 – HKD23,000,000	–	–	1	–	–
HKD23,000,001 – HKD23,500,000	–	–	1	–	–
	4	4	4	4	4

10 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the financial performances for the Track Record Period using the basis of preparation as disclosed in Note 1 above.

11 PROPERTY AND EQUIPMENT

(a) Reconciliations of carrying amounts

	Office equipment and furniture	Electronic equipment	Vehicles	Leasehold improvement	Leasehold properties	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At January 1, 2019	191	4,628	–	–	–	4,819
Additions	281	1,577	1,369	121	3,882	7,230
Acquisition of subsidiary (Note 27)	829	14,803	475	–	19,755	35,862
Disposals	(210)	(62)	(78)	–	(917)	(1,267)
At December 31, 2019	1,091	20,946	1,766	121	22,720	46,644
Accumulated depreciation:						
At January 1, 2019	(85)	(3,454)	–	–	–	(3,539)
Charge for the year	(242)	(4,174)	(225)	(3)	(4,705)	(9,349)
Written back on disposals	186	42	–	–	917	1,145
At December 31, 2019	(141)	(7,586)	(225)	(3)	(3,788)	(11,743)
Carrying amount:						
At December 31, 2019	950	13,360	1,541	118	18,932	34,901

	Office equipment and furniture	Electronic equipment	Vehicles	Leasehold improvement	Leasehold properties	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:						
At January 1, 2020	1,091	20,946	1,766	121	22,720	46,644
Additions	480	1,755	–	–	984	3,219
Acquisition of subsidiary (Note 13)	108	616	–	–	–	724
Disposals	(260)	–	–	–	(412)	(672)
At December 31, 2020	1,419	23,317	1,766	121	23,292	49,915
Accumulated depreciation:						
At January 1, 2020	(141)	(7,586)	(225)	(3)	(3,788)	(11,743)
Charge for the year	(405)	(5,136)	(375)	(35)	(7,668)	(13,619)
Written back on disposals	239	–	–	–	412	651
At December 31, 2020	(307)	(12,722)	(600)	(38)	(11,044)	(24,711)
Carrying amount:						
At December 31, 2020	1,112	10,595	1,166	83	12,248	25,204
Cost:						
At January 1, 2021	1,419	23,317	1,766	121	23,292	49,915
Additions	851	7,447	–	8,031	62,109	78,438
Disposals	(279)	(3,561)	(1,639)	–	(22,354)	(27,833)
At December 31, 2021	1,991	27,203	127	8,152	63,047	100,520
Accumulated depreciation:						
At January 1, 2021	(307)	(12,722)	(600)	(38)	(11,044)	(24,711)
Charge for the year	(363)	(4,726)	(351)	(206)	(7,937)	(13,583)
Written back on disposals	64	3,224	859	–	16,700	20,847
At December 31, 2021	(606)	(14,224)	(92)	(244)	(2,281)	(17,447)
Carrying amount:						
At December 31, 2021	1,385	12,979	35	7,908	60,766	83,073
Cost:						
At January 1, 2022	1,991	27,203	127	8,152	63,047	100,520
Additions	2,380	1,919	–	4,654	637	9,590
Disposals	(854)	(3,060)	–	–	–	(3,914)
At May 31, 2022	3,517	26,062	127	12,806	63,684	106,196

	Office equipment and furniture	Electronic equipment	Vehicles	Leasehold improvement	Leasehold properties	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accumulated depreciation:						
At January 1, 2022	(606)	(14,224)	(92)	(244)	(2,281)	(17,447)
Charge for the period	(237)	(1,894)	(35)	(1,857)	(5,738)	(9,761)
Written back on disposals	656	2,747	–	–	–	3,403
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At May 31, 2022	(187)	(13,371)	(127)	(2,101)	(8,019)	(23,805)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Carrying amount:						
At May 31, 2022	3,330	12,691	–	10,705	55,665	82,391
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(b) Leasehold properties

- (i) The Group leased offices expires from 1.5 to 5 years. None of the leases includes an option to purchase the leased assets at the end of the lease term.
- (ii) The analyses of expenses items in relation to leases recognised in the Group's profit or loss are as follows:

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Depreciation charge of leasehold properties	4,705	7,668	7,937	3,127	5,738
Interest on lease liabilities (Note 6(a))	624	776	484	223	1,101
Expense relating to short-term leases	12,028	11,122	12,906	6,816	6,878
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

- (iii) Details of total cash outflow for leases and the maturity analyses of lease liabilities are set out in Notes 17(c) and 21.

12 INTANGIBLE ASSETS

	Copyrights, trademark and technology	Software	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:			
At January 1, 2019	15,730	162	15,892
Additions	–	115	115
Acquisition of subsidiary (<i>Note 27</i>)	156,079	288	156,367
At December 31, 2019 and January 1, 2020	171,809	565	172,374
Additions	–	314	314
Acquisition of subsidiaries	46,082	2,763	48,845
At December 31, 2020 and January 1, 2021	217,891	3,642	221,533
Additions	566	611	1,177
At December 31, 2021 and January 1, 2022	218,457	4,253	222,710
Additions	–	472	472
Disposals	–	(496)	(496)
Translation differences arising on translation of foreign currency financial statements	–	160	160
At May 31, 2022	218,457	4,389	222,846
Accumulated amortisation:			
At January 1, 2019	(806)	(17)	(823)
Charge for the year	(13,547)	(305)	(13,852)
At December 31, 2019 and January 1, 2020	(14,353)	(322)	(14,675)
Charge for the year	(23,941)	(283)	(24,224)
Impairment loss (<i>Note 13</i>)	(29,324)	–	(29,324)
At December 31, 2020 and January 1, 2021	(67,618)	(605)	(68,223)
Charge for the year	(21,077)	(769)	(21,846)
At December 31, 2021 and January 1, 2022	(88,695)	(1,374)	(90,069)
Charge for the period	(8,801)	(229)	(9,030)
Written back on disposals	–	417	417
Translation differences arising on translation of foreign currency financial statements	–	(67)	(67)
At May 31, 2022	(97,496)	(1,253)	(98,749)
Net book value:			
At December 31, 2019	157,456	243	157,699
At December 31, 2020	150,273	3,037	153,310
At December 31, 2021	129,762	2,879	132,641
At May 31, 2022	120,961	3,136	124,097

The amortisation of intangible assets is included in cost of sales, general and administrative expenses and research and development expenses in the consolidated statements of profit or loss during the Track Record Period.

13 GOODWILL

	<i>RMB'000</i>
Cost:	
At January 1, 2019	–
Addition (<i>Note 27</i>)	2,459,472
	<hr/>
At December 31, 2019 and January 1, 2020	2,459,472
Addition	83,525
	<hr/>
At December 31, 2020 and December 31, 2021 and May 31, 2022	2,542,997
	<hr style="border-top: 1px dashed black;"/>
Accumulated impairment losses:	
At January 1, 2019, December 31, 2019 and January 1, 2020	–
Charge for the year	1,843,219
	<hr/>
At December 31, 2020 and December 31, 2021 and May 31, 2022	1,843,219
	<hr style="border-top: 1px dashed black;"/>
Net book value:	
At December 31, 2019	2,459,472
	<hr style="border-top: 3px double black;"/>
At December 31, 2020	699,778
	<hr style="border-top: 3px double black;"/>
At December 31, 2021	699,778
	<hr style="border-top: 3px double black;"/>
At May 31, 2022	699,778
	<hr style="border-top: 3px double black;"/>

Goodwill is allocated to the Groups of cash-generating unit (“CGU”) as follows:

	As at December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
6.cn	2,459,472	681,763	681,763
HOLLA Group	–	17,394	17,394
Maijike	–	621	621
	<hr/>	<hr/>	<hr/>
Total	2,459,472	699,778	699,778
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

(a) Goodwill arisen in business combinations

As stated in Note 1, the Group completed the Huajiao-6.cn Merger in April 2019 and the goodwill amounted to RMB2,459,472,000 was recognised, further detail was set out in Note 27.

Mizhi Technology was engaged in virtual idol and virtual livestreaming business, Huafang Technology owned its 18% interest from July 2016 to March 2020. In April 2020, the Group acquired 82% interest of Mizhi Technology at a consideration of RMB31,543,000. The goodwill arose from this acquisition amounted to RMB65,510,000.

Except for the acquisition of Mizhi Technology, addition of goodwill in 2020 amounted to RMB18,015,000, of which RMB17,394,000 and RMB621,000 arose on the acquisition of HOLLA Group and Maijike respectively. The aggregate consideration for these acquisitions was RMB17,406,000 and fair value of net identifiable liabilities assumed was RMB609,000.

(b) Goodwill impairment testing

The recoverable amount of a CGU is determined based on value in use (“VIU”) calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Key assumptions used for VIU calculations:

	As at December 31,		
	2019	2020	2021
6.cn			
Annual revenue (decline)/growth rates for first five years <i>(aa)</i>	(1.18)% – 10.00%	(4.98)% – 0.00%	(0.82)% – 0.00%
Terminal growth rate <i>(bb)</i>	0.00%	0.00%	0.00%
Discount rate <i>(cc)</i>	14.59%	15.72%	15.30%
	<u> </u>	<u> </u>	<u> </u>
		As at December 31,	
		2020	2021
HOLLA Group			
Annual revenue growth rates for first five years <i>(aa)</i>		0.00% – 21.80%	0.00% – 20.99%
Terminal growth rate <i>(bb)</i>		0.00%	0.00%
Discount rate <i>(cc)</i>		13.98%	14.92%
		<u> </u>	<u> </u>
		As at December 31,	
		2020	2021
Maijike			
Annual revenue growth rates for first five years <i>(aa)</i>		0.00% – 10.00%	0.00% – 20.32%
Terminal growth rate <i>(bb)</i>		0.00%	0.00%
Discount rate <i>(cc)</i>		16.40%	17.27%
		<u> </u>	<u> </u>

The directors of the Company were of the view that there were no indications that the above CGUs might be impaired as at May 31, 2022.

Notes:

- (aa) The annual revenue growth rates adopted are based on 6.cn, HOLLA Group and Maijike’s CGU’s historical experience and the Group’s expectations of future changes in the live streaming industry and adjusted for other factors that are specific to the CGU of 6.cn, HOLLA Group and Maijike.
- (bb) Cash flows beyond the five-year period are extrapolated used a terminal growth rate based on the relevant industry growth forecasts and does not exceed the average terminal growth rate of the relevant industry.
- (cc) The discount rates used are pre-tax and reflect specific risks relating to the CGU of 6.cn, HOLLA Group and Maijike.

Goodwill arising from Huajiao-6.cn Merger

Following the Huajiao-6.cn Merger, the synergistic sharing of resources and experiences between Huajiao and 6.cn have paved the way for the sustained business of Huafang Technology. As at December 31, 2019, based on the impairment test performed, the recoverable amount of CGU of 6.cn calculated based on VIU exceeded carrying value by RMB179,176,000 (“headroom”) and no impairment of goodwill was recognised.

The following table indicates how the headroom would have decreased if certain key assumptions used in the forecast had changed, assuming all other assumptions remained constant:

6.cn	As at December 31, 2019
	Headroom decreases by RMB'000
If annual revenue growth rates decrease by 50 basis point	64,552
If terminal growth rate decreases by 50 basis point	72,888
If discount rate increases by 50 basis point	94,161

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

Since the beginning of 2020, the COVID-19 pandemic has significantly disrupted the normal economic life in China and around the world. The pandemic has accelerated the proliferation of mobile-based live streaming and has had a disproportionately greater effect on PC-based live streaming due to the government-mandated mobility restrictions which could impede access to streaming studios. Market competition has also intensified to compete for user time and viable hosts as new players continue to enter the entertainment live streaming industry. These challenges resulted in a decline in 6.cn's business performance in 2020. Based on the impairment test performed, as at December 31, 2020, the recoverable amount of CGU of 6.cn has been reduced to RMB751,462,000 and the impairment loss of RMB1,777,709,000 was recognised. Any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment loss.

As at December 31, 2021, based on the impairment test performed, the recoverable amount of CGU of 6.cn calculated based on VIU exceeded carrying value by RMB165,315,000 (“headroom”) and no impairment of goodwill was recognised.

The following table indicates how the headroom would have decreased if certain key assumptions used in the forecast had changed, assuming all other assumptions remained constant:

6.cn	As at December 31, 2021
	Headroom decreases by RMB'000
If annual revenue growth rates decrease by 50 basis point	37,733
If terminal growth rate decreases by 50 basis point	21,831
If discount rate increases by 50 basis point	25,138

14 OTHER FINANCIAL ASSETS

	As at December 31,			As at
	2019	2020	2021	May 31,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Current				
Financial products issued by banks	384,319	258,145	45,346	533,792
Non-current				
Financial assets measured at FVOCI				
– Investment in Mizhi Technology (Note 13(a))	13,345	–	–	–
– Investment in Shanghai Benqu Network Technology Co., Ltd. ("上海本趣網絡科技有限公司") (i)	5,400	5,400	–	–
– Investment in Tianjin Jiadui Technology Co., Ltd. ("天津佳 對科技有限公司") (ii)	–	19,000	19,000	19,000
– Investment in Wuhan Qijifangzhou Information Technology Co., Ltd. ("武漢奇 蹟方舟信息技術有限公司") (iii)	–	15,000	15,000	15,000
– Investment in Chengdu Xundui Culture Communication Co., Ltd. ("成都尋對文化傳媒有限公 司") (iv)	–	–	18,960	18,960
– Investment in Battuta Technology Pte. Ltd. (v)	–	–	13,000	13,581
– Investment in Chengdu Aobeisha Cultural Communication Co., Ltd. ("成都奧貝沙文化傳媒有限公 司") (vi)	–	–	–	18,000
– Investment in Chengdu Lailiaoyiliao Cultural Communication Co., Ltd. ("成都來聊一聊文化傳媒有限公 司") (vii)	–	–	–	8,000
Financial assets measured at amortised costs				
– Loan to Mizhi Technology	48,330	–	–	–
	<u>67,075</u>	<u>39,400</u>	<u>65,960</u>	<u>92,541</u>

- (i) Shanghai Benqu Network Technology Co., Ltd. ("Shanghai Benqu") is an information technology service provider in the PRC market. In 2021, the Group disposed the investment in Shanghai Benqu at a consideration amounted to RMB6,840,000.
- (ii) The Group holds 25% of the interests of Tianjin Jiadui Technology Co., Ltd., which operates an online dating platform in the PRC. The Group has not appointed directors or participated in the operations of Tianjin Jiadui Technology Co., Ltd.

- (iii) The Group holds 25% of the interests of Wuhan Qijifangzhou Information Technology Co., Ltd., which is an information technology service provider in the PRC. The Group has not appointed directors or participated in the operations of Wuhan Qijifangzhou Information Technology Co., Ltd.
- (iv) The Group holds 25% of the interests of Chengdu Xundui Culture Communication Co., Ltd., which operates an online social networking platform in the PRC. The Group has not appointed directors or participated in the operations of Chengdu Xundui Culture Communication Co., Ltd.
- (v) The Group holds 25% of the interests of Battuta Technology Pte. Ltd. (“Battuta”), which operates an online social networking platform in Singapore. The Group has not appointed directors or participated in the operations of Battuta Technology Pte. Ltd.
- (vi) The Group holds 25% of the interests of Chengdu Aobeisha Culture Communication Co., Ltd., which operates an online social networking platform in the PRC. The Group has not appointed directors or participated in the operations of Chengdu Aobeisha Culture Communication Co., Ltd.
- (vii) The Group holds 30% of the interests of Chengdu Lailiaoyiliao Cultural Communication Co., Ltd., which operates an online social networking platform in the PRC. The Group has not appointed directors or participated in the operations of Chengdu Lailiaoyiliao Cultural Communication Co., Ltd.

15 TRADE RECEIVABLES

	As at December 31,			As at
	2019	2020	2021	May 31,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Trade receivables	2,879	2,885	640	543
Less: loss allowance	(15)	(15)	(19)	(19)
	<u>2,864</u>	<u>2,870</u>	<u>621</u>	<u>524</u>

All of the trade receivables are expected to be recovered within one year.

(a) Ageing analysis

At the end of each reporting period, the ageing analysis of trade receivables, based on the invoice date, are as follows:

	As at December 31,			As at
	2019	2020	2021	May 31,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Within 3 months	2,863	2,595	624	130
3 to 6 months	–	271	–	397
6 to 12 months	16	3	–	–
Over 1 year	–	16	16	16
Less: loss allowance	(15)	(15)	(19)	(19)
	<u>2,864</u>	<u>2,870</u>	<u>621</u>	<u>524</u>

Further details on the Group's credit policy and credit risk are set out in Note 25(a).

16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at December 31,			As at
	2019	2020	2021	May 31,
	RMB'000	RMB'000	RMB'000	2022
Prepayments for purchase of services	23,358	15,914	43,036	41,044
Deposits	4,519	5,642	8,961	7,429
Loans to third parties (i)	–	–	–	20,942
Receivable from third party payment platform	24,518	43,428	73,993	60,695
Deductible input VAT	2,026	3,641	5,184	3,673
Government grant receivables	–	6,593	7,072	5,419
Others	1,202	454	572	188
	55,623	75,672	138,818	139,390
Less: loss allowance	(156)	(474)	(361)	(220)
	<u>55,467</u>	<u>75,198</u>	<u>138,457</u>	<u>139,170</u>

- (i) As at May 31, 2022, the Group offered interest-free loans to Battuta and its subsidiary in an aggregate principal amount of RMB15,942,000 with the term of repayment of 6 months and 12 months, the Group also offered an interest-free loan to Beijing Qianyihudong Technology Co., Ltd. in principal amount of RMB5,000,000 with the terms of repayment of 6 months.

All of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

17 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION

(a) Cash at bank and on hand comprise:

	As at December 31,			As at
	2019	2020	2021	May 31,
	RMB'000	RMB'000	RMB'000	2022
Cash and cash equivalents in the consolidated statements of financial position and in the consolidated cash flow statements	789,678	1,068,149	1,614,783	1,371,355

(b) Reconciliation of liabilities arising from financing activities:

The tables below detail changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the consolidated cash flow statements as cash flows from financing activities.

	Lease liabilities	Listing expenses payable	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2019	–	–	–
Changes from financing cash flows:			
Interest element of lease rentals paid	(624)	–	(624)
Capital element of lease rentals paid	(4,170)	–	(4,170)
Other changes:			
Acquisition of subsidiary	19,525	–	19,525
Increase in lease liabilities from entering into new lease during the year	3,882	–	3,882
Interest expenses (<i>Note 6(a)</i>)	624	–	624
At December 31, 2019 and January 1, 2020	<u>19,237</u>	<u>–</u>	<u>19,237</u>
Changes from financing cash flows:			
Interest element of lease rentals paid	(776)	–	(776)
Capital element of lease rentals paid	(7,493)	–	(7,493)
Other changes:			
Increase in lease liabilities from entering into new lease during the year	984	–	984
Interest expenses (<i>Note 6(a)</i>)	776	–	776
At December 31, 2020 and January 1, 2021	<u>12,728</u>	<u>–</u>	<u>12,728</u>
Changes from financing cash flows:			
Interest element of lease rentals paid	(484)	–	(484)
Capital element of lease rentals paid	(9,886)	–	(9,886)
Listing expenses paid	–	(4,322)	(4,322)
Other changes:			
Increase in lease liabilities from entering into new lease during the year	62,109	–	62,109
Interest expenses (<i>Note 6(a)</i>)	484	–	484
Decrease in lease liabilities from terminating a lease during the year	(6,642)	–	(6,642)
Addition	–	5,964	5,964
At December 31, 2021 and January 1, 2022	<u>58,309</u>	<u>1,642</u>	<u>59,951</u>

	Lease liabilities	Listing expenses payable	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At December 31, 2021 and January 1, 2022	58,309	1,642	59,951
Changes from financing cash flows:			
Interest element of lease rentals paid	(1,101)	–	(1,101)
Capital element of lease rentals paid	(3,457)	–	(3,457)
Listing expenses paid	–	(443)	(443)
Other changes:			
Increase in lease liabilities from entering into new lease during the period	637	–	637
Interest expenses (<i>Note 6(a)</i>)	1,101	–	1,101
Addition	–	748	748
At May 31, 2022	<u>55,489</u>	<u>1,947</u>	<u>57,436</u>
(Unaudited)			
At January 1, 2021	12,728	–	12,728
Changes from financing cash flows:			
Interest element of lease rentals paid	(223)	–	(223)
Capital element of lease rentals paid	(3,093)	–	(3,093)
Other changes:			
Increase in lease liabilities from entering into new lease during the period	1,162	–	1,162
Interest expenses (<i>Note 6(a)</i>)	223	–	223
At May 31, 2021	<u>10,797</u>	<u>–</u>	<u>10,797</u>

(c) **Total cash outflow for leases:**

Amounts included in the cash flow statement for leases comprise the following:

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within operating cash flows	11,578	11,609	13,082	3,074	8,325
Within financing cash flows	4,794	8,269	10,370	3,316	4,558
	<u>16,372</u>	<u>19,878</u>	<u>23,452</u>	<u>6,390</u>	<u>12,883</u>

18 TRADE PAYABLES

	As at December 31,			As at
	2019	2020	2021	May 31,
	RMB'000	RMB'000	RMB'000	2022
Host	169,860	118,539	96,525	141,260
Advertisers	31,686	69,285	29,470	59,403
Bandwidth providers	10,374	11,592	9,449	16,899
Others	5,239	7,040	7,706	9,253
Total	<u>217,159</u>	<u>206,456</u>	<u>143,150</u>	<u>226,815</u>

The ageing analyses of the trade payables, based on the invoice date, are as follows:

	As at December 31,			As at
	2019	2020	2021	May 31,
	RMB'000	RMB'000	RMB'000	2022
1 to 3 months	206,188	198,228	141,644	216,266
4 to 6 months	2,919	5,648	650	6,711
7 to 12 months	6,796	1,385	249	3,224
Over 1 year	1,256	1,195	607	614
	<u>217,159</u>	<u>206,456</u>	<u>143,150</u>	<u>226,815</u>

All trade payables are expected to be settled within one year or are repayable on demand.

19 CONTRACT LIABILITIES

	As at December 31,			As at
	2019	2020	2021	May 31,
	RMB'000	RMB'000	RMB'000	2022
Live streaming (i)	66,355	78,419	85,781	83,907
Advertising	–	1,127	–	–
	<u>66,355</u>	<u>79,546</u>	<u>85,781</u>	<u>83,907</u>

- (i) Contract liabilities primarily arose from the considerations received from customers before the Group satisfying performance obligations. It would be recognised as revenue upon rendering services. Almost all of the contract liabilities balance as at December 31, 2019, 2020, 2021 and May 31, 2022 was recognised as revenue within one year.

The changes in contract liabilities during Track Record Period were mainly due to the changes in prepayment of top-up from users on our platform in connection with our live streaming services.

20 ACCRUED EXPENSES AND OTHER PAYABLES

	As at December 31,			As at
	2019	2020	2021	May 31,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Accrued expense	131	2,902	1,110	1,609
Deposits	2,150	1,870	2,165	2,165
Individual income tax payables on behalf of others (i)	196,513	–	–	–
Amounts due to related parties	2,589	2,589	2,868	396
Payables for staff related cost	29,140	40,660	39,856	27,726
Payables for other taxes	16,004	13,749	15,739	11,822
Payables for equity investment (ii)	–	–	14,652	–
Others	1,049	5,575	4,450	9,003
	<u>247,576</u>	<u>67,345</u>	<u>80,840</u>	<u>52,721</u>

- (i) The previous individual shareholders of Huafang Technology sold their shares to Songcheng Performance Development Co., Ltd. in 2015. The previous individual shareholders paid the individual income tax resulted from this transaction to Huafang Technology in 2019 and Huafang Technology paid the tax to the local tax bureau on their behalf in 2020.
- (ii) Payables for equity investment represents the remaining consideration for investment in Chengdu Xundui Culture Communication Company Limited and Battuta Technology Pte. Ltd.

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

21 LEASE LIABILITIES

The following tables show the remaining contractual maturities of the Group's lease liabilities as at the end of each of the reporting period:

	As at December 31,						As at May 31,	
	2019		2020		2021		2022	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	7,168	7,909	5,763	6,211	12,246	14,732	12,596	14,862
After 1 year but within 2 years	5,427	5,851	5,592	5,777	11,636	13,564	11,293	13,002
After 2 years but within 5 years	6,642	6,825	1,373	1,378	34,427	36,762	31,600	33,290
	<u>12,069</u>	<u>12,676</u>	<u>6,965</u>	<u>7,155</u>	<u>46,063</u>	<u>50,326</u>	<u>42,893</u>	<u>46,292</u>
	<u>19,237</u>	<u>20,585</u>	<u>12,728</u>	<u>13,366</u>	<u>58,309</u>	<u>65,058</u>	<u>55,489</u>	<u>61,154</u>
Less: total future interest expenses		(1,348)		(638)		(6,749)		(5,665)
Present value of lease liabilities		<u>19,237</u>		<u>12,728</u>		<u>58,309</u>		<u>55,489</u>

22 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

In January 2017, the shareholder of Mijing Hefeng approved an equity-settled stock incentive plan (the “2017 plan”). Pursuant to the 2017 plan, the total equity of Mijing Hefeng as was assumed to be divided into 12,200,000,000 units for the purpose of implementing the 2017 plan and 1,002,041,000 units thereof were granted to certain employees and key management personnel (including a director) of Mijing Hefeng under the 2017 plan. The holders of vested units are entitled to receive free shares of Mijing Hefeng based on the pre-determined unit-to-share ratio. The vesting conditions include both service conditions and non-market performance conditions. The grants to each employee/director would vest in instalments of 20%, 20%, 30% and 30% at each anniversary from the grant date over the next four years. Shares received by the holders of vested units are subject to post-vesting transfer restrictions until Mijing Hefeng completes an IPO. Units granted are also referred to as restricted share units.

In October 2020, the board of directors of the Huafang Technology resolved to launch a more comprehensive equity-settled stock incentive plan (the “2020 plan”). Pursuant to the 2020 plan, the total equity of Huafang Technology was assumed to be divided into 21,688,000,000 units for the purpose of implementing the 2020 plan and 1,355,605,000 units thereof (equivalent to 6.25% of the total shares of Huafang Technology after expansion in share capital on November 11, 2021) were granted to certain employees (including a director) of Huafang Technology, among which 435,661,000 units were identified as a replacement for the awards under the 2017 plan and 919,944,000 units were newly granted under the 2020 plan.

For the replacement portion, the transition from the 2017 plan to the 2020 plan is as follows:

- (1) 268,086,000 units under the 2017 plan had been vested by the time of transition. These units under the 2017 plan were carried over to the 2020 plan with a decreasing effect on the number of shares that employees were entitled to, i.e. employees would now become entitled to the shares of Huafang Technology (instead of Mijing Hefeng) but at a lower quantity.
- (2) 167,575,000 units under the 2017 plan were still within the vesting period at the time of transition. Those outstanding units under the 2017 plan were exchanged for units under the 2020 plan on a one-to-one basis. The terms and conditions of the 2017 plan continued to be carried out, except that the employees would receive shares of Huafang Technology instead of Mijing Hefeng but at a lower quantity for vested units in the future.

The Group has applied modification accounting to the afore-mentioned replacement and determined that no incremental fair value was granted to employees as a result of those modifications.

The vesting conditions of the new grants under the 2020 plan include both service conditions and non-market performance conditions. The new grants to each employee/director would vest in instalments of 30%, 30%, 20% and 20% at each anniversary from the grant date over the next four years. Shares received by the holders of vested units are subject to post-vesting transfer restrictions until Huafang Technology completes an IPO.

The Group has sponsored a limited partnership vehicle (Tianjin Huafang Feiteng Technology Center (L.P.) (天津花房飛騰科技中心(有限合夥)) (“Huafang Feiteng”),) established by its employees to hold 6.25% of its shares to meet the obligations of physical delivery of vested shares under the 2020 plan. Employees that participate in the 2020 plan have subscribed for the shares in the shareholding vehicles of Huafang Feiteng at a nominal amount and can receive the shares of Huafang Technology indirectly when the units are vested. The subscription price will be returned to the employees for units that are forfeited under the 2020 plan.

Along with the incorporation of the Company and the completion of the reorganisation as described in Note 1, the 2020 plan was adjusted to be carried out on the level of the Company with no other changes including but not limited to the terms and condition. There is no change in the accounting treatment due to this adjustment.

As the Group has power to govern the relevant activities of Huafang Feiteng and its shareholding vehicles, and can derive benefits from the contributions of the eligible employees who are awarded with the shares under the stock incentive plan, the Group has consolidated these vehicles and reflected non-vested shares held by Huafang Feiteng as other reserve.

(a) Fair value and assumptions

The fair value of the restricted share units granted was estimated as at the date of grant, using the discounted cash flow method or latest financing price to determine the equity fair value of Mijing Hefeng under the 2017 plan and Huafang Technology under 2020 plan, and adopting the valuation model of Average Asian Option Pricing Model to determine the fair value of the underlying restricted share units, taking into account the terms and conditions upon which the restricted share units were granted. The following table lists the inputs to the model used:

Assumptions of restricted share units	2017	2018	2019	2020
Volatility	60.96%	68.40%	58.76%	61.80%
Dividend yield	0%	0%	0%	0%
Expected option life (months)	67.0 – 69.0	52.0	39.0	23.0 – 30.0

The fair value of the equity interests is measured by the valuation reports which were prepared by external valuers and reviewed and approved by the management.

(b) Set out below are the movement in the number of awarded restricted share units under the stock incentive plan:

	Years ended December 31,			Five months ended
	2019	2020	2021	May 31,
	'000	'000	'000	'000
Outstanding at the beginning of the year/period	461,201	232,618	1,030,454	613,912
Granted during the year/period	40,470	967,662	–	–
Forfeited during the year/period	(165,696)	(69,111)	(47,303)	(22,229)
Vested during the year/period	(103,357)	(100,715)	(369,239)	(32,018)
Outstanding at the end of the year/period	<u>232,618</u>	<u>1,030,454</u>	<u>613,912</u>	<u>559,665</u>

(c) Expenses arising from equity-settled share-based transactions

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Cost of sales	10,110	9,242	32,188	7,412	5,391
Selling and marketing expenses	2,185	1,316	2,908	639	633
General and administrative expenses	1,172	4,081	34,368	8,226	5,312
Research and development expenses	5,840	4,157	14,529	3,758	2,521
	<u>19,307</u>	<u>18,796</u>	<u>83,993</u>	<u>20,035</u>	<u>13,857</u>

23 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Movements of current taxation in the consolidated statements of financial position are as follows:

	Years ended December 31,			Five months ended May 31,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Income tax payable at January 1	–	5,351	4,028	8,871
Provision for the year/period	16,607	28,179	25,961	12,807
Income tax paid	<u>(11,256)</u>	<u>(29,502)</u>	<u>(21,118)</u>	<u>(14,263)</u>
Income tax payable at December 31/May 31	<u>5,351</u>	<u>4,028</u>	<u>8,871</u>	<u>7,415</u>

(b) Deferred tax assets and liabilities recognised*(i) Movements of each component of deferred tax assets and liabilities*

The deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the Track Record Period are as follows:

	Credit loss allowance	Revaluation of property and equipment, and intangible assets	Revaluation of other finance assets	Deductible cumulative tax losses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax arising from:					
At January 1, 2019	19	–	–	135,874	135,893
Effect of business combination	15	(23,792)	(600)	–	(24,377)
Credited to the consolidated statements of profit or loss (<i>Note 7(a)</i>)	210	1,645	–	2,910	4,765
Charged to other reserve	–	–	606	–	606
	<u>244</u>	<u>(22,147)</u>	<u>6</u>	<u>138,784</u>	<u>116,887</u>
At December 31, 2019 and January 1, 2020					
Effect of business combinations	–	(11,520)	–	–	(11,520)
Credited/(charged) to the consolidated statements of profit or loss (<i>Note 7(a)</i>)	48	11,097	10	(30,893)	(19,738)
Charged to other reserve	–	–	(17)	–	(17)
	<u>292</u>	<u>(22,570)</u>	<u>(1)</u>	<u>107,891</u>	<u>85,612</u>
At December 31, 2020 and January 1, 2021					
(Charged)/credited to the consolidated statements of profit or loss (<i>Note 7(a)</i>)	(235)	3,046	1	(44,077)	(41,265)
	<u>57</u>	<u>(19,524)</u>	<u>–</u>	<u>63,814</u>	<u>44,347</u>
At December 31, 2021 and January 1, 2022					
(Charged)/credited to the consolidated statements of profit or loss (<i>Note 7(a)</i>)	(22)	1,259	(10)	(22,778)	(21,551)
	<u>35</u>	<u>(18,265)</u>	<u>(10)</u>	<u>41,036</u>	<u>22,796</u>
At May 31, 2022					

(ii) Reconciliations to the consolidated statements of financial position

	As at December 31,			As at
	2019	2020	2021	May 31,
	RMB'000	RMB'000	RMB'000	2022
Deferred tax assets recognised in the consolidated statements of financial position	139,045	108,184	63,848	41,063
Deferred tax liabilities recognised in the consolidated statements of financial position	(22,158)	(22,572)	(19,501)	(18,267)
	<u>116,887</u>	<u>85,612</u>	<u>44,347</u>	<u>22,796</u>

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(o), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB10,485,000, RMB123,165,000, RMB144,039,000 and RMB158,215,000 at December 31, 2019, 2020, 2021 and May 31, 2022 respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entities.

Such cumulative tax losses will be carried forward and expire in years as follows:

	As at December 31,			As at
	2019	2020	2021	May 31,
	RMB'000	RMB'000	RMB'000	2022
2021	–	6,222	–	–
2022	–	43,368	43,368	43,368
2023	58	30,153	29,811	29,795
2024	10,427	21,885	21,768	20,855
2025	–	21,537	21,537	21,537
2026	–	–	27,555	27,555
2027	–	–	–	15,105
Total	<u>10,485</u>	<u>123,165</u>	<u>144,039</u>	<u>158,215</u>

The other unrecognised deferred tax assets of temporary differences mainly consist of impairment loss of goodwill.

(d) Deferred tax liabilities not recognised

As at December 31, 2019, 2020 and 2021, and May 31, 2022, the Group did not recognise deferred tax liabilities in respect of undistributed retained earnings of the subsidiaries in the PRC of the Group amounting to RMB665,024,000, RMB13,173,000, RMB15,252,000 and RMB17,428,000 respectively, as the Group is able to control the timing of the distribution of the retained earnings of these subsidiaries and it is probable that the subsidiaries would not make such distribution relating to these undistributed retained earnings in the foreseeable future.

24 CAPITAL, RESERVES AND DISTRIBUTIONS

(a) Share capital

The Company was incorporated in the Cayman Islands on June 1, 2021 as part of the Reorganisation with an initial authorised share capital of US\$50,000 divided into 500,000,000 shares of US\$0.0001 each. On June 1, 2021 and July 29, 2021, the Company issued 53,333,333 shares to the original shareholders.

Movements of the Company's equity

	<u>Share Capital</u>	<u>Share-based payment reserve</u>	<u>Total equity</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at June 1, 2021 (Date of incorporation)	–	–	–
Changes in equity for the year:			
Capital injection from shareholders of the Company	33	–	33
Profit and other comprehensive income for the year	–	1	1
Equity-settled share-based transactions	–	30,189	30,189
Balance at December 31, 2021	<u>33</u>	<u>30,190</u>	<u>30,223</u>
Changes in equity for the year/period:			
Capital injection from shareholders of the Company	–	–	–
Equity-settled share-based transactions	–	13,857	13,857
Balance at May 31, 2022	<u>33</u>	<u>44,047</u>	<u>44,080</u>

(b) Other reserve

- (i) For the purpose of the Historical Financial Information, the aggregate amount of the paid-in capital of all the entities comprising the Group at the respective dates were recorded as other reserve, after elimination of investments in subsidiaries.
- (ii) Impact of exclusion of Other Business represented the exclusion of the fair value of the Other Business of RMB476,315,000 and payables to Other Business of RMB124,754,000 at the completion date of the Huajiao-6.cn Merger. Please refer to Note 27(a) for further details. Proceeds from excluded Other Business represented cash flows in connection with the disposal of the Other Business.
- (iii) In accordance with the relevant PRC laws and regulations, the Company's subsidiaries established and operated in Mainland China are required to transfer 10% of its net profit to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. The transfer to this reserve must be made before distributions to equity holders. This reserve can be utilised in setting off accumulated losses or increase capital of the subsidiary and is non-distributable other than in liquidation.
- (iv) As at December 31, 2019, 2020 and 2021 and May 31, 2022, the statutory reserve made by the Company's PRC subsidiaries amounting to RMB134,693,000, RMB134,694,000, RMB149,876,000 and RMB149,876,000 were included in the Group's reserves.
- (v) As disclosed in Note 22, Huafang Feiteng is controlled by the Company and therefore the unvested portion of shares issued to Huafang Feiteng was presented as other reserve. These other reserve represent the shares held by Huafang Feiteng controlled by the Company for the Equity Incentive Plan.

(c) Share-based payment reserve

The share-based payments reserve represents the portion of the grant date fair value of unvested restricted share units granted to the employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(n)(ii).

(d) Dividends

During the Track Record Period, no dividends were declared by the entities comprising the Group to its owners.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with a minimum credit rating assigned by the management of the Group, for which the Group considers to have low credit risk.

The Group's credit risk is primarily attributable to trade receivables and other receivables. The directors of the Company expect the occurrence of losses from non-performance by the counterparties of trade and other receivables was remote and loss allowance provision for trade and other receivables was immaterial.

Trade receivables

Trade receivables mainly arise from advertisement and technical services provided to certain corporate clients.

Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit loss. The expected credit loss is estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions. The expected credit losses as at each reporting period end were as follows:

	Less than 6 months	6 months to 1 year	1 year to 2 years	Over 2 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
December 31, 2019					
Expected loss rate	0.50%	5.00%	10.00%	100.00%	
Trade receivable	2,863	16	–	–	2,879
Less: allowance	(14)	(1)	–	–	(15)
	<u>2,849</u>	<u>15</u>	<u>–</u>	<u>–</u>	<u>2,864</u>
December 31, 2020					
Expected loss rate	0.50%	5.00%	10.00%	100.00%	
Trade receivable	2,866	3	16	–	2,885
Less: allowance	(13)	–	(2)	–	(15)
	<u>2,853</u>	<u>3</u>	<u>14</u>	<u>–</u>	<u>2,870</u>
December 31, 2021					
Expected loss rate	0.50%	5.00%	10.00%	100.00%	
Trade receivable	624	–	–	16	640
Less: allowance	(3)	–	–	(16)	(19)
	<u>621</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>621</u>
May 31, 2022					
Expected loss rate	0.50%	5.00%	10.00%	100.00%	
Trade receivable	527	–	–	16	543
Less: allowance	(3)	–	–	(16)	(19)
	<u>524</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>524</u>

As the balances of trade receivables were immaterial to the Group's financial positions and the Directors of the Group considered that there were no significant changes in the Group's customer base, credit risk of customers, and credit policy during the Track Record Period, hence the Group applied the same credit loss rates during the Track Record Period.

Other receivables

Other receivables mainly included receivable from third party payment platform, deposits, loans and others. The receivable from third party payment platform at the end of each reporting period were due from reputable online payment platforms, such as WeChat, Alipay and Apple pay etc.. In the view of the history of cooperation with the online platforms and the sound collection history of the balance due from them, the director of the Company believes that the credit risk inherent in the Group's outstanding receivable balance from third party payment platform is very

low, thus no expected credit losses were provided during the Track Record Period. For deposits, loans and others, the Group made periodic assessments as well as individual assessments on the recoverability based on historical experience and current conditions, the average expected loss rates during the Track Record Period were from 1% to 8%.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at December 31, 2019, 2020 and 2021, and May 31, 2022 of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at December 31, 2019, 2020 and 2021, and May 31, 2022) and the earliest dates the Group can be required to pay:

As at December 31, 2019						
Contractual undiscounted cash outflow						
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	217,159	–	–	–	217,159	217,159
Accrued expenses and other payables	247,576	–	–	–	247,576	247,576
Lease liabilities	7,909	5,851	6,825	–	20,585	19,237
	<u>472,644</u>	<u>5,851</u>	<u>6,825</u>	<u>–</u>	<u>485,320</u>	<u>483,972</u>

As at December 31, 2020						
Contractual undiscounted cash outflow						
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	206,456	–	–	–	206,456	206,456
Accrued expenses and other payables	67,345	–	–	–	67,345	67,345
Lease liabilities	6,211	5,777	1,378	–	13,366	12,728
	<u>280,012</u>	<u>5,777</u>	<u>1,378</u>	<u>–</u>	<u>287,167</u>	<u>286,529</u>

As at December 31, 2021
Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	143,150	–	–	–	143,150	143,150
Accrued expenses and other payables	80,840	–	–	–	80,840	80,840
Lease liabilities	14,732	13,564	36,762	–	65,058	58,309
	<u>238,722</u>	<u>13,564</u>	<u>36,762</u>	<u>–</u>	<u>289,048</u>	<u>282,299</u>

As at May 31, 2022
Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	226,815	–	–	–	226,815	226,815
Accrued expenses and other payables	52,721	–	–	–	52,721	52,721
Lease liabilities	14,862	13,002	33,290	–	61,154	55,489
	<u>294,398</u>	<u>13,002</u>	<u>33,290</u>	<u>–</u>	<u>340,690</u>	<u>335,025</u>

(c) Interest risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is primarily exposed to fair value interest rate risk in relation to lease liabilities and cash flow risk in relation to variable-rate bank balances. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Directors of Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances and cash is insignificant because the current market interest rates are relatively low and stable.

(d) Fair value measurement**(i) Financial assets and liabilities measured at fair value**

In accordance with IFRS 13 *Fair Value Measurement*, the Group defines the three levels of fair value hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

Recurring fair value measurements	Fair value at December 31, 2019 <i>RMB'000</i>	Fair value Measurement as at December 31, 2019 categorised into		
		Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>
Financial assets:				
Financial products issued				
by banks	384,319	–	–	384,319
Unlisted equity investments	18,745	–	–	18,745
	<u>403,064</u>	<u>–</u>	<u>–</u>	<u>403,064</u>
Recurring fair value measurements	Fair value at December 31, 2020 <i>RMB'000</i>	Fair value Measurement as at December 31, 2020 categorised into		
		Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>
Financial assets:				
Financial products issued				
by banks	258,145	–	–	258,145
Unlisted equity investments	39,400	–	–	39,400
	<u>297,545</u>	<u>–</u>	<u>–</u>	<u>297,545</u>
Recurring fair value measurements	Fair value at December 31, 2021 <i>RMB'000</i>	Fair value Measurement as at December 31, 2021 categorised into		
		Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>
Financial assets:				
Financial products issued				
by banks	45,346	–	–	45,346
Unlisted equity investments	65,960	–	–	65,960
	<u>111,306</u>	<u>–</u>	<u>–</u>	<u>111,306</u>
Recurring fair value measurements	Fair value at May 31, 2022 <i>RMB'000</i>	Fair value Measurement as at May 31, 2022 categorised into		
		Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>
Financial assets:				
Financial products issued				
by banks	533,792	–	–	533,792
Unlisted equity investments	92,541	–	–	92,541
	<u>626,333</u>	<u>–</u>	<u>–</u>	<u>626,333</u>

During the Track Record Period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

(i) Financial products issued by banks

The fair values of financial products issued by banks have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The un-observable inputs are expected annual return rate fixed in the investment contracts. These expected annual return rates were 2.78% to 3.80% as at December 31, 2019, 2.72% to 2.93% as at December 31, 2020, 2.59% as at December 31, 2021, and 2.11% to 3.10% as at May 31, 2022.

As at December 31, 2019, 2020 and 2021 and May 31, 2022, it is estimated that with all other variables held constant, an increase/decrease of expected annual return rate by 1% would have decreased/increased the Group's profit/(loss) before taxation by RMB3.84 million, RMB2.58 million, RMB0.45 million and RMB5.34 million, respectively.

The movements of financial products issued by banks during the Track Record Period in the balance of these Level 3 fair value measurements are as follows:

	Years ended December 31,			Five months ended
	2019	2020	2021	May 31,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
At the beginning of the year/period	–	384,319	258,145	45,346
Addition	2,924,510	3,807,430	2,161,640	2,429,690
Acquisition of subsidiary	475,983	2,415	–	–
Disposal	(3,015,440)	(3,936,645)	(2,373,440)	(1,941,310)
Change in fair value	(734)	626	(999)	66
At the end of the year/period	<u>384,319</u>	<u>258,145</u>	<u>45,346</u>	<u>533,792</u>

(ii) Unlisted equity investments

The carrying amount of equity investments are measured at fair values in the consolidated statements of financial position as at December 31, 2019, 2020 and 2021 and May 31, 2022. The Group's equity investments are investments in unlisted companies. The Group determines the fair value by reference to their recent transaction prices or using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates.

As at December 31, 2019, 2020 and 2021 and May 31, 2022, it is estimated that with all other variables held constant, an increase/decrease in the fair values of equity investments by 1% would have decreased/increased the Group's other reserve by RMB0.19 million, RMB0.39 million, RMB0.66 million and RMB0.93 million respectively.

The movements of unlisted equity investments during the Track Record Period in the balance of these Level 3 fair value measurements are as follows:

	Years ended December 31,			Five months ended
	2019	2020	2021	May 31,
	RMB'000	RMB'000	RMB'000	2022
At the beginning of the year/period	5,400	18,745	39,400	65,960
Addition	–	34,000	31,960	26,000
Acquisition of subsidiary	17,383	–	–	–
Disposal	–	–	(6,840)	–
Acquired as a subsidiary	–	(13,457)	–	–
Change in fair value	(4,038)	112	1,440	–
Foreign currency translation	–	–	–	581
At the end of the year/period	18,745	39,400	65,960	92,541

26 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES

The material related party transactions entered into by the Group during the Track Record Period and the balances with related parties at the end of each reporting period are set out below.

(a) Names and relationships of the related parties that had material transactions with the Group during the Track Record Period

Chinese name of related party	English name of related party	Relationship
北京奇付通科技有限公司	Beijing Qifutong Technology Co., Ltd.	controlled by shareholder
北京奇虎科技有限公司	Beijing Qihu Technology Co., Ltd.	controlled by shareholder
北京奇智商務諮詢有限公司	Beijing Qizhi Business Consulting Co., Ltd.	controlled by shareholder
三六零科技集團有限公司	360 Technology Group Co., Ltd.	controlled by shareholder
奇虎三六零軟件(北京)有限公司	Qihoo 360 Software (Beijing) Co., Ltd.	controlled by shareholder
宋城演藝發展股份有限公司	Songcheng Performance Development Co., Ltd.	Shareholder
成都奇英科技有限公司	Chengdu Qiying Science and Technology Co., Ltd.	controlled by shareholder
杭州宋城實業有限公司	Hangzhou Songcheng Industrial Co., Ltd.	controlled by shareholder
杭州宋城藝術團有限公司	Hangzhou Songcheng Art Troupe Co., Ltd.	controlled by shareholder
浙江宋城娛樂文化傳媒有限公司	Zhejiang Songcheng Entertainment Culture Media Co., Ltd.	controlled by shareholder
寧波宋城演藝現場娛樂投資合夥企業(有限合夥)	Ningbo Songcheng Performing Arts Live Entertainment Investment Partnership (Limited Partnership)	controlled by shareholder
北京鴻享技術服務有限公司	Beijing Hongxiang Technology Service Co., Ltd.	controlled by shareholder
北京鴻盈信息技術有限公司	Beijing Hongying Technology Service Co., Ltd.	controlled by shareholder

* The official names of these entities are in Chinese. The English translation of the names are for identification purpose only.

(b) Transactions with related parties during the Track Record Period

	Years ended December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Provision of service	92	3	–	–	–
Charges of rental service	14,103	10,099	10,269	4,150	881
Charges of other service*	40,243	38,592	34,600	12,604	12,986
Purchase shares of subsidiary**	–	31,543	–	–	–

* Charges of other service mainly included bandwidth expenses and promotion and advertising expenses, which constitute continuing connected transactions.

** In April 2020, Huafang Technology purchased 42.19% shares of Mizhi Technology at RMB31,543,000 from Ningbo Songcheng Performing Arts Live Entertainment Investment Partnership (Limited Partnership).

(c) Balances with related parties

The Group's balances with related parties as at the end of each reporting period are as follows:

	As at December 31,			As at May 31,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	9	3	–	–
Trade payables	9,648	9,954	7,714	12,985
Accrued expenses and other payables	2,589	2,589	2,868	396

Amounts due from and to related parties of the Group are unsecured, interest-free, repayable on demand/on contract terms. All balances with related parties are trade in nature.

(d) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Company's directors.

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8, and certain of the highest paid employees as disclosed in Note 9, is as follows:

	As at December 31,			Five months ended May 31,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Short-term employee benefits	4,306	6,605	8,560	4,013	6,424
Post-employment benefits	205	25	265	112	115
Share-based payments expenses	7,952	10,832	61,552	12,282	10,262
	<u>12,463</u>	<u>17,462</u>	<u>70,377</u>	<u>16,407</u>	<u>16,801</u>

Total remuneration was included in staff costs (see Note 6(b)).

27 HUAJIAO-6.CN MERGER

(a) Acquisition of Huafang Technology

As stated in Note 1, on April 29, 2019 the Group completed its second-phase acquisition of Huafang Technology Group which was accounted for as a reverse acquisition. On this date, Huafang Technology Group (the accounting acquiree) carried a 19.96% interest in Mijing Hefeng (the accounting acquirer) at its then fair value of RMB1,017,961,000. As such, when accounting for the reverse acquisition, part of the consideration transferred has been attributed to the repurchase at fair value of this 19.96% interest, without any resulting gain or loss. The rest of the consideration transferred has been attributed to the acquisition of the business of Huafang Technology Group and was compared with the other identifiable net assets of Huafang Technology. The excess of fair value of this part of the consideration transferred over the identifiable net assets of Huafang Technology at their acquisition-date amounts is recognised as goodwill in the consolidated statement of financial position at the acquisition date.

The following table summarises the consideration transferred at the acquisition date.

	As at April 29, 2019
	<u>RMB'000</u>
Fair value of the shares deemed to have been issued by Mijing Hefeng*	3,414,667
Exclusion of the fair value of Other Business	<u>(476,315)</u>
Consideration transferred	<u><u>2,938,352</u></u>

* Calculated based on the acquisition date fair value of the number of equity interest of Mijing Hefeng would have had to issue to give the owners of Huafang Technology the same percentage equity interest in the consolidated entity that results from the acquisition.

The following table summarises the fair value of assets acquired and liabilities assumed recognised at the acquisition date.

	As at April 29, 2019
	<u>RMB'000</u>
Consideration transferred	2,938,352
Property and equipment	35,862
Intangible assets	156,367
Other non-current financial assets	60,352
Trade and other receivables	13,112
Cash and cash equivalents	3,730
Other financial assets	475,983
Trade and other payables	(72,944)
Contract liabilities	(24,926)
Leased liabilities	(19,525)
Deferred tax liabilities	<u>(24,377)</u>
Net identifiable assets acquired	603,634
Exclusion of payables to Other Business	(124,754)
Goodwill	<u><u>2,459,472</u></u>

The goodwill of approximately RMB2,459,472,000 arising from Huajiao-6.cn Merger is attributable to the synergies expected to be achieved from integrating Huafang Technology's operations into Mijing Hefeng's existing business.

(b) Pre-acquisition Financial Information of Huafang Technology

The following pre-acquisition financial information of Huafang Technology from the beginning of the Track Record Period to the date of acquisition ("Pre-acquisition Period") presented in accordance with Rule 4.05A of the Listing Rules is disclosed below. The accounting policies adopted in the preparation of the pre-acquisition financial information is consistent with those adopted in the preparation of the Historical Financial Information.

Consolidated statement of profit or loss
(Expressed in RMB)

	<i>Note</i>	For the period from January 1, 2019 to April 29, 2019
		<u>RMB'000</u>
Revenue	(1)	319,703
Cost of sales		<u>(167,779)</u>
Gross profit		151,924
Other income, net	(2)	1,975
Selling and marketing expenses		(27,395)
General and administrative expenses		(9,802)
Research and development expenses		<u>(15,544)</u>
Profit from operations		101,158
Finance costs	(3)	<u>(321)</u>
Profit before taxation		100,837
Income tax	(4)	<u>(8,435)</u>
Profit for the period attributable to equity shareholders of Huafang Technology		<u><u>92,402</u></u>
Other comprehensive income for the period (after tax and reclassification adjustments):		-
Total comprehensive income for the period attributable to equity shareholders of the Huafang Technology		<u><u>92,402</u></u>

Consolidated statement of financial position
(Expressed in RMB)

	<i>Note</i>	As at April 29, 2019
		<u>RMB'000</u>
Non-current assets		
Property and equipment	(5)	33,316
Intangible assets		301
Other financial assets	(6)	<u>1,078,313</u>
		----- 1,111,930
Current assets		
Trade receivables	(7)	1,840
Prepayments, deposits and other receivables	(8)	11,272
Other financial assets	(6)	475,983
Cash at bank and on hand	(9)	<u>3,730</u>
		----- 492,825
Current liabilities		
Trade payables	(10)	63,004
Contract liabilities	(11)	24,926
Accrued expenses and other payables	(12)	9,940
Lease liabilities	(13)	5,152
Current taxation	(14)(a)	<u>–</u>
		----- 103,022
Net current assets		<u>----- 389,803</u>
Total assets less current liabilities		<u>----- 1,501,733</u>
Non-current liabilities		
Deferred tax liabilities	(14)(b)	585
Lease liabilities	(13)	14,373
		<u>----- 14,958</u>
NET ASSETS		<u>----- 1,486,775</u>
Capital and reserves		
Paid-in capital		25,987
Reserves		<u>1,460,788</u>
Total equity attributable to equity shareholders of Huafang Technology		<u>----- 1,486,775</u>
TOTAL EQUITY		<u>----- 1,486,775</u>

Consolidated statement of changes in equity
(Expressed in RMB)

	<u>Paid-in capital</u>	<u>Other reserve</u>	<u>Retained profit</u>	<u>Total equity</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at January 1, 2019	25,987	1,008,478	359,908	1,394,373
Change in equity for the period:				
Profit and other comprehensive income for the period	—	—	92,402	92,402
Balance at April 29, 2019	<u>25,987</u>	<u>1,008,478</u>	<u>452,310</u>	<u>1,486,775</u>

Consolidated cash flow statement
(Expressed in RMB)

	<i>Note</i>	For the period from January 1, 2019 to April 29, 2019
		<i>RMB'000</i>
Profit before taxation		100,837
<i>Adjustments for:</i>		
Interest on lease liabilities		321
Interest income		(128)
Depreciation of property and equipment		3,607
Amortisation of intangible assets		232
Investment income from financial products issued by banks		(4,120)
Changes in fair value of financial products issued by banks		(144)
Reversal of impairment loss allowance for trade and other receivables		(490)
<i>Changes in working capital:</i>		
Decrease in trade receivables		1,017
Decrease in prepayments, deposits and other receivables		999
Decrease in deferred income		(459)
Decrease in contract liabilities		(1,631)
Increase in trade payables		2,942
Decrease in accruals and other payable		(4,517)
Cash generated from operations		98,466
Income tax paid	<i>(14)(a)</i>	(14,205)
Net cash generated from operating activities		<u>84,261</u>

	<i>Note</i>	For the period from January 1, 2019 to April 29, 2019
		<u>RMB'000</u>
Investing activities		
Purchase of financial products issued by banks		(1,260,260)
Proceed from disposal of financial products issued by banks		1,162,910
Purchases of property and equipment		(181)
Loan to a third party		(42,970)
Income from financial products issued by banks		4,120
Interest received		<u>128</u>
Net cash used in investing activities		<u>-----</u> (136,253)
Financing activities		
Capital element of lease rentals paid		(2,746)
Interest element of lease rentals paid		<u>(321)</u>
Net cash used in financing activities		<u>-----</u> (3,067)
Net decrease in cash and cash equivalents		(55,059)
Cash and cash equivalents at the beginning of the period	(9)	<u>58,789</u>
Cash and cash equivalents at the end of the period	(9)	<u><u>3,730</u></u>

(1) Revenue

	For the period from January 1, 2019 to April 29, 2019
	<u>RMB'000</u>
Live streaming	318,270
Others	<u>1,433</u>
	<u><u>319,703</u></u>

(2) *Other income, net*

	For the period from January 1, 2019 to April 29, 2019
	<u>RMB'000</u>
Income from financial products issued by banks	4,120
Changes in fair value of financial products issued by banks	144
Interest income	128
Government grants	107
Additional deduction of input VAT	310
Others	(2,834)
	<u>1,975</u>

(3) *Profit before taxation*

Profit before taxation is arrived at after charging:

	For the period from January 1, 2019 to April 29, 2019
	<u>RMB'000</u>
(a) <i>Finance costs</i>	
Interest on lease liabilities	<u>321</u>
(b) <i>Staff costs</i>	
Salaries, wages, bonuses and other benefits	19,494
Contributions to retirement schemes	6,072
	<u>25,566</u>
(c) <i>Other items</i>	
	For the period from January 1, 2019 to April 29, 2019
	<u>RMB'000</u>
Depreciation charge (<i>Note (5)</i>)	
– owned property and equipment	1,618
– leasehold properties	1,989
	<u>3,607</u>

	For the period from January 1, 2019 to April 29, 2019
	<u>RMB'000</u>
Host cost	146,098
Amortisation of intangible assets	232
Reversal of loss allowance of trade receivables or other receivables	(490)
Promotion and advertising expenses	19,868
Bandwidth expenses and server custody costs	6,399
Agency service fees	3,371
Payment processing cost	2,198

(4) *Income tax in the consolidated statement of profit or loss*

(a) *Taxation in the consolidated statement of profit or loss represent:*

	For the period from January 1, 2019 to April 29, 2019
	<u>RMB'000</u>
Current taxation	
Provision for the period	8,554
Deferred taxation	
Origination and reversal of temporary differences	(119)
	<u>8,435</u>

(b) *Reconciliation between tax expenses and accounting profits at applicable tax rates:*

	For the period from January 1, 2019 to April 29, 2019
	<u>RMB'000</u>
Profit before taxation	<u>100,837</u>
Notional tax on loss before taxation, calculated at the applicable rates in the jurisdictions concerned (i)	25,209
Effect of preferential tax rates applicable to certain subsidiaries of Huafang Technology	(16,805)
Tax effect of non-deductible expenses	7
Tax effect of tax losses and temporary differences not recognised	<u>24</u>
Actual tax expenses	<u><u>8,435</u></u>

Note:

- (i) Income tax rate applies to the Huafang Technology and its subsidiaries:

In accordance with the Corporate Income Tax Law (“Income Tax Law”) of the PRC, corporate income tax rate for the Huafang Technology and its subsidiaries during the Track Record Period is 25%. During the period, Huafang Technology is subject to a preferential tax rate of 15%, as it was qualified as a HNTE.

(5) *Property and equipment*

(a) *Reconciliations of carrying amounts*

	Office equipment and furniture	Electronic equipment	Motor vehicles	Leasehold properties	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:					
At January 1, 2019	2,221	37,453	1,051	26,761	67,486
Additions	21	160	–	–	181
Disposals	–	–	–	(180)	(180)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(180)</u>	<u>(180)</u>
At April 29, 2019	<u>2,242</u>	<u>37,613</u>	<u>1,051</u>	<u>26,581</u>	<u>67,487</u>
Accumulated depreciation:					
At January 1, 2019	(1,318)	(23,536)	(873)	(5,017)	(30,744)
Charge for the period	(96)	(1,506)	(16)	(1,989)	(3,607)
Disposals	–	–	–	180	180
	<u>–</u>	<u>–</u>	<u>–</u>	<u>180</u>	<u>180</u>
At April 29, 2019	<u>(1,414)</u>	<u>(25,042)</u>	<u>(889)</u>	<u>(6,826)</u>	<u>(34,171)</u>
Carrying amount:					
At April 29, 2019	<u>828</u>	<u>12,571</u>	<u>162</u>	<u>19,755</u>	<u>33,316</u>

(b) *Leasehold properties*

- (i) The analyses of the carrying amounts of right-of-use assets by class of underlying assets are as follows:

	As at April 29, 2019
	<u><i>RMB'000</i></u>
Leasehold properties	<u>19,755</u>

- (ii) The analyses of depreciation expenses in relation to leases recognised in profit or loss are as follows:

	As at April 29, 2019
	<u>RMB'000</u>
Depreciation charge:	
– Leasehold properties	1,989
Interest on lease liabilities (<i>Note (3)(a)</i>)	321
	<u>2,310</u>

Details of the maturity analyses of lease liabilities are set out in Note 27(13).

(6) *Other financial assets*

	As at April 29, 2019
	<u>RMB'000</u>
Current	
Financial products issued by banks	475,983
Non-current	
Financial assets measured at amortised costs	
– Loan to Mizhi Technology	42,970
Financial assets measured at FVOCI	
– Investment in Mizhi Technology	17,382
– Investment in Mijing Hefeng	1,017,961
	<u>1,078,313</u>

All financial assets measured at FVOCI are unlisted equity shares. Huafang Technology designated these investments at FVOCI (non-recycling as these investments are held for strategic purposes). No dividend was received on these investments during the Track Record Period.

In 2019, Huafang Technology lent an interest-free loan to Mizhi Technology and the loan term was 60 months.

(7) *Trade receivables*

	As at April 29, 2019
	<u>RMB'000</u>
Trade receivables	1,849
Less: loss allowance	(9)
	<u>1,840</u>

All of the trade receivables are expected to be recovered within one year.

At the end of each reporting period, the ageing analyses of trade receivables, based on the invoice date, are as follows:

	As at April 29, 2019
	<i>RMB'000</i>
Within 3 months	1,835
3 to 6 months	14
Less: loss allowance	(9)
	<u>1,840</u>
 (8) Prepayments, deposits and other receivables	
	As at April 29, 2019
	<i>RMB'000</i>
Prepayments for purchase of services	1,926
Deposits	2,619
Receivable from third party payment platform	5,940
Deductible input VAT	711
Others	169
	<u>11,365</u>
Less: loss allowance	(93)
	<u>11,272</u>
 (9) Cash at bank and on hand	
Cash at bank and on hand comprise:	
	As at April 29, 2019
	<i>RMB'000</i>
Cash and cash equivalents in the consolidated statement of financial position and in the consolidated cash flow statement	<u>3,730</u>

(10) Trade payables

	As at April 29, 2019
	<i>RMB'000</i>
Hosts	53,447
Advertisers	5,128
Bandwidth providers	2,047
Others	2,382
Total	<u>63,004</u>

All trade payables are expected to be settled within one year or are repayable on demand.

At the end of each reporting period, the ageing analyses of the trade payables, based on the invoice date, are as follows:

	As at April 29, 2019
	<i>RMB'000</i>
1 to 3 months	56,068
4 to 6 months	6,173
7 to 12 months	104
Over 1 year	659
	<u>63,004</u>

(11) Contract liabilities

	As at April 29, 2019
	<i>RMB'000</i>
Live streaming	<u>24,926</u>

(12) Accrued expenses and other payables

	As at April 29, 2019
	<i>RMB'000</i>
Accrued expenses	403
Payables for staff related cost	2,122
Payables for other taxes	6,809
Others	606
	<u>9,940</u>

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

(13) Lease liabilities

The following tables show the remaining contractual maturities of Huafang Technology and its subsidiaries' lease liabilities as at the end of each reporting period:

	As at April 29, 2019	
	Present value of the minimum lease payments	Total minimum lease payments
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	5,152	5,969
After 1 year but within 2 years	5,353	5,927
After 2 years but within 5 years	9,020	9,450
	<u>14,373</u>	<u>15,377</u>
	<u>19,525</u>	21,346
Less: total future interest expenses		<u>(1,821)</u>
Present value of lease liabilities		<u>19,525</u>

(14) Income tax in the consolidated statement of financial position

(a) *Movements of current taxation in the consolidated statement of financial position are as follows:*

	As at April 29, 2019
	<i>RMB'000</i>
Income tax payable at January 1	4,940
Provision for the period	8,554
Income tax paid	<u>(14,205)</u>
Income tax recoverable at April 29	<u>(711)</u>

(b) *Deferred tax assets and liabilities recognised*

(i) Movements of each component of deferred tax assets and liabilities

The deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the Track Record Period are as follows:

	Credit loss allowance	Revaluation of other financial assets	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax arising from:			
At January 1, 2019	30	(734)	(704)
Credited to the consolidated statement of profit or loss (<i>Note (4)(a)</i>)	<u>14</u>	<u>105</u>	<u>119</u>
At April 29, 2019	<u><u>44</u></u>	<u><u>(629)</u></u>	<u><u>(585)</u></u>

(ii) Reconciliations to the consolidated statement of financial position

	As at April 29, 2019
	<i>RMB'000</i>
Deferred tax assets recognised in the consolidated statement of financial position	–
Deferred tax liabilities recognised in the consolidated statement of financial position	<u>(585)</u>
	<u><u>(585)</u></u>

28 INVESTMENT IN A SUBSIDIARY OF THE COMPANY

	As at December 31, 2021	As at May 31, 2022
	<i>RMB'000</i>	<i>RMB'000</i>
Deemed investment arising from share-based compensation	<u>30,189</u>	<u>44,046</u>

29 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

No significant non-adjusting events have occurred since May 31, 2022.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of this report, the IASB has issued a number of amendments, and a new standard, IFRS 17, Insurance contracts, which are not yet effective for the Track Record Period and which have not been adopted in the historical financial information. These developments include the following which may be relevant to the Group.

	Effective for accounting year beginning on or after
Amendments to IAS 1, <i>Classification of Liabilities as Current or Non-current</i>	January 1, 2023
Amendments to IAS 1, and IFRS Practice Statement 2, <i>Disclosure of Accounting Policies</i>	January 1, 2023
Amendments to IAS 8, <i>Definition of Accounting Estimates</i>	January 1, 2023
Amendments to IAS 12, <i>Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction</i>	January 1, 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to May 31, 2022.

The information set out in this appendix does not form part of the Accountants' Report from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

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

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at May 31, 2022 or at any future date.

	Consolidated net tangible assets attributable to equity shareholders of the Company as at May 31, 2022 ⁽¹⁾ RMB'000	Estimated net proceeds from the Global Offering ⁽²⁾ RMB'000	Unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company RMB'000	Unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company per Share ⁽³⁾ RMB HK\$ ⁽⁴⁾	
Based on an Offer Price of HK\$2.8 per Share	1,816,222	89,379	1,905,601	1.91	2.11
Based on an Offer Price of HK\$3.6 per Share	1,816,222	122,349	1,938,571	1.94	2.14

Notes:

- (1) The consolidated net tangible assets attributable to equity shareholders of the Company as at May 31, 2022 is arrived after deducting intangible assets of RMB124,097,000 and goodwill of RMB699,778,000 from the consolidated total equity attributable to equity shareholders of the Company as at May 31, 2022 of RMB2,640,097,000, which is extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the estimated Offer Prices of HK\$2.8 per share and HK\$3.6 per share, being the lower end price and higher end price of the indicative Offer Price range respectively, after deduction of the estimated underwriting fees and other related expenses

related to Global Offering (excluding approximately RMB23,890,000 listing expenses which has been charged to the consolidated statements of profit or loss up to May 31, 2022), and does not take into account of any shares that may be issued upon exercise of the Over-Allotment Option. The estimated net proceeds from the Global Offering is converted into RMB at an exchange rate of HK\$1.00: RMB0.9044.

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

- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company per Share is arrived at after the adjustment referred to in the preceding paragraph and on the basis that 1,000,000,000 Shares were in issue, being the number of shares expected to be in issue following the completion of the Capitalization Issue and the Global Offering, and does not take into account any shares which may be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme.
- (4) The unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company per Share is converted into Hong Kong dollars with the exchange rate of HK\$1 to RMB0.9044. No representation is made that Renminbi amounts have been, could have been or could be converted into Hong Kong dollars, or vice versa, at that rate or at any other rates.
- (5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company to reflect any trading result or other transactions of the Group subsequent to May 31, 2022.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this prospectus.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF HUAFANG GROUP INC.**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Huafang Group Inc. (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at May 31, 2022 and related notes as set out in Part A of Appendix II to the prospectus dated November 30, 2022 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Group's financial position as at May 31, 2022 as if the Global Offering had taken place at May 31, 2022. As part of this process, information about the Group's financial position as at May 31, 2022 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at May 31, 2022 have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "FUTURE PLAN AND USE OF PROCEEDS" in the Prospectus.

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group, and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

November 30, 2022

1 MEMORANDUM OF ASSOCIATION

The Memorandum of Association of the Company was conditionally adopted on November 21, 2022 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

2 ARTICLES OF ASSOCIATION

The Articles of Association of the Company were conditionally adopted on November 21, 2022 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The authorized capital of the Company at the date of adoption of the Articles is US\$200,000 divided into 2,000,000,000 Shares of US\$0.0001 each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Act and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors by Board Special Majority shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Act and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Acts of our Company which shall require the approval by Board Special Majority

In addition to such other limitations as may be provided in the Articles of Association of the Company, the following acts of the Company shall require the approval by Board Special Majority:

- (a) appointment and removal of the chief executive officer, chief operating officer and chief technology officer of the Company;
- (b) entry into any single external investment exceeding RMB100 million (including but not limited to external equity investment, equity or asset acquisition, establishment of joint ventures or other legal entities) by the Company or the purchase or disposal of assets or any expenses exceeding 10% of the Company's annual budget by the Company;
- (c) entry into any single transaction whereby the transaction amount exceeds RMB20 million by the Company with its connected persons or the entry into transactions whereby the cumulative transaction amount exceeds RMB100 million in one fiscal year with the same connected person(s);
- (d) mortgage or charge any intellectual property (including but not limited to patents, copyrights and trademarks) of the Company or the Company's subsidiaries as collateral security for any debts, liability or obligations of the Company that exceeds RMB30 million;
- (e) incubation of any new project whereby the estimated total annual loss exceeds RMB20 million;
- (f) raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company or the issue of debentures, debenture stock, bonds or other securities of the Company, whether directly or as collateral security for any debts, liability or obligations of the Company or of any third party;
- (g) any matter to be submitted to the shareholders of the Company for approval;
and
- (h) issuance or repurchase of Shares that does not exceed 20% of the total number of issued Shares at that time.

(c) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Act expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Act and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(d) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(e) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(f) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(g) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so

contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of

its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(h) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(i) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director, but without prejudice to any claim for damages under any contract) before the expiration of his term of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may also by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(j) *Borrowing powers*

The Directors, by Board Special Majority, may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(k) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes, save for the matters that are to be determined by Board Special Majority. In the case of an equality of votes, the chairperson of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class for the time being issued (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied only with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the approval of a resolution passed by a majority of not less than three-fourths of the votes cast at a separate meeting of the holders of the shares of that class. To any such meeting all the provisions of the Articles of Association relating to general meetings shall apply *mutatis mutandis*, except that the necessary quorum shall be one or more persons holding or representing by proxy or duly authorised representative at least one-third of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may

either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Act; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Act.

2.6 Special resolution – majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Act, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting (a) every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have the right to speak, (b) on a show of hands, every member present in such manner shall have one vote, and (c) on a poll, every member present in such manner shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairperson of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any meeting of the Company or any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this

provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting within six months after the end of its financial year. The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the voting rights on a one vote per share basis, of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitioner(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitioner(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Act.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Act or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

2.10 Auditors

The Company shall at every annual general meeting by ordinary resolution appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed by ordinary resolution provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date.

Where a general meeting is postponed:

- (a) the Company shall endeavour to cause a notice of such postponement, which shall set out the reason for the postponement in accordance with the Listing Rules, to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of a general meeting due to a gale warning or black rainstorm warning being in force on the day of the general meeting;
- (b) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and
- (c) only the business set out in the notice of the original meeting shall be transacted at the reconvened meeting, and notice given for the reconvened meeting does not need to specify the business to be transacted at the reconvened meeting, nor shall any

accompanying documents be required to be recirculated. Where new business is to be transacted at such reconvened meeting, the Company shall give a fresh notice for such reconvened meeting in accordance with the Articles of Association.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.14 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Act and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument

appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of

the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairperson which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

Subject to the Companies Act, the Company may by special resolution resolve that the Company be wound up voluntarily.

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Act, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Act, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three-month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12-year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12-year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**3 Introduction**

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

4 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 1 June 2021 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

5 Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company

redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

6 Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

7 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

8 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

9 Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

10 Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

11 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

12 Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

13 Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

14 Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

15 Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette.

Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

16 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a (a) 75% in value of shareholders, or (b) a majority in number representing 75% in value of creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

17 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

18 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

19 Restructuring

A company may present a petition to the Grand Court of the Cayman Islands for the appointment of a restructuring officer on the grounds that the company:

- (a) is or is likely to become unable to pay its debts; and
- (b) intends to present a compromise or arrangement to its creditors (or classes thereof) either pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring.

The Grand Court may, among other things, make an order appointing a restructuring officer upon hearing of such petition, with such powers and to carry out such functions as the court may order. At any time (i) after the presentation of a petition for the appointment of a restructuring officer but before an order for the appointment of a restructuring officer has been made, and (ii) when an order for the appointment of a restructuring officer is made, until such order has been discharged, no suit, action or other proceedings (other than criminal proceedings) shall be proceeded with or commenced against the company, no resolution to wind up the company shall be passed, and no winding up petition may be presented against the company, except with the leave of the court. However, notwithstanding the presentation of a petition for the appointment of a restructuring officer or the appointment of a restructuring officer, a creditor who has security over the whole or part of the assets of the company is entitled to enforce the security without the leave of the court and without reference to the restructuring officer appointed.

20 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

21 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

22 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company;
or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

23 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

24 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available on Display" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability on 1 June 2021. Our registered office address is at the offices of Tricor Services (Cayman Islands) Limited, Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands. As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws of the Cayman Islands and the Memorandum and Articles of Association. A summary of certain provisions of our Memorandum and Articles of Association and certain relevant aspects of the Cayman Islands company law is set out in Appendix III to this prospectus.

We have established a place of business in Hong Kong at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong, and were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on August 11, 2021, under the same address. Ms. Lai Janette Tin Yun (賴天恩) has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company. The address for service of process is the same as our principal place of business in Hong Kong as set out above.

2. Changes in share capital of our Company

As of the date of incorporation, the authorized share capital of our Company was US\$50,000 divided into 500,000,000 Ordinary Shares with par value of US\$0.0001 each. The following sets out the changes in our Company's share capital since its incorporation and up to the date of this prospectus:

- (a) On June 1, 2021, immediately after its incorporation, one share with a par value of US\$0.0001 was allotted and issued to its initial subscriber, Tricor Services (Cayman Islands) Limited, who on the same day transferred the share to Pepper Blossom Limited. On the same day, 20,380,417 shares with a par value of US\$0.0001 were allotted and issued to Pepper Blossom Limited.
- (b) On July 29, 2021, 19,764,706 shares with a par value of US\$0.0001 were allotted and issued to Global Bacchus Limited; 3,333,333 shares with a par value of US\$0.0001 were allotted and issued to Blossom Bliss Limited; 2,051,501 shares with a par value of US\$0.0001 were allotted and issued to Siming Juncheng; 820,600 shares with a par value of US\$0.0001 were allotted and issued to Mango Ningze Ltd.; 205,150 shares with a par value of US\$0.0001 were allotted and issued to Shanghai Huawei; 102,575 shares with a par value of US\$0.0001 were allotted and issued to Great Chiliocosm; 1,403,227 shares with a par value of US\$0.0001 were allotted and issued to AAPC NETWORK Ltd.; 369,886 shares with a par value of US\$0.0001 were allotted and issued to Wingsound Technology Limited; 93,425 shares with a par value of US\$0.0001 were allotted and issued to Myanmar Commercial Asset Management Company Limited; 2,335,633 shares with

a par value of US\$0.0001 were allotted and issued to Sun Link Trade Limited; 934,253 shares with a par value of US\$0.0001 were allotted and issued to Three Birds Holdings Limited; 1,538,626 shares with a par value of US\$0.0001 were allotted and issued to JY Infnitas Ltd.. See the section headed “History, Reorganization and Corporate Structure — Our Reorganization — Step 3: Issuance of our Shares to the shareholders of Huafang Technology” for details.

Save as disclosed above and in “– 3. Resolutions of the Shareholders of our Company passed on November 21, 2022” in this section, there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this prospectus.

3. Resolutions of the Shareholders of our Company passed on November 21, 2022

Resolutions of the Shareholders were passed on the extraordinary general meeting of the Shareholders of our Company convened and held on November 21, 2022 that, among other things:

- (1) the authorized share capital of the Company was increase from US\$50,000 divided into 500,000,000 ordinary Shares of US\$0.0001 each to US\$200,000 divided into 2,000,000,000 Shares by the creation of an additional 1,500,000,000 new Shares (“**Increase in Authorised Share Capital**”) and any director of the Company was authorised to do all such acts and things and execute all such documents which he/she may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation and giving effect to the Increase in Authorised Share Capital.
- (2) conditional upon the satisfaction (or, if applicable waiver) of the conditions set out in “Structure of the Global Offering – Conditions of the Global Offering” and pursuant to the terms set out therein:
 - (a) our Company approved and adopted the Memorandum and the Articles with effect upon the Listing Date;
 - (b) the Listing, the Capitalization Issue, the Global Offering and grant of the Over-allotment Option were approved and the Directors (or any duly authorized committee thereof) were authorized to approve to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus, the GREEN Application Forms, the Underwriting Agreements and the Listing Rules;
 - (c) a general unconditional mandate was given to the Directors authorizing them to exercise all the powers of the Company, subject to and in accordance with the Listing Rules and other applicable laws and regulations, to allot, issue and deal with the Shares or securities convertible into Shares or options, warrants

or similar rights to subscribe for the Shares and such convertible securities and to make and grant offers, agreements or options which would or might require the exercise of such powers whether during or after the end of the Applicable Period (as defined below), provided that the Directors may not issue warrants, options or similar rights to subscribe for any new Shares or any securities convertible into new Shares for cash consideration pursuant to such mandate and the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than that of Shares issued by way of the Global Offering or as a result of (i) a right issue, (ii) any scrip dividend scheme or similar arrangement providing for the allotment of the Shares in lieu of the whole or part of a dividend on the Shares, (iii) the grant of options pursuant to the Pre-IPO Share Option Scheme, (iv) the exercise of any subscription or conversion rights attached to any warrants or securities which are convertible into Shares or in issue prior to the date of passing the relevant resolution or (v) a specific authority granted by the Shareholder(s) in general meeting, shall not exceed the aggregate of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Capitalization Issue and the Global Offering (excluding any Shares which may be issued pursuant to the Over-allotment Option and any Shares which may be issued pursuant to the Pre-IPO Share Option Scheme); and
 - (ii) the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in paragraph below;
- (d) a general unconditional mandate (the “Repurchase Mandate”) was given to the Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange, or on any other stock exchange on which the Shares may be listed and recognised by the SFC and the Stock Exchange for the purpose with an aggregate total nominal value of not more than 10% of the aggregate nominal value of our Company’s share capital in issue immediately following the completion of the Capitalization Issue and the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares which may be issued pursuant to the Pre-IPO Share Option Scheme); and
- (e) the general unconditional mandate as mentioned in paragraph (c) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (d) above, provided that such extended amount shall not exceed 10%

of the aggregate nominal value of the Shares in issue immediately following completion of the Capitalization Issue and the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any Shares which may be issued pursuant to the Pre-IPO Share Option Scheme).

Each of the general mandates referred to in paragraphs 2(c), 2(d) and 2(e) above will remain in effect until whichever is the earliest of (the “Applicable Period”):

- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which our Company is required by any applicable law or the Articles of Association of our Company to hold our next annual general meeting; or
 - (iii) the date on which such resolution is varied or revoked by an ordinary resolution of the Shareholders in a general meeting.
- (3) the Pre-IPO Share Option Scheme as described in detail in the section “– Pre-IPO Share Option Scheme” in this Appendix was approved and adopted.

4. Changes in share capital of the subsidiaries of our Company and our Consolidated Affiliated Entities

A summary of the corporate information and the particulars of our subsidiaries are set out in Note 1 to the Accountants’ Report set out in Appendix I to this prospectus.

The following sets out changes in share capitals of subsidiaries of our Company during the two years immediately preceding the date of this prospectus:

(a) EXU INC.

On November 6, 2020, the total issued shares of EXU INC. decreased from 97,811,711 shares to 49,200,000 shares.

(b) Huafang Technology

On November 10, 2020, the registered share capital of Huafang Technology increased from RMB50,000,000 to RMB53,333,333.

(c) Mijing Hefeng

On June 15, 2021, the registered share capital decreased from RMB15.03 million to RMB14.62 million.

(d) *Sichuan Huayin Technology Co., Ltd.* (四川花音科技有限公司)

On August 16, 2021, the registered share capital increased from RMB1,000,000 to RMB20,000,000.

(e) *Beijing Huafang Hongfa Technology Co., Ltd.* (北京花房鴻發科技有限公司)

On July 30, 2021, the registered share capital increased from RMB100,000 to RMB1,000,000.

Save as disclosed above, there have been no changes in the share capital of any of the subsidiaries of our Company within two years immediately preceding the date of this prospectus.

5. Repurchase by our Company of our own securities

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this prospectus concerning the repurchase of our own securities.

(1) *Provision of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) *Shareholders' Approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a written Shareholder's resolution of our Company dated November 21, 2022, a general unconditional mandate (the "Repurchase Mandate") was given to the Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose. Details of which are set out in "– A. Further Information about our Company – 3. Resolutions of the Shareholders of our Company passed on November 21, 2022."

(ii) Source of Funds

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

As a matter of Cayman law, any purchases by the Company may be made out of profits or out of the proceeds of a new issue of shares made for the purpose of the purchase or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Memorandum and Articles of Association and subject to the Cayman Companies Act. Any premium payable on the purchase over the par value of the shares to be purchased must have been provided for out of profits or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Memorandum and Articles of Association and subject to the Cayman Companies Act.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to affect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of Repurchased Shares

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares must be cancelled and destroyed.

Under the laws of the Cayman Islands, unless, prior to the purchase the directors of the Company resolve to hold the shares purchased by the Company as treasury shares, shares purchased by the Company shall be treated as cancelled and the amount of the

Company's issued share capital shall be diminished by the nominal value of those shares. However, the repurchase of shares will not be taken as reducing the amount of the authorized share capital under the Cayman Companies Act.

(v) Suspension of Repurchase

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of:

- (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Procedural and Reporting Requirements

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vii) Core Connected Persons

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a "core connected person," that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person shall not knowingly sell his securities to the company.

(2) *Reasons for Repurchases*

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and the Shareholders.

(3) *Funding of Repurchases*

Repurchase of the Shares must be funded out of funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of Hong Kong and the Cayman Islands.

Our Directors may not repurchase the Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, our Directors may make repurchases with profits of the Company or out of a new issuance of shares made for the purpose of the repurchase or, if authorized by the Articles and subject to the Cayman Companies Act, out of capital and, in the case of any premium payable on the repurchase, out of profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorized by the Articles and subject to the Cayman Companies Act, out of capital.

However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(4) *General*

The exercise in full of the Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option or any option granted under the Pre-IPO Share Option Scheme is not exercised), could accordingly result in up to approximately 100,000,000 Shares being repurchased by our Company during the period prior to the earliest of:

- the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the expiration of the period within which our Company's next annual general meeting is required by the Memorandum and Articles of Association or any other applicable laws to be held; or

- the time when the Repurchase Mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates, have any present intention, to sell any Shares to our Company.

No core connected person (as defined in the Listing Rules) has notified us that he/she or it has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

The Directors have no present intention to repurchase the Shares to the extent that will trigger the obligations under the Takeovers Code for the concert parties to make a mandatory offer.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances. Our Directors have no present intention to exercise the Repurchase Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT OUR COMPANY'S BUSINESS**1. Summary of the Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the exclusive business co-operation agreement dated October 18, 2021 entered into between Beijing Huafang Technology Co., Ltd. (北京花房科技有限公司) (“Huafang Technology”) and Chengdu Huafang Online Technology Co., Ltd. (成都花房在線科技有限公司, “WFOE”), pursuant to which Huafang Technology agreed to engage WFOE as the exclusive provider of technical support, consultation and other services in return for service fees;
- (b) the exclusive option agreement dated October 18, 2021 entered into among WFOE, Huafang Technology and the registered shareholders of Huafang Technology, including Qihoo 360 Software (Beijing) Co., Ltd. (奇虎三六零軟件(北京)有限公司), Tianjin Huajiao No. 1 Technology Limited Partnership (天津花椒壹號科技合夥企業(有限合夥)), Tianjin Huajiao No. 2 Technology Limited Partnership (天津花椒貳號科技合夥企業(有限合夥)), Songcheng Performance Development Co., Ltd. (宋城演藝發展股份有限公司), Jinhua Xuance Investment Management Co., Ltd. (金華萱策投資管理有限公司), Jinhua Duanxuan Investment Management General Partnership (G.P.) (金華端萱投資管理合夥企業(普通合夥)), Beijing Siming Juncheng Technology Co., Ltd (北京思明駿程科技有限公司), Mango Culture Creativity (Shanghai) Equity Investment Limited Partnership (L.P.) (芒果文創(上海)股權投資基金合夥企業(有限合夥)), Shenzhen Zhirun No. 1 Investment Limited Partnership (L.P.) (深圳致潤一號投資合夥企業(有限合夥)), Shenzhen Zhirun No. 2 Investment Limited Partnership (L.P.) (深圳致潤二號投資合夥企業(有限合夥)), Shanghai Zuosan Digital Technology Co., Ltd. (上海佐三數字科技有限公司), Ningbo Meishan Free Trade Port Area Huajiao Equity Investment Limited Partnership (L.P.) (寧波梅山保稅港區花椒股權投資中心(有限合夥)), Shanghai Huawei Equity Investment Limited Partnership (L.P.) (上海驊偉股權投資基金合夥企業(有限合夥)), Great Chiliocosm (Kunshan) Cultural Investment Partnership (L.P.) (三千世界(昆山)文化產業投資合夥企業(有限合夥)), Zhang Fa (張發) and Tianjin Huafang Feiteng Technology Center (L.P.) (天津花房飛騰科技中心(有限合夥)) (collectively, the “Registered Shareholders”), pursuant to which the Registered Shareholders and Huafang Technology jointly and severally granted irrevocably to WFOE the rights to require the Registered Shareholders to transfer any or all their equity interests and/or assets in Huafang Technology to WFOE, in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations;

- (c) the equity pledge agreement dated October 18, 2021 entered into among WFOE, Huafang Technology and the Registered Shareholders, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in Huafang Technology to WFOE as a security interest;
- (d) the shareholders' rights proxy agreement dated October 18, 2021 entered into among WFOE, Huafang Technology and the Registered Shareholders, pursuant to which, each of the Registered Shareholders irrevocably appoints WFOE and/or its nominee(s) to exercise such shareholder's rights in Huafang Technology;
- (e) the supplemental shareholders agreement dated October 18, 2021 entered into among Huafang Technology, the Company, WFOE, the Registered Shareholders and the shareholders of our Company, including Pepper Blossom Limited, Global Bacchus Limited, JY Infinitas Ltd., Blossom Bliss Limited, Beijing Siming Juncheng Technology Co., Ltd. (北京思明駿程科技有限公司), Mango Ningze Ltd., Shanghai Huawei Equity Investment Fund Partnership (Limited Partnership) (上海驊偉股權投資基金合夥企業(有限合夥)), Great Chilocosm (Kunshan) Cultural Industry Investment Partnership (L.P.) (三千世界(昆山)文化產業投資合夥企業(有限合夥)), AAPC NETWORK Ltd., Wingsound Technology Limited, MYANMAR COMMERCIAL ASSET MANAGEMENT COMPANY LIMITED, SUN LINK TRADE LIMITED, Three Birds Holdings Limited, pursuant to which all special rights under the pre-IPO investments, including customary rights of first refusal, pre-emptive rights, information rights, liquidation preference and nomination rights granted to the Registered Shareholders and the shareholders of our Company, shall cease to be effective and be discontinued upon the Listing;
- (f) the supplemental exclusive business co-operation agreement dated September 8, 2022 entered into among WFOE, Huafang Technology and its subsidiaries including Beijing Mijing Hefeng Technology Co., Ltd. (北京密境和風科技有限公司), Hainan Kailin Technology Co., Ltd. (海南凱林科技有限公司), Beijing Huafang Canlan Technology Co., Ltd. (北京花房燦爛科技有限公司), Beijing Holla Technology Co., Ltd. (北京猴啦科技有限公司), Chengdu Huayang Technology Co., Ltd. (成都花漾科技有限公司), Tianjin Maijike Network Technology Co., Ltd. (天津邁即刻網絡科技有限公司), Sichuan Huayin Technology Co., Ltd. (四川花音科技有限公司), Beijing Ruzuo Technology Co., Ltd. (北京入座科技有限公司), Beijing Huafang Hongfa Technology Co., Ltd. (北京花房鴻發科技有限公司) and Chengdu Yuanjin Culture Media Co., Ltd. (成都元錦文化傳媒有限公司) (together with Huafang Technology, the "Consolidated Affiliated Entities"), pursuant to which the Consolidated Affiliated Entities agreed to engage WFOE as the exclusive provider of technical support, consultation and other services in return for service fees;



- (g) the supplemental exclusive option agreement dated September 8, 2022 entered into among WFOE and the Consolidated Affiliated Entities, pursuant to which the Consolidated Affiliated Entities jointly and severally granted irrevocably to WFOE the rights to require Huafang Technology or other Consolidated Affiliated Entities to transfer any or all their equity interests and/or assets in the Consolidated Affiliated Entities to WFOE and/or its nominee(s), in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations;
- (h) the supplemental equity pledge agreement dated September 8, 2022 entered into among WFOE and the Consolidated Affiliated Entities, pursuant to which Huafang Technology agreed to pledge all of its direct and indirect equity interests in the Consolidated Affiliated Entities to WFOE as a security interest;
- (i) the supplemental shareholders' right proxy agreement dated September 8, 2022 entered into among WFOE and the Consolidated Affiliated Entities, pursuant to which, Huafang Technology irrevocably appoints WFOE and/or its nominee(s) to exercise such shareholder's rights in the Consolidated Affiliated Entities; and
- (j) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights

a. Trademarks

Trademark Registered in China


As of the Latest Practicable Date, we have registered the following trademarks, which we consider to be material to the business of our Group:

No.	Trademark	Registered Owner	Class	Registration Date	Expiry Date
1.	花房	Huafang Technology	38, 45	January 7, 2020	January 6, 2030
2.	六间房	Huafang Technology	15, 16, 21, 24, 26, 28, 36, 38, 40, 42, 45	March 7, 2017	March 6, 2027
3.	六间房	Huafang Technology	9, 35, 41	June 14, 2017	June 13, 2027
4.		Huafang Technology	15, 21, 24, 26, 28, 36, 40, 42	March 7, 2017	March 6, 2027
5.		Huafang Technology	9, 16, 35, 41, 45	June 14, 2017	June 13, 2027

No.	Trademark	Registered Owner	Class	Registration Date	Expiry Date
6.		Huafang Technology	38, 42	February 7, 2013	February 6, 2023
7.		Huafang Technology	42	June 21, 2020	June 20, 2030
8.		Huafang Technology	38	March 28, 2020	March 27, 2030
9.		Huafang Technology	41, 42	September 14, 2019	September 13, 2029
10.		Mijing Hefeng	9, 35, 36, 38, 41, 42, 45	December 21, 2017	December 20, 2027
11.	花椒	Mijing Hefeng	36	November 28, 2019	November 27, 2029
12.	花椒	Mijing Hefeng	9, 35, 38, 41, 42, 45	June 14, 2016	June 13, 2026
13.	奶糖	Mijing Hefeng	9	May 21, 2022	May 20, 2032
14.	奶糖	Mijing Hefeng	42	August 28, 2021	August 27, 2031
15.	奶糖	Mijing Hefeng	45	August 21, 2021	August 20, 2031
16.	奶糖	Mijing Hefeng	38	May 21, 2021	May 20, 2031
17.	奶糖	Mijing Hefeng	41	December 7, 2020	December 6, 2030
18.	奶糖短视频	Mijing Hefeng	9	November 7, 2018	November 6, 2028
19.	奶糖达人	Mijing Hefeng	35	July 7, 2018	July 6, 2028
20.	奶糖达人	Mijing Hefeng	38, 41, 9, 42, 45	June 28, 2018	June 27, 2028
21.	奶糖	Mijing Hefeng	41	April 7, 2018	April 6, 2028
22.	花音	Sichuan Huayin	38, 45	January 14, 2020	January 13, 2030
23.	花音	Sichuan Huayin	9, 41	April 21, 2020	April 20, 2030
24.	花吱	Sichuan Huayin	9, 38, 41, 42	April 14, 2020	April 13, 2030
25.	花吱	Sichuan Huayin	45	April 21, 2021	April 20, 2031

Trademark registered in Hong Kong

As of the Latest Practicable Date, we have registered the following trademark in Hong Kong which we consider to be or may be material to our business:

No.	Trademark	Applicant	Class	Application Number	Registration Date	Expiry Date
1.		Huafang Technology	9, 35, 38, 41, 42, 45	305664024	June 22, 2021	June 22, 2031

b. Patents

As of the Latest Practicable Date, we have registered the following patents, which we consider to be material to the business of our Group:

No.	Patent	Category	Patentee(s)	Place of Registration	Date of Grant	Current Status
1.	A sound mixing method and its device (一種混音方法及其裝置)	Invention	Huafang Technology	PRC	March 15, 2017	Granted
2.	A network live broadcast method and its device (一種網絡直播裝置和方法)	Invention	Huafang Technology	PRC	September 26, 2017	Granted
3.	CDN node distribution server and system (CDN節點分配服務器及系統)	Invention	Huafang Technology	PRC	March 13, 2018	Granted
4.	A real-time streaming media data transmission method (實時流媒體數據傳輸方法)	Invention	Huafang Technology	PRC	April 20, 2018	Granted
5.	Virtual studio system and method of virtual image (虛擬形象的虛擬演播系統及方法)	Invention	Holla Technology	PRC	February 26, 2021	Granted

No.	Patent	Category	Patentee(s)	Place of Registration	Date of Grant	Current Status
6.	Virtual image online multimedia interactive system and method (虛擬形象的線上多媒體互動系統及方法)	Invention	Holla Technology	PRC	April 30, 2021	Granted
7.	A real-time interactive virtual character generation system and method (可實時互動的虛擬角色生成系統及方法)	Invention	Holla Technology	PRC	June 25, 2021	Granted
8.	A processing method, device and server based on live broadcast (一種基於直播的處理方法、裝置及服務器)	Invention	Mijing Hefeng	PRC	September 17, 2019	Granted
9.	Data analysis method, device and terminal equipment based on live broadcast (一種基於直播的數據分析方法、裝置和終端設備)	Invention	Mijing Hefeng	PRC	December 1, 2020	Granted
10.	Video processing method, device, terminal equipment and storage medium (一種視頻處理方法、裝置、終端設備及存儲介質)	Invention	Mijing Hefeng	PRC	June 11, 2020	Granted
11.	Data analysis method, device and terminal equipment based on live broadcast (一種基於直播的數據分析方法、裝置和終端設備)	Invention	Mijing Hefeng	PRC	August 21, 2020	Granted

No.	Patent	Category	Patentee(s)	Place of Registration	Date of Grant	Current Status
12.	A method, device, electronic equipment and storage medium for realizing live broadcast group (一種實現直播群的方法、裝置、電子設備和存儲介質)	Invention	Mijing Hefeng	PRC	December 22, 2020	Granted
13.	A method and device for realizing live broadcast (直播的實現方法和裝置)	Invention	Mijing Hefeng	PRC	November 6, 2020	Granted
14.	A method and device for realizing network performance (網絡表演的實現方法和裝置)	Invention	Mijing Hefeng	PRC	April 6, 2021	Granted
15.	A video processing method, device, mobile terminal and storage medium (一種視頻處理方法、裝置、移動終端及存儲介質)	Invention	Mijing Hefeng	PRC	April 13, 2021	Granted
16.	Interactive live broadcast method, client, server and system (互動直播方法、客戶端、服務器和系統)	Invention	Mijing Hefeng	PRC	May 28, 2021	Granted
17.	A method and device for processing exit and restart of video recording application (一種視頻錄製應用的退出重啟處理方法和裝置)	Invention	Mijing Hefeng	PRC	August 27, 2021	Granted

c. Copyrights

As of the Latest Practicable Date, we have registered the following copyrights, which we consider to be material to the business of our Group:

No.	Copyrights	Registration Number	Place of Registration	Registered Owner	Registration Date
1.	Recommended configuration system for Six Rooms (六間房推薦配置系統)	2020SR1701065	PRC	Huafang Technology	December 1, 2020
2.	Background authority distribution system for Six Rooms (六間房後台權限分配系統)	2020SR1689448	PRC	Huafang Technology	November 30, 2020
3.	Six Rooms' Android Version of live broadcast software (六間房直播Android版軟件)	2020SR0318099	PRC	Huafang Technology	April 9, 2020
4.	Six Rooms' H5 player software (六間房H5播放器軟件)	2019SR1293314	PRC	Huafang Technology	December 5, 2019
5.	Six Rooms' Content review system (六間房內容審核系統)	2018SR988004	PRC	Huafang Technology	December 7, 2018
6.	A homepage intelligent recommendation system based on collaborative filtering algorithm (基於協同過濾算法的首頁智能推薦系統)	2018SR991179	PRC	Huafang Technology	December 7, 2018
7.	A Six Rooms' live broadcast companion software (六間房直播伴侶軟件)	2017SR693700	PRC	Huafang Technology	December 15, 2017

No.	Copyrights	Registration Number	Place of Registration	Registered Owner	Registration Date
8.	A live Column Management System (直播欄目管理系統)	2017SR658591	PRC	Huafang Technology	November 30, 2017
9.	A customer Information Security Protection System (客戶信息安全保護系統)	2016SR266026	PRC	Huafang Technology	September 19, 2016
10.	Six Rooms' PC streaming media video live client software (六間房PC流媒體視頻直播客戶端軟件)	2015SR261974	PRC	Huafang Technology	December 16, 2015
11.	A Six Rooms' live broadcast companion software (六間房直播伴侶軟件)	2013SR087887	PRC	Huafang Technology	August 21, 2013
12.	Huajiao (Android Version) Software (花椒直播(安卓版)軟件)	2021SR1189431	PRC	Mijing Hefeng	August 11, 2021
13.	Huajiao (iOS version) software (花椒直播(iOS版)軟件)	2021SR1189417	PRC	Mijing Hefeng	August 11, 2021
14.	An Online live broadcast content push control system (在線直播內容推送管控系統)	2020SR1584187	PRC	Mijing Hefeng	November 16, 2020
15.	Huajiao's content review management software (花椒直播內容審核管理軟件)	2020SR1584184	PRC	Mijing Hefeng	November 16, 2020
16.	Huajiao's online anti-cheat software (花椒直播在線反作弊軟件)	2020SR1566872	PRC	Mijing Hefeng	November 11, 2020

No.	Copyrights	Registration Number	Place of Registration	Registered Owner	Registration Date
17.	An Online live content recommendation display software (在線直播內容推薦展示軟件)	2020SR1227853	PRC	Mijing Hefeng	October 16, 2020
18.	Huajiao's User authority control system (花椒直播用戶權限管控系統)	2020SR1221085	PRC	Mijing Hefeng	October 15, 2020
19.	An Online live broadcast operation platform risk control management system (在線直播運營平台風險控制管控系統)	2018SR733574	PRC	Mijing Hefeng	September 11, 2018
20.	An Online live broadcast platform operation and control system (在線直播平台運營與管控系統)	2018SR733570	PRC	Mijing Hefeng	September 11, 2018
21.	An Online live broadcast platform user management and control system (在線直播平台用戶管控系統)	2018SR733586	PRC	Mijing Hefeng	September 11, 2018
22.	Huajiao Android client software (花椒Android客戶端軟件)	2018SR698660	PRC	Mijing Hefeng	August 30, 2018
23.	Huajiao iOS client software (花椒iOS客戶端軟件)	2018SR698704	PRC	Mijing Hefeng	August 30, 2018
24.	Huajiao Android client software (花椒Android客戶端軟件)	2016SR052145	PRC	Mijing Hefeng	March 14, 2016
25.	Huajiao iOS client software (花椒iOS客戶端軟件)	2016SR052138	PRC	Mijing Hefeng	March 14, 2016

No.	Copyrights	Registration Number	Place of Registration	Registered Owner	Registration Date
26.	A platform risk control management system (平台風險控制管控系統)	2020SR1728893	PRC	Sichuan Huayin	December 3, 2020
27.	User anti-cheating control system (用戶反作弊管控系統)	2020SR1728976	PRC	Sichuan Huayin	December 3, 2020
28.	An operational activity configuration management system (運營活動配置管理系統)	2020SR1728978	PRC	Sichuan Huayin	December 3, 2020
29.	Yanba Android software V2.0 (鹽吧Android端軟件V2.0)	2021SR0643260	PRC	Ruzuo Technology	May 7, 2021
30.	Salt Bar iOS software V2.0 (鹽吧iOS端軟件V2.0)	2021SRE023331	PRC	Ruzuo Technology	September 8, 2021

d. Domain Names

As of the Latest Practicable Date, we have registered the following domain names which we consider to be material to the business of our Group:

No.	Domain Name	Registered Owner	Registration Date	Expiry Date
1.	huafanggroupinc.cn	Huafang Technology	2021-08-03	2026-08-03
2.	huafanggroupinc.com	Huafang Technology	2021-08-03	2026-08-03
3.	6.cn	Huafang Technology	2003-03-17	2029-03-17
4.	huafang.com	Huafang Technology	2000-03-07	2026-03-07
5.	huajiao.tv	Mijing Hefeng	2015-04-17	2026-04-17
6.	huajiao.com	Mijing Hefeng	2004-09-27	2023-09-27
7.	huazhifm.com	Sichuan Huayin Technology Co., Ltd. (四川花音科技有限公司)	2019-09-03	2023-09-03
8.	hualiantv.com	Sichuan Huayin Technology Co., Ltd. (四川花音科技有限公司)	2019-04-04	2023-04-04
9.	kailintv.com	Hainan Kailin	2021-03-15	2023-03-15

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

a. Interests and short positions of the Directors and chief executive in the share capital of our Company and our associated corporations following the Capitalization Issue and the Global Offering

Immediately following completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option or any option granted under the Pre-IPO Share Option Scheme is not exercised), the interests or short positions of the Directors and the chief executive in the Shares, underlying Shares and debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, once the Shares are listed, will be as follows:

(1) Interests in Shares or Underlying Shares

Name	Capacity/Nature of interest	As of the Latest Practicable Date		Upon the Listing Approximate percentage of shareholding (Assuming the Over-allotment Option and any option granted under the Pre-IPO Share Option Scheme is not exercised)	
		Number of Shares ⁽¹⁾	Approximate percentage of Shareholding	Number of Shares ⁽¹⁾	Approximate percentage of shareholding
Mr. Zhou Hongyi ⁽²⁾	Interested in controlled corporation	20,380,418 (L)	38.21%	364,554,724 (L)	36.46%
Ms. Yu Dan ⁽³⁾	Beneficial interest and interested in controlled corporation	3,333,333 (L)	6.25%	79,026,995 (L)	7.90%

Notes:

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) Blossom Deluxe Holdings Limited has entered into a voting proxy with Blossom Glory Limited to entrust 42.69% voting rights held by Blossom Deluxe Holdings Limited in Pepper Blossom Limited to Blossom Glory Limited, which enables Blossom Glory Limited to exercise 90.26% of voting rights at the general meeting of Pepper Blossom Limited. Therefore, Blossom Glory Limited is deemed to be interested in the entire interests held by Pepper Blossom Limited. Blossom Glory Limited is held by Blossom Eternity Limited as to 71.94%, and Blossom Eternity Limited is wholly owned by Mr. Zhou, therefore, Mr. Zhou is deemed to be interested in the entire interests held by Pepper Blossom Limited.
- (3) On November 22, 2022, Ms. Yu Dan was granted 19,402,000 Options under the Scheme. Ms. Yu Dan is also deemed to be interested in the Shares held by Blossom Bliss Limited under the SFO. Please refer to the section headed “Substantial Shareholders” for details.

(2) Interest in associated corporations of our Company

Name	Nature of Interest	Name of Associated Corporation	Approximate percentage of interest
Mr. Zhou Hongyi	Interest in controlled corporation	Huafang Technology	38.21%
Ms. Yu Dan	Interest in controlled corporation	Huafang Technology	6.25%

Notes:

- (1) Huafang Technology is owned by Qihoo 360, Huajiao No. 1 and Huajiao No. 2 as to approximately 38.21% in aggregate, each of which is ultimately controlled by Mr. Zhou since January 1, 2020.
- (2) Huafang Technology is owned by Huafang Feiteng as to approximately 6.25%. Tianjin Huafang Feiteng No. 2 Technology Center (L.P.) (天津花房飛騰貳號科技中心(有限合夥)) (“Huafang Feiteng No. 2”), as a limited partner, holds as to 51.8305% of the partnership interest in Huafang Feiteng. Ms. Yu Dan, our executive Director and chief executive officer, is a limited partner of Huafang Feiteng No. 2 and holds 45.2191% of the partnership interest in Huafang Feiteng No. 2.

b. Interests and short positions of the substantial shareholders in the Shares and underlying Shares of our Company

Save as disclosed in “Substantial Shareholders” in this prospectus, our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has any interest or short position in the Shares or underlying shares of the Company, which, upon the Listing, would fall to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

3. Directors' service contracts and letters of appointment

On November 21, 2022, the executive Director has entered into a service contract with our Company, and each of the non-executive Directors and independent non-executive Directors have entered into letters of appointment with our Company. The service contract with the executive Director is for an initial fixed term of three years commencing from the date of the contract. The letters of appointment with each of the non-executive Directors are for an initial fixed term of three years commencing from the date of the letter. The letters of appointment with each of the independent non-executive Directors are for an initial fixed term of three years commencing from the date of the letter. The service contract and the letters of appointment are subject to termination in accordance with their respective terms or by either party giving to the other not less than three-month prior written notice. The appointment of the Directors is subject to the provisions of retirement and rotation of Directors under the Articles.

For the three years ended December 31, 2019, 2020, 2021 and the five months ended May 31, 2022, the aggregate of the remuneration paid and benefits in kind granted to the Directors by our Group was RMB7.3 million, RMB8.2 million, RMB31.8 million and RMB5.7 million, respectively. Under the arrangements currently in force, our Company estimates that the aggregate emolument payable to the Directors (excluding discretionary bonus and any options granted pursuant to share incentive schemes) by our Company for the year ending December 31, 2022 will be approximately RMB12.9 million.

Except as disclosed above, no other emoluments have been paid or are payable for the three years ended December 31, 2021 and the five months ended May 31, 2022 by our Company to the Directors. Save as disclosed above, none of our Directors has or is proposed to have a service contract with the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. During the Track Record Period, no compensation was paid to, or has been received by, our Directors, former Directors or the five highest paid individuals for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the Track Record Period.

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group. Details of the Company's remuneration policy is described in the section headed "Directors and Senior Management – Directors' Remuneration."

4. Disclaimers

- (a) None of the Directors nor any of the parties listed in the section headed “– E. Other Information – 10. Consents of experts” of this Appendix is interested directly or indirectly, in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries.
- (b) Save in connection with the Underwriting Agreements and as disclosed in the section headed “Connected Transactions”, none of the Directors nor any of the parties listed in the section headed “– E. Other Information – 10. Consents of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our Company’s business taken as a whole.
- (c) Save in connection with the Underwriting Agreements, none of the parties listed in the section headed “E. Other Information – 10. Consents of experts” of this Appendix:
 - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries.
- (d) Save as disclosed in this Appendix, none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).
- (e) None of the Directors or their associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of the Directors, owns more than 5% of our Company’s issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

D. PRE-IPO SHARE OPTION SCHEME

The following is a summary of the principal terms of Pre-IPO Share Option Scheme (the “Scheme”) adopted on November 21, 2022. Pre-IPO Share Option Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as it does not involve the grant of options by our Company to subscribe for new shares after Listing.

(a) Purposes

The purpose of this Scheme is to attract, retain and motivate employees and such other Participant (as defined in paragraph (c) below), and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of the Group, and to allow such employees and other persons to participate in the growth and profitability of the Group.

(b) Number of Shares

The maximum number of Shares which may be issued upon exercise of all Options (as defined in paragraph (e) below), to be granted under this Scheme of the Company will be 89,502,000 Shares, representing approximately 8.95% of the issued share capital immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised) and approximately 8.21% of the issued share capital enlarged upon full exercise of the options granted under the Pre-IPO Share Option Scheme (assuming the Over-allotment Option is not exercised).

Application has been made to the Listing Committee for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

(c) Participants

The Participants of the Scheme are any person belonging to any of the following classes of participants: (i) any employee (whether full time or part time) of the Company or its subsidiaries (the “Eligible Employee”), and (ii) any other person who, in the sole opinion of the Board, will contribute or have contributed to the Group (the “Participant”).

The basis of eligibility of any of the class of Participants to the grant of any Options (as defined in paragraph (e) below) shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group. If the Grantee (as defined in paragraph (e) below) ceases to be an Eligible Employee for cause, the vested but unexercised portion of any such Option shall be forfeited and of no further exercisability immediately upon such Grantee’s cessation as a Participant.

(d) Administration

The Scheme shall be subject to the administration of the Board, and the decision of the Board shall be final and binding on all parties. The Board shall have the right to:

- (i) interpret and construe the provisions of this Scheme;

- (ii) determine the persons who will be offered Options under this Scheme, the number of Shares and the Subscription Price (as defined in paragraph (f) below), in relation to such Options;
- (iii) subject to paragraph (k) below, make such appropriate and equitable adjustments to the terms of the Options granted under this Scheme as it deems necessary; and
- (iv) make such other decisions or determinations as it shall deem appropriate in the administration of this Scheme.

The Board may amend any of the provisions of the Scheme at any time (but not so as to affect adversely any rights which have accrued to any Grantee (as defined in paragraph (e) below) at that date). No changes to the authority of the Board or the administrator of this Scheme in relation to any alteration of the terms of this Scheme shall be made, without the prior approval of the Shareholders.

Any dispute arising in connection with the Scheme shall be referred to the decision of the Board and whose decision shall be final and binding.

(e) Grant of Options

Subject to the fulfilment of the conditions set out in paragraph (h), Options can only be granted under this Scheme during the period commencing on the date on which the Scheme is adopted by the Shareholders until 9:00 a.m. on the Business Day before the Listing Date (or such earlier date as the Board may determine at its sole discretion without notice) (the “Grant Period”) after which no further Options will be offered or granted but in all other aspects the provisions of this Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Option granted prior thereto.

The Board shall be entitled at any time during the Grant Period to offer to grant to any Participant as the Board may in its absolute discretion select, and subject to such conditions as the Board may think fit, an Option to subscribe for such number of Shares (the “Option”) as the Board may determine at the Subscription Price.

The Grantees (the “Grantee”) of the Scheme are any Participant who accepts the offer of the grant of any Option or (where the context so permits) a person entitled to any such Option in consequence of the death or incapacitation of the original Grantee, or the legal personal representative of such person. The period to be notified by the Board to each Grantee at the time of making an offer of any Option shall not be longer than ten (10) years from the date of grant of the Option (the “Option Period”).

(f) Subscription price

The Subscription Price shall be determined by the Board, as it may think fit taking into account a Participant's contribution to the development and growth of the Group, and specified in the offer of grant of an Option to such Participant.

(g) Exercise of Options

The Options (to the extent that they are vested and/or exercisable) may be exercised by the Grantees (or their legal personal representatives) at any time during the Option Period and in any event after the satisfaction of the conditions set forth in the Scheme.

An Option may be exercised in whole or in part by the Grantee giving notice in writing to the Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the Subscription Price for the Shares in respect of which the notice is given. Within five (5) Business Days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate of the Auditors or the financial adviser of the Company retained for such purpose, the Company shall allot and issue, and shall instruct the Share Registrar to issue, the relevant Shares to the Grantee credited as fully paid and issue to the Grantee a share certificate in respect of the Shares so allotted.

(h) Conditions of the Scheme

The exercise of the Options granted under this Scheme is conditional upon (i) the Listing Committee (as defined in the Listing Rules) of the Stock Exchange granting approval of this Scheme, the granting of the Options hereunder, and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the Options; and (ii) the commencement of dealing in the Shares on the Stock Exchange.

If the above conditions are not satisfied on or before December 31, 2022 (or such later date as the Board may decide): (i) the Scheme shall forthwith terminate; (ii) any Option granted or agreed to be granted pursuant to the Scheme and any offer of such a grant shall be of no effect; and (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Scheme or any such Option.

(i) Cancellation of Options

The Board may at its discretion cancel Options previously granted to and yet to be exercised by a Grantee with the relevant Grantees abstaining from voting.

(j) Lapse of Options

An Option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the date or the expiry of the periods for exercising the Option in the case of voluntary resignation, death, etc.;
- (iii) the date on which the offer (or as the case may be, revised offer) closes;
- (iv) the date of the commencement of the winding-up of the Company;
- (v) the date when the proposed compromise or arrangement becomes effective;
- (vi) the date on which the Grantee ceases to be an Eligible Employee for cause;
- (vii) the date on which the Grantee commits a breach of this Scheme or the Options are cancelled; or
- (viii) the Board at their absolute discretion determines that the outstanding Options granted to the Grantee (whether exercisable or not) shall lapse.

(k) Reorganization of Capital Structure

In the event of any alteration in the capital structure of the Company, such as capitalization issue, rights issue, consolidation, sub-division and reduction of the share capital of the Company, the Board shall make corresponding adjustments in the same proportion of the issued share capital of the Company to:

- (i) the number or nominal amount of Shares subject to the Option;
- (ii) the Subscription Price; and
- (iii) the method of exercise of the Option.

(l) Termination of the Scheme

The Company may terminate the operation of the Scheme at any time by resolution of the Board or resolution of the Shareholders in general meeting and in such event no further Option will be offered but the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of the Options (to the extent not already

exercised) granted prior to the termination or otherwise as may be required in accordance with the provision of the Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Scheme.

(m) Particulars of Options granted

Details of the Options granted under the Scheme are set out below.

Name of the Grantee	Position held with our Group	Address	Number of Shares underlying the Options Outstanding	Date of grant	Vesting period ⁽²⁾	Exercise Price	Approximate percentage of shareholding immediately following the completion of the Capitalization Issue and the Global Offering ⁽¹⁾
Ms. YU Dan (于丹)	Executive Director, Chief Executive Officer	Room 401, Unit 5, Building 1, Jiamei Fashion Center, Chaoyang District, Beijing, PRC	19,402,000	November 22, 2022	Four years from the date of grant	0.0001	1.9402%
Mr. LIU Kaiyin (劉緒寅)	Vice President	Room 401, Unit 2, Building 19, Runfeng Lingshang, Xingguang 3rd Street, Tongzhou District, Beijing, PRC	15,580,000	November 22, 2022	Four years from the date of grant	0.0001	1.5580%
Ms. LIU Tao (劉濤)	Vice President	Room 301, Unit 2, Building 11, Yard 31, Yuzheng Street, Caiyu Town, Daxing District, Beijing, PRC	11,670,000	November 22, 2022	Four years from the date of grant	0.0001	1.1670%
Mr. ZHANG Zhen (張震)	Vice President	Room 11B, Building 8, DuHuiHuaTing, ShiLiPu, Chaoyang Rd. Chaoyang District, Beijing, PRC	10,579,000	November 22, 2022	Four years from the date of grant	0.0001	1.0579%

Name of the Grantee	Position held with our Group	Address	Number of Shares underlying the Options Outstanding	Date of grant	Vesting period ⁽²⁾	Exercise Price	Approximate percentage of shareholding immediately following the completion of the Capitalization Issue and the Global Offering ⁽¹⁾
Mr. JIAO Yang (焦陽)	Vice President and Joint Company Secretary	Building 5, Yard 6 Jiuxianqiao Road Chaoyang District Beijing, PRC	9,928,000	November 22, 2022	Four years from the date of grant	0.0001	0.9928%
Ms. CHEN Xiaohui (陳曉慧)	Vice President	Room 1903, Building 15, Songyuxili, Chaoyang District, Beijing, PRC	8,508,000	November 22, 2022	Four years from the date of grant	0.0001	0.8508%
Mr. CHEN Xing (陳醒)	Operation Head	Room 501, Unit 1, Building 7, Dingxiu Jinyi Jiayuan, Fengtai District, Beijing, PRC	8,374,000	November 22, 2022	Four years from the date of grant	0.0001	0.8374%
Mr. TANG Geng (唐賡)	Vice President	Room 1501, No. 207 Second District, West Park, Wangjing South Lake, Chaoyang District, Beijing, PRC	3,500,000	November 22, 2022	Four years from the date of grant	0.0001	0.3500%
Mr. TAO Sha (陶沙)	Chief Innovation Officer	Unit 2, Yangguang Shangdong, Chaoyang District, Beijing, PRC	1,961,000	November 22, 2022	Four years from the date of grant	0.0001	0.1961%
			89,502,000				8.9502%

(1) Assuming no exercise of the Over-allotment Option.

As no Option will be granted after the Listing, the terms of the Scheme are not subject to the provisions of Chapter 17 of the Listing Rules.

E. OTHER INFORMATION**1. Estate duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

As of the Latest Practicable Date, neither our Company nor any of our subsidiaries is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition.

3. Preliminary Expenses

As of the Latest Practicable Date, we did not incur any material preliminary expenses.

4. Promoter

There are no promoters of our Company.

5. Joint Sponsors

The Joint Sponsors made an application on our Company's behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalization Issue and the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any shares which may be issued upon the exercise of any option granted under the Pre-IPO Share Option Scheme). All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

The Joint Sponsors are independent from our Company pursuant to Rule 3A.07 of the Listing Rules.

Our Company has entered into an engagement agreement with each of the Joint Sponsors, pursuant to which, the aggregate Joint Sponsors' fees payable by us in respect of the Joint Sponsors' services for the Listing is US\$800,000.

6. No Material Adverse Change

The Directors confirm that there has been no material adverse change in their financial or trading position or prospects since May 31, 2022 (being the date to which our Company's latest audited consolidated financial statements were made up).

7. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

8. Miscellaneous

- (a) Within the two years immediately preceding the date of this prospectus, save as disclosed in the section headed “History, Reorganization and Corporate Structure” in this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash.
- (b) Save as options granted under the Pre-IPO Share Option Scheme, no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (c) Neither our Company nor any of our subsidiaries has issued or agreed to issue any founder shares, management shares or deferred shares.
- (d) Save as in connection with the Underwriting Agreements, within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group.
- (e) Within the two years immediately preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any Shares in or debentures of our Company or any of our subsidiaries.
- (f) None of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.
- (g) Our Company has no outstanding convertible debt securities.
- (h) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.
- (i) There are no arrangements under which future dividends are waived or agreed to be waived.

9. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
Haitong International Capital Limited	Licensed corporation under the SFO to conduct type 6 (advising on corporate finance) regulated activities for the purpose of SFO
CCB International Capital Limited	Licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified public accountants, and Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
King & Wood Mallesons	PRC legal advisors to our Company
Commerce & Finance Law Offices	Legal advisor to our Company as to PRC cybersecurity and data privacy protection laws
Maples and Calder (Hong Kong) LLP	Cayman Islands legal advisor to our Company
Dorsey & Whitney LLP	Legal advisor to our Company as to US economic and trade sanctions law
Dorsey & Whitney (Europe) LLP	Legal advisor to our Company as to UK, EU and UN economic and trade sanctions law
Clayton Utz	Legal advisor to our Company as to Australia sanctions laws
Shanghai iResearch Co., Ltd.	Industry consultant
Beijing Rongtai Law Firm	Arbitration counsel to our Company as to the Potential Arbitration Proceeding

10. Consents of experts

Each of the experts as referred to in “– E. Other Information – 9. Qualifications of experts” above in this prospectus has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

As of the Latest Practicable Date, none of the experts named above had any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

11. Bilingual prospectus

Pursuant to Rule 11.14 of the Listing Rules and section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this prospectus are being published separately but are available to the public at the same time.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among others:

- (a) a copy of **GREEN** Application Form;
- (b) a copy of each of the material contracts referred to the section headed “Statutory and General Information – B. Further Information about Our Company’s Business – 1. Summary of Material Contracts” in Appendix IV to this prospectus; and
- (c) the written consents referred to in the section headed “Statutory and General Information – E. Other Information – 10. Consents of Experts” in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange at www.hkexnews.hk and our website at www.huafang.com up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Articles of Association;
- (b) the Accountants’ Report for the three years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2022 issued by KPMG, and the report on the unaudited pro forma financial information prepared by KPMG, the texts of which are set out in Appendix I and Appendix II to this prospectus, respectively;
- (c) the audited consolidated financial statements of our Company for the three years ended December 31, 2019, 2020 and 2021 and the five months ended May 31, 2022;
- (d) the legal opinions issued by King & Wood Mallesons, our PRC legal advisor, in respect of certain aspects of our Group and the property interests of our Group;
- (e) the letter of advice issued by Maples and Calder (Hong Kong) LLP, our Cayman Islands legal advisor, in respect of certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus;
- (f) the memorandum issued by Dorsey & Whitney LLP and Dorsey & Whitney (Europe) LLP in respect of US, UK, EU and UN economic and trade sanctions law and Clayton Utz in respect of Australia sanctions laws;
- (g) the memorandum issued by Commerce & Finance Law Offices in respect of PRC cybersecurity and data privacy protection laws;
- (h) the legal opinion issued by Beijing Rongtai Law Firm, our arbitration counsel in respect of the Potential Arbitration Proceeding;

- (i) the Cayman Companies Act;
- (j) the material contracts referred to the section headed “Statutory and General Information – B. Further Information about Our Company’s Business – 1. Summary of Material Contracts” in Appendix IV to this prospectus;
- (k) the written consents referred to in the section headed “Statutory and General Information – E. Other Information – 10. Consents of Experts” in Appendix IV to this prospectus;
- (l) service contracts and letters of appointment entered into between the Company and each of the Directors; and
- (m) the iResearch Report.



花房集团
HUAFANG GROUP