You should read the following discussion and analysis in conjunction with our audited consolidated financial information as of and for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 included in the Accountants' Report set out in Appendix I to this prospectus, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with IFRSs.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a leading short video marketing solutions provider and an online content services provider focusing on pan-entertainment in China. According to iResearch, we were the third largest online marketing solutions provider in China in terms of gross billing generated from short video advertisements in 2019 with a market share of 3.4%. We also operate a pan-entertainment-oriented content platform through our *Huabian* website and its mobile terminal, presenting attention catching pan-entertainment articles and photos to internet users. In addition, we produce quality and appealing content for audiences and advertisers, such as short videos, movie and television stars interview programs as well as entertainment news programs. We deliver our online marketing solutions primarily through top online publishers in China, such as Douyin, Huoshan, Xigua Video and Kuaishou.

We generate revenue primarily from providing (i) online marketing solutions to advertisers and advertising agencies, including user traffic acquisition, ad creatives production, and ad performance optimization; and (ii) advertising spaces on our *Huabian* Platform to ad networks and advertisers. We charge our advertising customers for our online marketing solutions primarily measured by a mix of oCPM, oCPC and CPC, while we acquire user traffic from our media partners to place our advertisements online and pay traffic acquisition costs based primarily on the same mechanism. In addition, during the Track Record Period, we charged ad networks primarily based on CPM, and charged advertisers primarily based on CPT or CPA, for the advertising spaces we provide on our *Huabian* Platform. We also began to generate revenue from providing product placement opportunities in our short video KOL programs for advertisers to market their products or services since January 2020.

Launched in 2013, our online marketing solutions business helps our advertising customers acquire high quality traffic from top online publishers, produce appealing and attention catching ad creatives to attract target consumers, and optimize ad campaign performance leveraging our big data analytics and AI capabilities, to improve the marketing efficiency for our advertisers.

Launched in 2012, our self-operated content platform, *Huabian* Platform, aggregates pan-entertainment articles and photos from professional media, talent agencies and self-media accounts, and presents real-time customized and popular feeds to visitors. We provide advertising spaces on our *Huabian* Platform to place text and image in-feed advertisements for ad networks and advertisers. In 2019, we also initiated two short video KOL programs featuring television and movie star interviews and entertainment news to expand our pan-entertainment coverage.

We have experienced rapid growth since 2017 benefiting from the rise of short videos. During the Track Record Period, our revenue increased significantly from RMB235.4 million in 2017 to RMB2,313.0 million in 2019, representing a CAGR of 213.5%, and our profit for the year increased from RMB33.0 million in 2017 to RMB72.9 million in 2019, representing a CAGR of 48.6%. Given the technological development of network infrastructure and the continually reduced mobile internet traffic costs per GB that collectively led to the speedy growth of short video audience base, we have strategically shifted our focus to online marketing solutions, from which our revenue accounted for approximately 70.4%, 94.5%, 98.7% and 98.9%, respectively, of our total revenue for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020.

BASIS OF PRESENTATION

Pursuant to the Reorganization, the details of which are set out in "History, Reorganization and Corporate Structure" in this prospectus, our Company became the holding company of the companies now comprising our Group on March 30, 2020.

Netjoy Network provides value-added telecommunications services and radio and television programs production and operation services to customers. Due to regulatory restrictions on foreign ownership in providing value-added telecommunications services and prohibition on foreign ownership in providing radio and television programs production and operation services in the PRC, the wholly-owned subsidiary of our Company, Yunxiang Information (the "**WFOE**") has entered into the relevant Contractual Arrangements with Netjoy Network and its respective registered equity holders. The Contractual Arrangements enable the WFOE to exercise effective control over Netjoy Network and obtain substantially all economic benefits of Netjoy Network. Accordingly, Netjoy Network is controlled by our Company based on the Contractual Arrangements though our Company does not have any direct or indirect equity interest in Netjoy Network. Details of the Contractual Arrangements are disclosed in "Contractual Arrangement" in this prospectus.

The Reorganization only involved inserting new holding entities, including the WFOE, at the top of Netjoy Network, the then holding company of our Group, and has not resulted in any change of economic substances. Accordingly, the historical financial information of our Group has been presented on a consolidated basis as a continuation of Netjoy Network as if our Company had been the holding company of Netjoy Network at the beginning of the Track Record Period.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period are presented as if the current group structure had been in existence throughout the Track Record Period. The consolidated statements of financial position of our Group as of December 31, 2017, 2018 and 2019 and June 30, 2020 have been prepared to present the assets and liabilities of the companies comprising our Group, as if the current group structure had been in existence at those dates. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization.

All intra-group transactions and balances have been eliminated on combination.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe the following are key factors that affect our results of operations:

The Evolving Mobile Internet Market

China's internet market, especially the mobile internet market, has experienced rapid growth and entered into a steady growth phase in recent years. The number of mobile internet users and the daily time they spent online have grown and are estimated to further grow in the future. In addition, due to the advancement of information technology infrastructure, the average traffic cost per GB for mobile internet has decreased significantly in the past five years, and along with the introduction of 5G, it is expected to sharply decrease in the future, which renders short video further affordable and accessible. As a result, according to iResearch, the size of short video content market has increased at a CAGR of 401.5% from RMB0.2 billion in 2015 to RMB126.5 billion in 2019, and is expected to continue to increase at a CAGR of 35.3% from RMB211.5 billion in 2020 to RMB709.5 billion in 2024.

Benefiting from the steady growth of mobile internet market and the rapid growth of short video market, we experienced remarkable growth, with our revenue increasing from RMB235.4 million in 2017 to RMB1,186.2 million in 2018 and further to RMB2,313.0 million in 2019, representing a CAGR of 213.5%. We expect that the evolving mobile internet market and the continuously growing short video market will support our organic and profitable future growth.

Growth of Our Advertisers Base and Their Spending

Our results of operations are affected by the growth and diversity of our advertiser base and the spending of each advertiser. As we provide advertising services and advertising spaces to advertisers, the growth of our revenue depends largely on our ability to continue to expand our advertiser base, and to attract them to allocate more advertising budgets with us. Our advertisers operate in a wide array of industries, including online gaming, financial services, e-commerce, internet services, advertising and culture & media. Our diversified advertiser base lowers the risks of a single business when a particular industry is restricted or prohibited by laws or regulations. Due to our leading market position and track record, the number of our direct advertisers increased from approximately 558 in 2017 to approximately 669 in 2019, representing a CAGR of 9.5%. The average spending of each advertiser increased from approximately RMB0.5 million in 2017 to approximately RMB3.4 million in 2019, representing a CAGR of 160.8%.

Our ability to increase the spending of our advertisers depends on various key factors, including (i) our content production capability to produce appealing and attention catching advertisements that attract and accumulate more audiences; (ii) our continuous technological innovation to provide more precise advertising services; and (iii) our insights into the latest market trends and advertisers' evolving needs and requirements.

Our Ability to Expand Paying Consumers Base and Enhance Monetization Efficiency

As we generate revenue primarily from providing short video advertisements through online publishers as well as advertising spaces on our *Huabian* Platform for our advertisers to market their products or services, the number of paying consumers is crucial to our advertisers' business, which in turn has affected and will continue to affect our reputation, results of operations and future prospects. We provide quality and attention catching advertisements to help our advertisers to attract, retain and convert potential paying consumers. We also cooperate with industry leading online publishers to acquire user traffic and optimize campaign performance leveraging our big data analytics and AI capability to improve the marketing efficiency for our advertisers. Specifically, our advertising tools engage users through appealing advertisements, thereby directing them to the mobile internet page that our advertisers designate to present their products or services. The enhancement of our services' monetization efficiency will, on one hand, help our advertisers to reach a broader target consumers base and better achieve their marketing goals, and on the other hand, attract more advertisers for us. Our mix of pricing models, such as oCPM, oCPC, CPC, CPT and CPA also has an impact on the campaign performance and the monetization efficiency of our advertisements, which in turn would affect our ability to attract and retain advertisers. See "Business — Our Online Marketing Solutions Business — Pricing Models." The click-through rate of our short video advertisements was 2.5% in 2019, compared to a general click-through rate of less than 2.0% in the online marketing industry in 2019, according to iResearch.

In addition, a large and expanding paying consumers base provides an invaluable source of big data for us which we can leverage to better understand the paying consumers' needs and preferences, and, to an extent, help our advertisers to effectively and efficiently identify their target consumers. We are, therefore, able to further refine our service offerings to improve our advertisers' overall experience, which is pivotal to the success of our business and future growth.

Growth in and Relationship with Our Media Partners

We acquire user traffic from our media partners to place our advertisements online and pay traffic acquisition costs to them. Our results of operations are affected by our ability to acquire high volume and cost-efficient traffic timely and collect raw data from our media partners. We strive to expand our media partner network, in particular those top online publishers or other leading content distribution channels. We have maintained well-established relationships with the six largest short video platforms in China. In addition, we seek to manage the traffic acquisition costs that we pay to media partners so as to increase our profit margin. From time to time, media partners may grant to us rebates (i) in the form of prepayments for future traffic acquisition; (ii) to net off the trade payables we owed to them; or (iii) in cash, calculated primarily based on our gross spending. Such rebates are recorded as reduction of cost of sales under gross method and as revenue under net method in our consolidated statements of profit or loss, which can affect our gross profit margin and increase online publishers' stickiness to us in the long run. See "— Critical Accounting Policies and Estimates — Revenue Recognition" for details regarding our revenue recognition policy of gross method and net method. However, any significant fluctuations in rebates from media partners may have a significant impact on our revenue and results of operations.

In particular, our purchases from our largest supplier, Supplier A, accounted for approximately 40.5%, 86.4%, 88.3% and 87.1% of our total purchases of user traffic for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. In addition, our gross billing attributable to Supplier A accounted for approximately 84.8% of our total gross billing for six months ended June 30, 2020. We have benefited significantly from and expect to continue doing so from Supplier A's massive audience base and strong brand, both of which provide us with credibility and a broad marketing reach. See "Risk Factors — Risks Relating to Our Business and Industry — We acted as a middleman between advertising customers and Supplier A and relied on Supplier A to acquire user traffic for our advertisers during the Track Record Period. If we fail to maintain our business relationship with Supplier A or if Supplier A loses its leading market position or popularity, our business, financial condition and results of operations could be materially and adversely affected."

Given our well-established relationship with certain top online publishers, we are able to collect and store raw data from them, which is critical to our business. We conduct precise profiling analysis with these raw data leveraging our big data analytics and AI capabilities to optimize advertising campaign and increase our advertising efficiency.

Diversified Service Offerings and Monetization Opportunities

We generate revenue primarily from providing online marketing solutions to advertisers and advertising agencies, and advertising spaces on our *Huabian* Platform to ad networks and advertisers. Our gross profit margin was affected by the mix of our service offerings. We derived a much larger portion of revenue from online marketing solutions business with a low gross profit margin, which in turn led to our gross profit margin as a whole being at a low level. Our gross profit margin of online marketing solutions business was 8.7%, 7.1%, 6.7% and 10.5% for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, while our gross profit margin as a whole was 21.1%, 9.1%, 6.9% and 10.6% for the same years, respectively. In addition, our net asset turnover ratio, calculated as dividing our revenue by the arithmetic mean of the opening and closing balances of net assets multiplied by 100%, increased from 4.04 in 2017 to 8.38 in 2018 and further to 9.44 in 2019, demonstrating our growing ability to generate revenue using our net assets. We strive to explore new monetization opportunities so as to broaden our service offerings, increase our gross profit margin, and achieve organic future growth. In particular, we have established a content production, exchange and distribution platform connecting the advertisers directly with content providers, through which we expect to charge annual membership service fees for providing content exchange transactions services to advertisers and content providers. See "— Business — Our Strategies — Continue to unleash the monetization potential of our content production, exchange and distribution platform that offers full cycle services" for details.

Business Innovation and Technological Development

Our capability to innovate new businesses is the foundation of our significant growth during the Track Record Period. To capture the opportunities offered by the rise of short videos, our visionary management team strategically shifted our focus to online marketing solutions, in particular, short video marketing. Through launching short video marketing solutions in February 2017, we achieved huge success, with revenue from online marketing solutions business increasing significantly at a CAGR of 271.0% from RMB165.8 million in 2017 to RMB2,282.3 million in 2019. We will continue to develop new business models to capture the opportunities in the evolving online marketing industry.

Our technological capability and its development are essential to our competitiveness and overall operational efficiency. Leveraging our robust big data analytics and AI capabilities, we are able to effectively analyze raw data, conduct precise profiling analysis, and optimize advertising campaign on a real-time basis to achieve higher advertising effectiveness and maximize the effectiveness of their advertisement. As a technology-driven company, we have developed our proprietary DMP to support our internal advertising campaign management system as well as content management and distribution system. We are committed to continually enhancing and innovating our information technology infrastructure and technologies to achieve higher advertising effectiveness and operational efficiency. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our research and development expenses amounted to RMB5.5 million, RMB6.9 million, RMB9.9 million and RMB4.4 million, respectively.

Ability to control our costs and expenses

During the Track Record Period, traffic acquisition costs represented the largest component of our cost of sales, which accounted for 78.3%, 90.4%, 92.3% and 87.9%, respectively, of our total revenue for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in traffic acquisition costs on our net profit for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	Change in net profit	% change in net profit	Change in net profit	% change in net profit	Change in net profit	% change in net profit	Change in net profit	% change in net profit	Change in net profit	% change in net profit
	(RMB'000, except percentage)									
% change in traffic acquisition costs										
+15%	(25,785)	(78.1)	(149,817)	(215.6)	(295,258)	(404.8)	(165,713)	(466.2)	(98,713)	(172.9)
+10%	(17,190)	(52.1)	(99,878)	(143.7)	(196,839)	(269.9)	(110,475)	(310.8)	(65,808)	(115.3)
+5%	(8,595)	(26.0)	(49,939)	(71.9)	(98,419)	(134.9)	(55,238)	(155.4)	(32,904)	(57.6)
-5%	8,595	26.0	49,939	71.9	98,419	134.9	55,238	155.4	32,904	57.6
-10%	17,190	52.1	99,878	143.7	196,839	269.9	110,475	310.8	65,808	115.3
-15%	25,785	78.1	149,817	215.6	295,258	404.8	165,713	466.2	98,713	172.9

Meanwhile, employee benefits expenses constituted the second largest component of our cost of sales, and the largest component of our selling and distribution expenses, research and development expenses as well as administrative expenses. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our total employee benefits expenses (including those recorded in cost of sales, selling and distribution expenses, research and development expenses and administrative expenses) accounted for approximately 3.2%, 1.4%, 1.9% and 2.8%, respectively, of our total revenue for the same years. The number of our employees has been increasing along with the growth of our business, and the increase in the employee benefits expenses was primarily attributable to the increases in both the headcount and the general compensation level to recruit and retain qualified management and key employees. The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in employee benefits expenses on our net profit for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	Change in net profit	% change in net profit	Change in net profit	% change in net profit	Change in net profit	% change in net profit	Change in net profit	% change in net profit	Change in net profit	% change in net profit
	(RMB'000, except percentage)									
% change in employee benefits expenses										
+60%	(4,154)	(12.6)	(9,562)	(13.8)	(24,622)	(33.8)	(9,203)	(25.9)	(12,754)	(22.3)
+45%	(3,116)	(9.4)	(7,172)	(10.3)	(18,466)	(25.3)	(6,902)	(19.4)	(9,565)	(16.8)
+30%	(2,077)	(6.3)	(4,781)	(6.9)	(12,311)	(16.9)	(4,601)	(12.9)	(6,377)	(11.2)
+15%	(1,039)	(3.1)	(2,391)	(3.4)	(6,155)	(8.4)	(2,301)	(6.5)	(3,188)	(5.6)
-15%	1,039	3.1	2,391	3.4	6,155	8.4	2,301	6.5	3,188	5.6
-30%	2,077	6.3	4,781	6.9	12,311	16.9	4,601	12.9	6,377	11.2
-45%	3,116	9.4	7,172	10.3	18,466	25.3	6,902	19.4	9,565	16.8
-60%	4,154	12.6	9,562	13.8	24,622	33.8	9,203	25.9	12,754	22.3

The industry we operate in is rapidly changing due to constant technological developments and the evolving market trend. Our future success highly relies on our ability to attract, hire, retain and motivate seasoned employees. In particular, the constant development of our advanced technology depends on our technical talents. Experienced experts in the field of big data analytics and AI technologies are essential for us to precisely target and reach the types of audiences best suited in the advertising campaigns and improve advertising efficiency and effectiveness. In addition, our ability to expand the scope of our business and enhance the overall results of operations relies on our selling and marketing talents with deep understanding of the latest market demand and industry trend.

We expect that traffic acquisition costs as well as employee benefits expenses to continue to be our most significant costs and expenses going forward, particularly in light of the continued expansion and ramping up of our online marketing solutions business and the general increase in the average compensation level of the internet related industries. Our ability to control such costs and expenses may significantly affect our profitability.

Preferential Tax Treatments

Our income tax expenses were affected by the preferential tax treatments enjoyed by certain of our Consolidated Affiliated Entity. In particular, Netjoy Network was recognized as a "software enterprise" and as a result, it enjoyed EIT exemption in 2015 and 2016 and was entitled to a preferential EIT rate of 12.5% from 2017 to 2019. Netjoy Network will also be entitled to a preferential EIT rate of 15% as a "high and new technology enterprise" starting from 2020, which needs to be renewed upon its expiration in November 2021. Quantum Culture Media was recognized as primarily engaging in the encouraged business specified in the Catalog of Encouraged Industries in Poverty Areas of Xinjiang for Preferential Income Tax (《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄(試行)》) and thus is eligible for EIT exemption from 2017 to 2020. As a result, our effective income tax rate was 6.7%, 6.9%, 7.8% and 6.1% for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively.

We also enjoy VAT rebates granted by the government to modern services enterprise starting from April 1, 2019 to December 31, 2021 to support our business operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial information in accordance with IFRSs, which requires us to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the consolidated financial information and the reported amounts of revenues and expenses during the financial reporting period. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Because the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. We will continuously assess our assumptions and estimates going forward. We consider the policies discussed below to be critical to an understanding of our consolidated financial information as their application places the most significant demands on our management's judgment.

For details of our significant accounting policies, estimates, assumption and judgements, see Notes 2 and 3 in Appendix I to this prospectus.

Revenue Recognition

We generate revenue primarily from providing (i) online marketing solutions and (ii) pan-entertainment content services. The description of principal activities from which we generate revenue is as follows:

Online Marketing Solutions

The method we recognize revenue from our online marketing solutions business is affected by the role under each particular contract with customers. For contracts where we act as a principal, we recognize revenue on a gross basis, while for contracts where we act as an agent, we recognize revenue on a net basis. In determining whether we are acting as a principal or as an agent in the provision of online marketing solutions, it requires our management's judgements and considerations of all relevant facts and circumstances. If we are the primary obligor in a transaction, or has control in determining prices or selecting online publishers, we are deemed as a principal and record revenue on a gross basis. Otherwise, we are deemed as an agent and record the net amount earned as commissions from the services we provide. Specifically, for all-in-one service and pan-entertainment content service, we recognize revenue on a gross basis; while for advertisement distribution service, we recognize revenue on a net basis. We also utilize a combination of pricing models, consisting mainly of oCPM, oCPC, CPC, CPM, CPT, or CPA.

All-in-one Service (Gross basis)

We provide one stop online marketing solutions, including traffic acquisition from top online publishers, content production, raw data analysis and advertising campaign optimization, to our advertisers. We charge the advertisers primarily based on oCPM, oCPC or CPC, and recognize revenue when specified action (click-throughs or display of one thousand impressions) is performed. In some circumstances, we offer rebates to our advertising customers as part of promotion activities. Media partners may also grant to us rebates (i) in the form of prepayments for future traffic acquisition; (ii) to net off the trade payables we owed to them; or (iii) in cash mainly based on the gross spending of the advertisers.

While none of the factors individually are considered presumptive or determinative, in this arrangement we are the primary obligor and responsible for (i) identifying and contracting with third-party advertisers which we view as customers, and delivering the specified integrated services to the advertisers; (ii) bearing certain risks of loss to the extent that the cost incurred for producing contents, formulating advertisement campaign and acquiring user traffic from online publishers cannot be compensated by the total consideration received from the advertisers, which is similar to inventory risk; (iii) performing all the billing and collection activities, including retaining credit risk; and (iv) bearing the responsibility for the advertising content that we produce and place, and fulfilment of promise to provide the specified integrated services. We have control in the specified service before that service is transferred to the advertiser and act as the principal of these arrangements and therefore recognizes revenue earned and costs incurred related to these transactions on a gross basis. Under this arrangement, the rebates earned from the media partners are recorded as a reduction of cost of sales.

Advertisement Distribution Service (Net basis)

We also provide traffic acquisition service only to distribute the advertisements produced by the advertisers online. The advertisements are published on the targeted online publishers determined by the advertisers. We charge our advertising customers mainly based on oCPM or oCPC, and recognize revenue when specified action (click-throughs or display of one thousand impressions) is performed.

We are not the principal in this arrangement as we do not control the specified service before that service is transferred to the advertiser, because (i) we do not provide the all-in-one integrated services. Online publisher, rather than us, is primarily responsible for providing the media publishing service; (ii) the online publishers are identified and determined by the advertisers, rather than us. Therefore, we are not the principal in executing these transactions. We report the amount received from the advertisers and the amounts paid to the online publishers related to these transactions on a net basis. Under this arrangement, media partners may also grant us rebates which are recorded as revenue in our consolidated statements of profit or loss.

The rebates offered by us to the advertisers under the abovementioned two business models are recognized as a deduction of revenue at the time when such rebates are granted.

Pan-entertainment Content Services

We also provide (i) advertising spaces to advertising customers through our self-operated *Huabian* Platform; and (ii) product placement opportunities in our short video KOL programs for advertisers to market their products or services. We recognize revenue on a gross basis when relevant services are provided to our advertising customers pursuant to the advertising contracts, as we own the advertising spaces on our *Huabian* Platform and in our short video KOL programs, and bear the sole responsibility for producing or distributing the advertisement. In particular, we charge ad networks primarily based on CPM, and charge advertisers primarily based on CPA or CPT. Our revenue earned based on CPM or CPA is recognized when specified action (such as display of one thousand impressions, download, installation or registration) is performed, while our revenue earned based on CPT is recognized on a pro rata basis over a specific period of time contractually agreed by our customers and us for placing the advertisement.

Impairment of Non-financial Assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statements of profit or loss and other comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statements of profit or loss and other comprehensive income in the period in which it arises.

Provision for Expected Credit Losses on Trade Receivables

We use a provision matrix to calculate the expected credit losses (the "**ECLs**") for trade receivables. The provision rates are based on aging analysis of customers that have similar loss patterns.

The provision matrix is initially based on our historical observed default rates. We will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. Our historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on our trade receivables is disclosed in Note 18 in Appendix I to this prospectus.

An impairment analysis was made based on expected credit loss model on the recoverability of trade receivables. The identification of impairment requires management's judgements and estimates by considering the age of the balance, existence of disputes, recent historical payment patterns, any other available information concerning the creditworthiness of counterparties and influence from macro economy.

In certain cases, the management may also consider a financial asset to be in default when internal or external information indicates that we are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Fair Value of Financial Assets

During the Track Record Period, we had investments in short-term wealth management products which were categorized within level 3 of the fair value hierarchy. The fair value of wealth management products is determined based on discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

In relation to the valuation of our financial assets categorized within the level 3 of fair value hierarchy, our Directors adopted the following procedures: (i) reviewed the terms of the relevant investments; (ii) made reference to the interest rate published by the People's Bank of China in determining the discount rate for the valuation; (iii) reviewed the fair value measurement assessment of the relevant investments presented by our finance personnel and carefully considered all information available and applied applicable valuation techniques in determining the valuation of the relevant investments; and (iv) engaged independent financial advisers and professional valuers when necessary. Based on the above procedures, our Directors are of the view that the valuation of our financial assets categorized within the level 3 of fair value hierarchy is fair and reasonable, and our financial statements have been properly prepared.

Details of the fair value measurement of the level 3 financial assets, particularly the fair value hierarchy, the valuation techniques and significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in Note 33 to the Accountants' Report in Appendix I to this prospectus. The Reporting Accountants' opinion on the historical financial information of our Group during the Track Record Period as a whole is set out on page I-2 of the Accountants' Report in Appendix I.

In relation to the fair value assessment of the financial assets requiring level 3 measurements under the fair value classification, the Sole Sponsor has conducted relevant due diligence work, including but not limited to, (i) reviewing relevant notes in the Accountant's Report as contained in Appendix I to this prospectus; (ii) reviewing the relevant valuation reports with respect to the financial assets; (iii) obtaining and reviewing the relevant agreements regarding the financial assets; and (iv) discussing with the Company and the Reporting Accountants the key basis and assumptions for the valuation of the financial instruments. Having considered the work done by the Company's management, the Directors and the Reporting Accountants, and the relevant due diligence done as stated above, nothing material has come to the Sole Sponsor' attention that indicates that the Directors have not undertaken independent and sufficient investigation and due diligence.

Contract Liabilities

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

Investment in Film

The amount paid to a third-party film production company by the Group in order to obtain shares of copyrights and/or distribution rights of films is recognized as prepayments for investment in film and reclassified as intangible assets upon the receipt of the license for distribution of films.

Current and Deferred Tax

Significant judgement is required in interpreting the relevant tax rules and regulation so as to determine whether we are subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes us to change our judgement regarding the adequacy of the tax liabilities and such changes to tax liabilities will impact tax expense in the period that such determination is made. Further details regarding the current and deferred tax are set out in Notes 10 and 17 in Appendix I to this prospectus.

Government Grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statements of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Adoption of IFRS 9, IFRS 15 and IFRS 16

We have adopted a full retrospective application of IFRS 9, IFRS 15 and IFRS 16, which we have applied on a consistent basis throughout the Track Record Period. We have assessed the effect of adopting IFRS 9, IFRS 15 and IFRS 16 on our financial statements and identified the following areas that have been affected:

IFRS 9

IFRS 9 "Financial Instruments" replaces IAS 39 and requires the recognition of impairment provisions of financial assets measured at amortized cost based on expected credit losses. The adoption of expected credit loss model under IFRS 9 did not have a material impact on the impairment loss allowance for our financial assets measured at amortized cost during the Track Record Period as compared with the incurred loss model under IAS 39.

IFRS 15

IFRS 15 "Revenue from Contracts with Customers" replaces IAS18 and IAS11 and requires separate presentation of contract assets and contract liabilities in the balance sheet. This has resulted in some reclassifications in relation to our unsatisfied performance obligations. As of December 31, 2017, 2018 and 2019 and June 30, 2020, our contract liabilities of RMB5.0 million, RMB16.3 million, RMB37.4 million and RMB62.8 million, respectively, should have been presented as deferred revenue in our balance sheet if IAS18 was applied throughout the Track Record Period.

IFRS 16

IFRS 16 "Leases" provides new provisions for the accounting treatment of leases and requires lessees to recognize certain leases on the statements of financial position. Specifically, for any lease with a term of more than 12 months, unless the underlying asset is of low value, we recognize a right-of-use asset representing our right to use the underlying leased asset in our consolidated statements of financial position and depreciation of the right-of-use asset is recognized over the lease term on a straight-line basis in our consolidated statements of profit or loss. In addition, we record a lease liability representing our obligation to make lease payments based on present value, calculated by using the effective interest method, in our consolidated statements of financial position and finance expenses on the lease liability is recognized in our consolidated statements of profit or loss. As of December 31, 2017, 2018 and 2019 and June 30, 2020, we recorded right-of-use assets of RMB2.1 million, RMB1.5 million, RMB4.7 million and RMB9.6 million, respectively, and lease liabilities of RMB2.2 million, RMB1.5 million, RMB4.8 million and RMB9.7 million, respectively, in our consolidated statements of financial position. For the years ended December 31, 2017, 2018, and 2019 and the six months ended June 30, 2020, we recorded depreciation of right-of-use assets of RMB0.6 million, RMB0.7 million, RMB3.2 million and RMB2.3 million, respectively, and interest on lease liabilities of RMB0.1 million, RMB0.1 million, RMB0.3 million and RMB0.1 million, respectively, in our consolidated statements of profit or loss. The recognition of right-of-use asset and financial liability to pay rentals under IFRS 16 would have been different had IAS 17 been applied. However, the impact on the net assets and net profit is not material.

Save as disclosed above, we do not believe that the adoption of IFRS 9, IFRS 15 and IFRS 16 has any significant impact on our financial position and performance when compared to that of IAS 39, IAS 18 and IAS 17 during the Track Record Period.

DESCRIPTION OF KEY STATEMENTS OF PROFIT OR LOSS ITEMS

The following table sets forth our consolidated statements of profit or loss items for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
			(RMB'000)		
Revenue	**235,425**	**1,186,172**	**2,313,036**	**1,286,522**	**796,965**
Cost of sales	(185,720)	(1,077,913)	(2,153,747)	(1,217,549)	(712,584)
Gross profit	**49,705**	**108,259**	**159,289**	**68,973**	**84,381**
Other income and gains	359	1,123	15,600	5,518	11,823
Selling and distribution expenses	(1,301)	(5,910)	(7,793)	(2,781)	(2,274)
Administrative expenses	(5,658)	(13,525)	(41,561)	(13,799)	(21,656)
Impairment losses on financial assets, net	(1,899)	(3,316)	(29,630)	(12,070)	(4,000)
Research and Development expenses	(5,522)	(6,936)	(9,923)	(5,416)	(4,370)
Other expenses	–	(2,070)	(750)	–	–
Finance costs	(341)	(2,712)	(6,524)	(1,302)	(3,163)
Share of profits and losses of associates	42	(304)	381	(218)	21
Profit before tax	35,385	74,609	79,089	38,905	60,762
Income tax expense	(2,387)	(5,126)	(6,155)	(3,357)	(3,686)
Profit for the year/period	32,998	69,483	72,934	35,548	57,076

Revenue

During the Track Record Period, we generated our revenue primarily from the provision of (i) our one-stop online marketing solutions to advertisers directly or through advertising agencies; and (ii) advertising spaces on our *Huabian* Platform to third-party ad networks and advertisers. Please see "Business — Our Business Model" for more details.

The following table sets forth our revenue by service offerings and revenue recognition method for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000) (unaudited)	% of the total	(RMB'000)	% of the total
Online marketing solutions business										
Gross method	158,548	67.3	1,093,601	92.2	2,243,548	97.0	1,252,010	97.3	760,114	95.4
Net method	7,291	3.1	27,826	2.3	38,756	1.7	15,299	1.2	28,215	3.5
Sub-total	165,839	70.4	1,121,427	94.5	2,282,304	98.7	1,267,309	98.5	788,329	98.9
Pan-entertainment content services business	69,586	29.6	64,745	5.5	30,732	1.3	19,213	1.5	8,636	1.1
Total	**235,425**	**100.0**	**1,186,172**	**100.0**	**2,313,036**	**100.0**	**1,286,522**	**100.0**	**796,965**	**100.0**

Revenue from Our Online Marketing Solutions Business

We enter into annual framework agreements with our advertising customers and charge them for our online marketing solutions based primarily on a mix of oCPM, oCPC and CPC. See "Business — Our Online Marketing Solutions Business" for details. Our online marketing solutions grew rapidly during the Track Record Period, benefiting from the increasing recognition and popularity of short video marketing by both audiences and advertisers. Revenue generated from our online marketing solutions business contributed for a substantial portion of our total revenue during the Track Record Period, accounting for approximately 70.4%, 94.5%, 98.7% and 98.9%, respectively, of our total revenue for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. Our advertising customers primarily include advertisers, and to a lesser extent, advertising agencies.

The table below sets forth a breakdown of revenue generated from our online marketing solutions business by type of advertising customers for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total
Advertisers	162,798	98.2	1,095,473	97.7	2,212,764	97.0	1,244,427	98.2	728,551	92.4
Advertising agencies	3,041	1.8	25,954	2.3	69,540	3.0	22,882	1.8	59,778	7.6
Total	**165,839**	**100.0**	**1,121,427**	**100.0**	**2,282,304**	**100.0**	**1,267,309**	**100.0**	**788,329**	**100.0**

The advertisers we serve operate in a wide array of industry verticals, which primarily include online gaming, financial services, e-commerce, internet services, advertising and culture & media.

The table below sets forth a breakdown of revenue generated from our online marketing solutions business by industry verticals for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total
Online gaming	64,854	39.1	811,195	72.3	1,368,410	60.0	918,486	72.5	287,830	36.5
Financial services[1]	41,263	24.9	67,155	6.0	273,791	12.0	87,242	6.9	143,755	18.2
E-commerce	4,581	2.8	38,082	3.4	215,467	9.4	62,065	4.9	146,336	18.6
Internet services	6,405	3.9	119,911	10.7	171,640	7.5	87,721	6.9	60,303	7.6
Advertising	20,660	12.5	45,204	4.0	72,547	3.2	22,987	1.8	95,557	12.1
Culture & media	16,566	10.0	21,024	1.9	59,323	2.6	50,310	4.0	11,313	1.4
Others[2]	11,510	6.8	18,856	1.7	121,126	5.3	38,498	3.0	43,235	5.6
Total	**165,839**	**100.0**	**1,121,427**	**100.0**	**2,282,304**	**100.0**	**1,267,309**	**100.0**	**788,329**	**100.0**

Notes:

(1) Financial services primarily include online insurance, consumer financing and retail banking.

(2) Others mainly include business services and healthcare.

Due to the different types of services we provide under our online marketing solutions business, we recognize our revenue either on a gross basis or on a net basis. When we provide all-in-one services and are solely responsible for the advertisement that we place and the fulfillment of the relevant advertising contracts, we act as a principal and record revenue on a gross basis; otherwise when we provide only traffic acquisition services for our advertising customers, we act as an agent and record revenue on a net basis. See "— Critical Accounting Policies and Estimates — Revenue Recognition" and Note 2.4 in Appendix I to this prospectus for more details regarding our revenue recognition policies.

The following table sets forth a breakdown of our revenue generated from online marketing solutions by revenue recognition methods for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total
							(unaudited)			
Online marketing solutions business										
Gross method	158,548	95.6	1,093,601	97.5	2,243,548	98.3	1,252,010	98.8	760,114	96.4
Net method	7,291	4.4	27,826	2.5	38,756	1.7	15,299	1.2	28,215	3.6
Total	**165,839**	**100.0**	**1,121,427**	**100.0**	**2,282,304**	**100.0**	**1,267,309**	**100.0**	**788,329**	**100.0**

Our revenue recorded on a gross basis accounted for an increasing and a substantial portion of our total revenue from 2017 to 2019, indicating that we have acted as principal and had control in a majority of transactions with our media partners. We sometimes provide only traffic acquisition services for our advertising customers, where we act as an intermediary rather than a principal, and our revenue generated therefrom is recorded on a net basis. Under this arrangement, the rebates from the media partners calculated primarily based on the gross spending of our total traffic acquisition cost is also recorded as revenue in our consolidated statements of profit or loss. Our revenue recorded on a gross basis decreased from RMB1,252.0 million in the six months ended June 30, 2019 to RMB760.1 million in the six months ended June 30, 2020, primarily as a result of the loss of customer E which contributed RMB648.8 million to our revenue in the six months ended June 30, 2019. This decrease was partially offset by our business expansion in e-commerce and advertising industries, with revenue from these two industries increasing by RMB139.8 million in the six months ended June 30, 2020. Our revenue recorded on a net basis, as a percentage of our total revenue generated from our online marketing solutions business, increased from 1.2% in the six months ended June 30, 2019 to 3.6% in the six months ended June 30, 2020, primarily due to our business expansion in e-commerce industry, where we generally provided intermediary services to advertising agencies and the revenue generated from such advertising agencies on behalf of the e-commerce advertisers was generally recorded on a net basis. This increase in revenue recorded on a net basis in the six months ended June 30, 2020 was primarily as a result of an increase of RMB18.6 million generated from e-commerce advertisers.

In addition, we may from time to time grant rebates to our advertising customers as part of our promotional activities calculated primarily based on their gross spending of our online marketing solutions, and such rebates are recognized as a deduction of revenue in our consolidated statements of profit or loss.

The following table illustrates the reconciliation of our gross billing and our revenue recorded under online marketing solutions business on a net basis during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
			RMB' 000		
Gross billing	160,546	516,972	1,114,667	417,813	809,292
Less: traffic acquisition costs from media partners	153,255	489,146	1,075,911	402,514	781,077
Revenue	**7,291**	**27,826**	**38,756**	**15,299**	**28,215**

Our gross billing recorded under online marketing solutions business on a net basis increased from RMB160.5 million in 2017 to RMB517.0 million in 2018 and further to RMB1,114.7 million in 2019, in line with the rapid growth of our online marketing solutions business from 2017 to 2019. Our gross billing recorded under online marketing solutions business on a net basis increased from RMB417.8 million in the six months ended June 30, 2019 to RMB809.3 million in the six months ended June 30, 2020, primarily due to our business expansion in e-commerce industry. Our gross billing from e-commerce advertisers increased by 127.8% from RMB259.5 million in the six months ended June 30, 2019 to RMB591.1 million in the six months ended June 30, 2020. Our business expansion in e-commerce industry was in line with consumers' rapidly growing needs of online shopping in light of the outbreak of COVID-19, and reflected our efforts to explore business opportunities in flourishing industry verticals.

The gross margin of our gross billing reconciled on a net basis, calculated as revenue divided by gross billing, was 4.5%, 5.4%, 3.5%, 3.7% and 3.5% for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively. The increase in 2018 was primarily due to higher rebates, as a percentage of our gross spending, granted by Supplier A after taking into consideration of the rapid increase in total traffic acquisition costs we paid to Supplier A. The decrease in 2019 was primarily due to the lowering of rebates, as a percentage of our gross spending, by Supplier A arising from its rebate percentage adjustment, which was applicable to all of its customers.

Revenue from Our Pan-entertainment Content Services Business

During the Track Record Period, we also generated revenue from providing advertising spaces on our *Huabian* Platform to third-party ad networks, such as Sogou, and advertisers. Due to the rapidly evolving online marketing industry and the rise of short video platforms in 2017, we strategically shifted our focus to online marketing solutions, in particular short video marketing. Our revenue generated from pan-entertainment content services business decreased during the Track Record Period, accounting for approximately 29.6%, 5.5%, 1.3% and 1.1%, respectively, of our total revenue for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, primarily as internet users became keen to watch short videos as opposed to browsing the websites to read text and image. In the first half of 2020, our short video KOL programs, as part of our expanded pan-entertainment coverage, began to generate revenue by providing product placement opportunities for advertising customers to promote and market advertisers' products or services.

The following table sets forth a breakdown of revenue generated from our pan-entertainment content services business by service offerings:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total
Pan-entertainment content services business										
Huabian Platform	69,586	100.0	64,745	100.0	30,732	100.0	19,213	100.0	1,966	22.8
Idol Answers	–	–	–	–	–	–	–	–	6,670	77.2
Total	**69,586**	**100.0**	**64,745**	**100.0**	**30,732**	**100.0**	**19,213**	**100.0**	**8,636**	**100.0**

The table below sets forth a breakdown of revenue generated from our pan-entertainment content services business by type of our advertising customers for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total
Ad networks	14,186	20.4	24,387	37.7	21,078	68.6	13,317	69.3	1,436	16.6
Advertisers	55,400	79.6	40,358	62.3	9,654	31.4	5,896	30.7	7,200	83.4
Total	**69,586**	**100.0**	**64,745**	**100.0**	**30,732**	**100.0**	**19,213**	**100.0**	**8,636**	**100.0**

The following table sets forth a breakdown of the number of advertising customers and their average spending for our pan-entertainment content services for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
Gross billing *(RMB in thousand)*	55,400	40,358	9,654	5,896	7,200
Number of advertising customers	123	47	29	22	17
Average spending per advertising customer *(RMB)*	450,407	858,681	332,897	268,000	423,529

Cost of Sales

Our cost of sales primarily consists of traffic acquisition costs and employee benefit expenses. During the Track Record Period, traffic acquisition costs constituted the largest portion of our cost of sales, and employee benefit expenses constituted the second largest portion of our cost of sales. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our traffic acquisition costs amounted to RMB184.3 million, RMB1,072.5 million, RMB2,134.5 million and RMB700.6 million, respectively, accounting for approximately 99.3%, 99.5%, 99.2% and 98.3%, respectively, of our total cost of sales for the same periods, which was in line with our business expansion. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our employee benefit expenses amounted to RMB1.0 million, RMB3.8 million, RMB13.9 million and RMB9.3 million, respectively, accounting for approximately 0.5%, 0.3%, 0.6% and 1.3%, respectively, of our total cost of sales for the same years, which was attributable to the increases in the number of our employees and the general compensation level of the internet related industries.

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

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total	(RMB'000)	% of the total
Traffic acquisition cost	184,334	99.3	1,072,464	99.5	2,134,500	99.2	1,209,083	99.3	700,584	98.3
Employee benefits expenses	1,004	0.5	3,764	0.3	13,949	0.6	5,048	0.4	9,266	1.3
Others[(1)]	382	0.2	1,685	0.2	5,298	0.2	3,418	0.3	2,734	0.4
Total	**185,720**	**100.0**	**1,077,913**	**100.0**	**2,153,747**	**100.0**	**1,217,549**	**100.0**	**712,584**	**100.0**

Note:

(1) Others primarily comprise costs in relation to the rental of servers and the outsourcing of content production.

Traffic acquisition costs represent costs of user traffic we purchase from our media partners. Our traffic acquisition costs may vary due to a number of factors, including, among others, the specific advertising spaces, time and duration of the advertising campaigns, and the different pricing policies of online publisher. Our traffic acquisition costs accounted for a substantial portion of our total cost of sales during the Track Record Period, primarily as we generally acquired advertising traffic from top online publishers, of which the traffic acquisition costs were expensive, in line with the market practice.

From time to time, our media partners may grant to us rebates calculated primarily based on our gross spending, and such rebates under the gross method are recorded as reduction of cost of sales in our consolidated statements of profit or loss. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the aggregate amount of rebates we generated from online publishers was RMB13.4 million, RMB161.2 million, RMB322.5 million and RMB126.3 million, respectively.

Employee benefits expenses mainly consist of the salaries, bonuses, pension and other social security and welfare of our operational staff. Our in-house content production costs mainly relate to labor's efforts and are therefore accounted for as employee benefits expenses.

The following table sets forth a breakdown of our cost of sales by service offerings and revenue recognition methods for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total
Online marketing solutions business										
Gross method	151,437	81.5	1,041,271	96.6	2,129,742	98.9	1,203,211	98.8	705,186	99.0
Net method[(1)]	–	–	–	–	–	–	–	–	–	–
Sub-total	151,437	81.5	1,041,271	96.6	2,129,742	98.9	1,203,211	98.8	705,186	99.0
Pan-entertainment content services business	34,283	18.5	36,642	3.4	24,005	1.1	14,338	1.2	7,398	1.0
Total	**185,720**	**100.0**	**1,077,913**	**100.0**	**2,153,747**	**100.0**	**1,217,549**	**100.0**	**712,584**	**100.0**

Note:

(1) When we provide only traffic acquisition services for our advertising customers, we act as an intermediary and record our revenue on a net basis and do not record cost of sales.

Gross Profit and Gross Profit Margin

Our gross profit consists of our revenue less cost of sales. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our gross profit was RMB49.7 million, RMB108.3 million, RMB159.3 million and RMB84.4 million, respectively. Gross profit margin represents gross profit divided by total revenue, expressed as a percentage. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our gross profit margin was 21.1%, 9.1%, 6.9% and 10.6%, respectively.

The following table sets forth a breakdown of our gross profit and gross profit margin by service offerings and revenue recognition methods for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	Gross Profit (RMB'000)	Gross Profit Margin %	Gross Profit (RMB'000)	Gross Profit Margin %	Gross Profit (RMB'000)	Gross Profit Margin %	Gross Profit (RMB'000)	Gross Profit Margin %	Gross Profit (RMB'000)	Gross Profit Margin %
Online marketing solutions business										
Gross method	7,111	4.5	52,330	4.8	113,806	5.1	48,799	3.9	54,927	7.2
Net method[(1)]	7,291	100.0	27,826	100.0	38,756	100.0	15,299	100.0	28,215	100.0
Sub-total	14,402	8.7	80,156	7.1	152,562	6.7	64,098	5.1	83,142	10.5
Pan-entertainment content services business	35,303	50.7	28,103	43.4	6,727	21.9	4,875	25.4	1,239	14.3
Total	**49,705**	**21.1**	**108,259**	**9.1**	**159,289**	**6.9**	**68,973**	**5.4**	**84,381**	**10.6**

Note:

(1) When we provide only traffic acquisition services for our advertising customers, we act as an intermediary and record our revenue on a net basis and do not record cost of sales. Therefore, our gross profit margin under net method is 100.0%.

Our gross profit increased significantly from RMB49.7 million in 2017 to RMB108.3 million in 2018 and further to RMB159.3 million in 2019, primarily due to the rapid expansion of our online marketing solutions business benefiting from the increasing recognition and popularity of short video marketing. Our gross profit increased from RMB69.0 million in the six months ended June 30, 2019 to RMB84.4 million in the six months ended June 30, 2020, as a result of the increased gross profit of our online marketing solutions business.

Our gross profit margin decreased from 21.1% in 2017 to 9.1% in 2018 and further to 6.9% in 2019, primarily due to an increasingly higher proportion of gross profit generated from our online marketing solutions business from 2017 to 2019, whose gross profit margin was lower than that of our pan-entertainment content services business. Our gross profit margin increased from 5.4% in the six months ended June 30, 2019 to 10.6% in the six months ended June 30, 2020, in line with the increased gross profit margin of our online marketing solutions business which contributed a substantial portion of our total gross profit.

Our online marketing solutions business recorded relatively low gross profit margin, amounting to approximately 8.7%, 7.1%, 6.7%, 5.1% and 10.5% for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, primarily as the traffic we acquired from top online publishers was generally expensive, which is an industry norm. The gross profit margin of our online marketing solutions business decreased from 8.7% in 2017 to 7.1% in 2018 and further decreased to 6.7% in 2019, primarily due to an increasingly higher proportion of gross profit generated from our all-in-one services during the same years, which recorded a lower gross profit margin. The gross profit margin of our online marketing solutions business increased from 5.1% in the six months ended June 30, 2019 to 10.5% in the six months ended June 30, 2020, primarily due to (i) an increase in the gross profit margin of our online marketing solutions business under gross basis (all-in-one services); and (ii) an increasing portion of online marketing solutions under net basis which recorded gross profit margin of 100.0%. The gross profit margin of our online marketing solutions business under gross basis (all-in-one services) increased from 4.5% in 2017 to 4.8% in 2018, and further to 5.1% in 2019, and increased from 3.9% in the six months ended June 30, 2019 to 7.2% in the six months ended June 30, 2020, primarily due to the reduced rebates, as a percentage of our gross billing, we granted to our advertising customers. This was because we started to provide short video marketing solutions in 2017 and intended to attract advertisers by offering more rebates, while we have been reducing rebates granted to our advertising customers since 2018 as a result of (i) our value-added services provided to advertisers; and (ii) stronger bargaining power arising from our market leadership.

In 2017, 2018 and 2019 and the six months ended June 30, 2020, the gross profit margin of our online marketing solutions business under gross basis was 4.5%, 4.8%, 5.1% and 7.2%; while the gross margin of our gross billing from online marketing solutions business reconciled under net basis was 4.5%, 5.4%, 3.5% and 3.5%. In general, our gross profit margin under gross basis were higher than our gross margin under net basis, as a result of our provision of value-added services. In 2017, our gross profit margin under gross basis equaled to our gross margin under net basis, primarily because we did not charge advertising customers additional fees for our provision of value-added services with a view to attracting more advertising customers to scale our online marketing solutions business. In 2018, our gross profit margin under gross basis was lower than our gross margin under net basis, primarily because we offered more rebates to advertisers than advertising agencies since we were more inclined to transact with advertisers directly.

Our pan-entertainment content services business recorded relatively high gross profit margin, amounting to approximately 50.7%, 43.4%, 21.9% and 14.3% for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, primarily as we owned the advertising spaces on our *Huabian* Platform that were provided to ad networks and advertisers. The gross profit margin of our pan-entertainment content services business decreased from 50.7% in 2017 to 43.4% in 2018 and further decreased to 21.9% in 2019, primarily as a result of the increasingly expensive user traffic we acquired from our content distribution partners to distribute content of our *Huabian* Platform, in line with the market trend. The gross profit margin of our pan-entertainment content services business decreased from 25.4% in the six months ended June 30, 2019 to 14.3% in the six months ended June 30, 2020, primarily due to further decrease in revenue generated from *Huabian* Platform, while our fixed costs remained relatively stable.

The following table sets forth a breakdown of our gross billing and gross profit generated from online marketing solutions business by format of advertisements for the periods indicated:

	Year ended December 31,												Six months ended June 30,							
	2017				2018				2019				2019				2020			
	Gross Billing	% of total	Gross Profit	% of total	Gross Billing	% of total	Gross Profit	% of total	Gross Billing	% of total	Gross Profit	% of total	Gross Billing	% of total	Gross Profit	% of total	Gross Billing	% of total	Gross Profit	% of total
	(RMB'000, except otherwise in percentage)																			
Text and image . . .	272,846	85.5	13,929	96.7	426,866	26.5	19,635	24.5	432,613	12.9	25,909	17.0	172,278	10.3	8,144	12.7	170,049	10.8	9,993	12.0
Short video	46,247	14.5	473	3.3	1,183,707	73.5	60,521	75.5	2,925,601	87.1	126,653	83.0	1,497,545	89.7	55,954	87.3	1,399,357	89.2	73,149	88.0
Total	319,093	100.0	14,402	100.0	1,610,573	100.0	80,156	100.0	3,358,214	100.0	152,562	100.0	1,669,823	100.0	64,098	100.0	1,569,406	100.0	83,142	100.0

The significant increases in gross billing and gross profit generated from our short video marketing solutions business during the Track Record Period were in line with our strategy to shift our business focus to short video marketing, since people became keen to watch short videos as opposed to browsing websites to read text and image, which is a market trend.

The following table sets forth a breakdown of our gross profit and gross profit margin by customer type for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit/loss RMB'000	Gross Profit/loss Margin %
Online marketing solutions business										
Advertisers	11,361	7.0	54,548	5.0	86,863	3.9	42,220	3.4	28,554	3.9
Advertising agencies	3,041	100.0	25,608	98.7	65,699	94.5	21,878	95.6	54,589	91.3
Sub-total	14,402	8.7	80,156	7.1	152,562	6.7	64,098	5.1	83,143	10.5
Pan-entertainment content services business										
Ad networks	7,197	50.7	10,585	43.4	4,614	21.9	3,379	25.4	(3,332)	(232.0)
Advertisers	28,106	50.7	17,518	43.4	2,113	21.9	1,496	25.4	4,570	63.5
Sub-total	35,303	50.7	28,103	43.4	6,727	21.9	4,875	25.4	1,238	14.3
Total	49,705	21.1	108,259	9.1	159,289	6.9	68,973	5.4	84,381	10.6

Under our online marketing solutions business, the gross profit margin of our solutions provided to advertisers and advertising agencies decreased gradually during the Track Record Period, primarily as a result of the increasingly expensive user traffic we acquired from top online publishers, which is in line with industry norm and market trend. The gross profit margin of our solutions provided to advertising agencies was higher than those provided to advertisers, primarily because substantially all of the revenue generated from advertising agencies was recognized on a net basis where we did not record cost of sales.

Under our pan-entertainment content services business, the gross profit margin generated from ad networks and advertisers equaled in 2017, 2018 and 2019 and the six months ended June 30, 2020, as the services we provided to ad networks and advertisers were identical – providing advertising spaces on our *Huabian* Platform – and therefore, the cost of sales of our overall pan-entertainment content services business was allocated to ad networks and advertisers on a pro rata basis with reference to their respective revenue contribution. Our pan-entertainment content services provided to ad networks recorded gross loss in the six months ended June 30, 2020, primarily due to further reduced revenue generated from *Huabian* Platform, while our fixed costs, such as employee benefits expenses, remained relatively stable. The gross profit margin generated from pan-entertainment content services provided to advertisers increased from 25.4% in the six months ended June 30, 2019 to 63.5% in the six months ended June 30, 2020, primarily because one of our short video KOL programs began to generate revenue since January 2020 and recorded a higher gross profit margin, mainly attributable to its low cost of sales comprising only employee benefits expenses.

Other Income and Gains

Our other income and gains primarily consist of bank interest income, investment interest income from financial assets at fair value through profit or loss and government grants. The following table sets forth a breakdown of our other income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
			(RMB'000)		
Bank interest income	41	39	78	17	46
Investment interest income from financial assets at fair value through profit or loss	169	454	1,300	1,036	534
Government grants	149	630	13,278	4,465	10,493
Others[(1)]	–	–	944	–	750
Total	**359**	**1,123**	**15,600**	**5,518**	**11,823**

Note:

(1) Others represent penalties recovered by us from our advertiser. Such penalties were charged on us by our media partner for our advertiser's failure to achieve the agreed annual spending of traffic acquisition cost.

Investment interest income from financial assets at fair value through profit or loss represents the fair value gain on the short-term wealth management products that we held for investment purpose which do not have a stated maturity and are redeemable at will.

Government grants primarily comprise VAT rebates and research and development grants. The VAT rebates are granted by the STA to support modern service enterprises and are effective from April 1, 2019 to December 31, 2021. In 2018, 2019 and the six months ended June 30, 2020, the research and development grants relating to our smart content distribution platform were given on a one-off basis and at the discretion of the local government authorities.

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) employee benefits expenses for our sales and marketing staff; (ii) entertainment expenses for the maintenance and management of customer relationships; (iii) travelling expenses for the transportation and accommodation of business travels of our sales and marketing staff. The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
Employee benefits expenses	940	4,179	6,566	2,061	2,089
Entertainment expenses	232	1,148	737	318	54
Travelling expenses	98	547	469	381	58
Others	31	36	21	21	73
Total	**1,301**	**5,910**	**7,793**	**2,781**	**2,274**

Our selling and distribution expenses increased significantly from RMB1.3 million in 2017 to RMB5.9 million in 2018, and further to RMB7.8 million in 2019, which was attributable to the increase in the number of our sales and marketing staff, reflecting our rapidly growing online marketing solutions business. Our selling and distribution expenses decreased from RMB2.8 million in the six months ended June 30, 2019 to RMB2.3 million in the six months ended June 30, 2020, primarily due to the fewer traveling and entertainment activities caused by the outbreak of COVID-19.

Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefits expenses; (ii) professional fees; (iii) depreciation and amortization expenses; (iv) office and rental expenses; (v) travelling expenses; and (vi) entertainment expenses for hospitality. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
Employee benefits expenses	3,008	5,616	16,542	6,684	8,086
Professional fees	377	4,076	11,574	1,814	8,139
Depreciation and amortization expenses	821	940	4,205	1,727	3,109
Office and rental expenses	519	887	3,378	1,526	1,140
Travelling expenses	380	570	2,323	639	379
Entertainment expenses	191	240	1,271	364	58
Others[1]	362	1,196	2,268	1,045	745
Total	**5,658**	**13,525**	**41,561**	**13,799**	**21,656**

Note:

(1) Others primarily comprise stamp duties and bank charges.

Employee benefits expenses primarily comprise the salaries, bonuses, pension and other social security and welfare of our Directors, senior management and administrative staff.

Professional fees primarily comprise legal and accounting fees in relation to our private placement and the Listing.

Depreciation and amortization expenses primarily comprise depreciation of our office leasehold and office equipment.

Office and rental expenses primarily comprise rent, utilities, maintenance and other general office expenses.

Travelling expenses primarily comprise transportation and accommodation expenses of business travels of our administrative staff.

Entertainment expenses primarily comprise hospitality expenses.

Our administrative expenses increased significantly from RMB5.7 million in 2017 to RMB13.5 million in 2018, and further to RMB41.6 million in 2019, which was attributable to (i) the increases in the number of administrative staff and their average compensation level resulting from our rapid business expansion; and (ii) an increase in professional fees arising primarily from the Listing; and (iii) an increase in depreciation and amortization expenses due to the rental of new office premises in line with our business expansion. Our administrative expenses increased from RMB13.8 million in the six months ended June 30, 2019 to RMB21.7 million in the six months ended June 30, 2020, primarily due to an increase in the professional fees in relation to the Listing.

Impairment Losses on Financial Assets, Net

Impairment losses on financial assets, net represent provisions of impairment of trade receivables, net of reversal. During the Track Record Period, we recorded impairment losses on financial assets, net of RMB1.9 million, RMB3.3 million, RMB29.6 million and RMB4.0 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. The increasing trend in our impairment losses on trade receivables during the Track Record Period was due to the increase in our trade receivables, in line with the rapid growth of our online marketing solutions business. The significant increase in our impairment losses on trade receivables in 2019 was caused by an one-off uncollectible trade receivable of RMB24.9 million defaulted by one of our online gaming advertisers. This online gaming advertiser failed to settle such trade receivable with us as it recorded losses in 2019 due to its poor operational performance. This online gaming advertiser became our customer since May 2018 but ceased to remain as our customer at the end of 2019. Our gross billing attributable to this online gaming advertiser was RMB14.3 million and RMB28.5 million in 2018 and 2019, respectively. We subsequently entered into a memorandum of understanding with this online gaming advertiser in November 2019 regarding such defaulted trade receivables, pursuant to which this online gaming advertiser agreed to settle such trade receivables by the end of 2022 without a detailed repayment schedule and its beneficial owner acknowledged to bear joint liabilities for the default in such trade receivables. This online gaming advertiser has been settling such trade receivables since April 2020, with repayments of RMB100,000, RMB150,000 and RMB1.0 million in April, May and August 2020, respectively. As of the Latest Practicable Date, the amount of trade receivables due from this online gaming advertiser was RMB23.7 million. We consider to take legal actions against this advertiser if it fails to settle all of the trade receivables owed to us upon the expiration of this memorandum.

In light of the above, we intend to tighten our credit policies by shortening the credit period granted to advertising customers within 30 days from the invoice date. See "— Certain Balance Sheet Items — Trade Receivables" and "Business — Risk Management and Internal Control — Credit Risk Management." During the Track Record Period and up to the Latest Practicable Date, except for this online gaming advertiser, none of our other advertising campaigns was loss-making.

Research and Development Expenses

Our research and development expenses primarily comprise (i) employee benefits expenses; (ii) outsourcing development expenses; and (iii) others mainly consisting of server rental expenses. The following table sets forth a breakdown of our research and development expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
Employee benefits expenses	2,473	3,554	7,442	2,993	3,188
Outsourcing development expenses	2,135	2,793	1,887	1,887	1,151
Others	914	589	594	536	31
Total	**5,522**	**6,936**	**9,923**	**5,416**	**4,370**

Employee benefits expenses primarily comprise the salaries, bonuses, pension and other social security and welfare of our research and development staff.

Outsourcing development expenses primarily relate to the outsourcing of custom software and system development.

Others primarily include server rental expenses representing short-term lease expenses on servers in relation to our research and development.

Our research and development expenses increased from RMB5.5 million in 2017 to RMB6.9 million in 2018, and further to RMB9.9 million in 2019, as we are committed to upgrading our proprietary DMP, improving our big data analytics and AI capabilities and developing our full service content production, exchange and distribution system. Our research and development expenses decreased from RMB5.4 million in the six months ended June 30, 2019 to RMB4.4 million in the six months ended June 30, 2020, primarily due to a decrease in outsourcing development expenses attributable to a decrease in our outsourced research and development activities.

Other Expenses

Other expenses relate to the penalties imposed on our advertiser by our media partner for our advertiser's failure to achieve the agreed annual spending of traffic acquisition cost, which were withheld from our deposits with such media partner.

Finance Costs

Our finance costs consist of (i) interest on interest-bearing bank and other borrowings; (ii) interest on lease liabilities; and (iii) other finance costs. The following table sets forth a breakdown of our finance costs for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
			(RMB'000)		
Interest on interest-bearing bank and other borrowings .	240	2,620	3,260	992	3,012
Interest on lease liabilities . . .	101	92	267	121	148
Other finance costs	–	–	2,997	189	3
Total	**341**	**2,712**	**6,524**	**1,302**	**3,163**

Interest on interest-bearing bank and other borrowings relates to our borrowings from bank and our shareholder, Baixing Net, to support our fast growing business.

Other finance costs primarily represent the discount charges by a bank for converting our note receivables into cash.

Share of Profits and Losses of Associates

We account an entity as our associate if we have significant influence but no control over such entity. Our share of profits and losses of associates was mainly from Shanghai Buwei and Shanghai Shanju (閃劇(上海)文化傳媒有限公司). We expect that our share of profits and losses of associates will not have a significant impact on our results of operations.

Income Tax Expense

Our income tax expense consists of current tax and deferred tax. The following table sets forth a breakdown of our income tax expense for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
			(RMB'000)		
Current tax	2,841	6,014	17,665	6,315	4,070
Deferred tax	(454)	(888)	(11,510)	(2,958)	(384)
Total	**2,387**	**5,126**	**6,155**	**3,357**	**3,686**

We were not subject to any income, estate, corporation, capital gains or other tax in the Cayman Islands pursuant to the tax rules and regulations of the Cayman Islands during the Track Record Period. We are not subject to income or capital gains tax in the BVI. No provision for Hong Kong profits tax has been made during the Track Record Period as we did not generate any assessable profits arising in Hong Kong.

Our PRC subsidiaries and our Consolidated Affiliated Entity are subject to the statutory EIT rate of 25%, except Netjoy Network and Quantum Culture Media. In particular, Netjoy Network was recognized as a "software enterprise" and as a result, it enjoyed EIT exemption in 2015 and 2016 and was entitled to a preferential EIT rate of 12.5% from 2017 to 2019. Netjoy Network is also entitled to a preferential EIT rate of 15% as a "high and new technology enterprise" starting from 2020, which needs to be renewed upon its expiration in November 2021. According to the Several Opinions of the State Council on Supporting the Construction of Kashgar and Horgos Economic Development Zones (國務院關於支持喀什霍爾果斯經濟開發區建設的若干意見), promulgated on September 30, 2011, and the Notice of the Preferential Policies of Enterprise Income Tax in the Two Special Economic Development Zones of Kashgar and Horgos in Xinjiang (財政部、國家稅務總局關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知), promulgated by the MOF and the STA on November 29, 2011, from 2010 to 2020, the newly-established enterprises in Kashgar and Horgos within the Catalog of Encouraged Industries in Poverty Areas of Xinjiang for Preferential Tax Treatment (新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄) shall be granted the preferential tax treatment of five-year EIT exemption since the first taxable year after becoming profitable. Our Quantum Culture Media falls within this catalog and is eligible for full EIT exemption from 2017 to 2020. For details regarding the preferential tax treatments enjoyed by Netjoy Network and Quantum Culture Media, see "— Key Factors Affecting Our Results of Operations." The preferential tax treatments enjoyed by us may change. Please see "Risk Factors — Risks Relating to Our Business and Industry — Any discontinuation or change in preferential tax treatment or government grants that currently are or may be available to us in the future could materially and adversely affect our business, financial condition and results of operations."

Our effective income tax rate was 6.7%, 6.9%, 7.8% and 6.1% for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. Our effective income tax rate during the Track Record Period was lower than our statutory EIT rate, primarily because Quantum Culture Media enjoyed full EIT exemption and Netjoy Network enjoyed 50% EIT exemption in 2017, 2018 and 2019 and was entitled to a preferential EIT rate of 15% in the six months ended June 30, 2020. As a result of such preferential tax treatment, we recorded tax reduction of RMB5.5 million, RMB12.6 million, RMB18.8 million and RMB13.3 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively.

During the Track Record Period and up to the Latest Practicable Date, we paid all relevant taxes that were due and applicable to us and had no disputes or unresolved tax issues with the relevant tax authorities.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months Ended June 30, 2020 Compared to Six months Ended June 30, 2019

Revenue

Our revenue decreased by 38.1% to RMB797.0 million for the six months ended June 30, 2020 from RMB1,286.5 million for the six months ended June 30, 2019, primarily due to a decrease of RMB479.0 million in revenue from our online marketing solutions business.

Online Marketing Solutions Business

Our revenue from online marketing solutions business decreased by 37.8% to RMB788.3 million for the six months ended June 30, 2020 from RMB1,267.3 million for the six months ended June 30, 2019, primarily due to the loss of customer E which contributed RMB648.8 million to our revenue in the first half of 2019. The decrease was partially offset by increases of RMB213.4 million in revenue from business expansion in e-commerce, financial services and advertising industries.

Pan-entertainment Content Services Business

Our revenue from pan-entertainment content services business decreased by 55.1% to RMB8.6 million for the six months ended June 30, 2020 from RMB19.2 million for the six months ended June 30, 2019, primarily due to a decrease of RMB17.2 million in revenue generated from our *Huabian* Platform, partially offset by an increase of RMB6.7 million in revenue generated from *Idol Answers*, in line with our strategy to upgrade our pan-entertainment content services and expand content coverage from text and image content only to include short video programs.

Cost of Sales

Our cost of sales decreased by 41.5% to RMB712.6 million for the six months ended June 30, 2020 from RMB1,217.5 million for the six months ended June 30, 2019, primarily due to a decrease of RMB498.0 million in cost of sales of our online marketing solutions business.

Online Marketing Solutions Business

Our cost of sales of online marketing solutions business decreased by 41.4% to RMB705.2 million for the six months ended June 30, 2020 from RMB1,203.2 million for the six months ended June 30, 2019, primarily due to a decrease in traffic acquisition costs which was mainly attributable to (i) a decrease in revenue generated from our online marketing solutions; and (ii) the reduced market price of ad inventories caused by the outbreak of COVID-19.

Pan-entertainment Content Services Business

Our cost of sales of pan-entertainment content services business decreased by 48.4% to RMB7.4 million for the six months ended June 30, 2020 from RMB14.3 million for the six months ended June 30, 2019, in line with our declining pan-entertainment content services business.

Gross Profit and Gross Profit Margin

As a result of foregoing, our gross profit increased by 22.3% to RMB84.4 million for the six months ended June 30, 2020 from RMB69.0 million for the six months ended June 30, 2019. Our gross profit margin increased to 10.6% for the six months ended June 30, 2020 from 5.4% for the six months ended June 30, 2019, in line with the increased gross profit margin of our online marketing solutions business which contributed a substantial portion of our total gross profit. The increased gross profit margin of our online marketing solutions business was primarily due to (i) an increase in the gross profit margin of our online marketing solutions business under gross basis (all-in-one services) mainly attributable to the reduced rebates, as a percentage of our gross billing, we granted to advertising customers; and (ii) an increasing portion of online marketing solutions under net basis which recorded gross profit margin of 100.0%.

Other Income and Gains

Our other income and gains increased by 114.3% to RMB11.8 million for the six months ended June 30, 2020 from RMB5.5 million for the six months ended June 30, 2019, primarily due to an increase in government grants of RMB6.0 million mainly because we started to enjoy VAT rebates since April 2019.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 18.2% to RMB2.3 million for the six months ended June 30, 2020 from RMB2.8 million for the six months ended June 30, 2019, primarily due to a decrease in entertainment expenses of RMB0.3 million and a decrease in travelling expenses of RMB0.3 million, both of which were as a result of fewer entertainment and travelling activities caused by the outbreak of COVID-19.

Administrative Expenses

Our administrative expenses increased by 56.9% to RMB21.7 million for the six months ended June 30, 2020 from RMB13.8 million for the six months ended June 30, 2019, primarily due to an increase in professional fees of RMB6.3 million, which were mainly attributable to an increase in professional fees incurred in relation to the Listing.

Impairment Losses on Financial Assets, Net

Our net impairment losses on financial assets decreased by 66.9% to RMB4.0 million for the six months ended June 30, 2020 from RMB12.1 million for the six months ended June 30, 2019, primarily due to the one-off uncollectible trade receivables of RMB12.8 million defaulted by one of our online gaming advertisers in the first half of 2019.

Research and Development Expenses

Our research and development expenses decreased by 19.3% to RMB4.4 million for the six months ended June 30, 2020 from RMB5.4 million for the six months ended June 30, 2019, primarily due to a decrease of RMB0.7 million in outsourcing development expenses.

Finance Costs

Our finance costs increased by 142.9% to RMB3.2 million for the six months ended June 30, 2020 from RMB1.3 million for the six months ended June 30, 2019, primarily due to an increase in interest expenses on bank loans of RMB2.0 million mainly attributable to an increase in average bank borrowing balance.

Income Tax Expense

Our income tax expense remained relatively stable at RMB3.4 million for the six months ended June 30, 2019 and RMB3.7 million for the six months ended June 30, 2020. Our effective income tax rate decreased to 6.1% for the six months ended June 30, 2020 from 8.6% for the six months ended June 30, 2019, mainly as a result of our preferential tax treatment.

Profit for the Period

As a result of the foregoing, our profit for the period increased by 60.6% to RMB57.1 million for the six months ended June 30, 2020 from RMB35.5 million for the six months ended June 30, 2019. Our net profit margin, which represents profit for the period as a percentage of revenue, increased from 2.8% for the six months ended June 30, 2019 to 7.2% for the six months ended June 30, 2020, as a result of (i) reduced rebates, as a percentage of our gross billing, we granted to advertising customers; (ii) an increasing portion of online marketing solutions business under net basis that recorded gross profit margin of 100.0%; and (iii) a significant decrease in impairment losses on trade receivables arising from an one-off uncollectible trade receivables defaulted by one of our online gaming advertisers in the first half of 2019.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenue

Our revenue increased significantly by 95.0% to RMB2,313.0 million for the year ended December 31, 2019 from RMB1,186.2 million for the year ended December 31, 2018, primarily due to an increase of RMB1,160.9 million in revenue from our online marketing solutions business, offset by a decrease of RMB34.0 million in revenue from our pan-entertainment content services business.

Online Marketing Solutions Business

Our revenue from online marketing solutions business increased significantly by 103.5% to RMB2,282.3 million for the year ended December 31, 2019 from RMB1,121.4 million for the year ended December 31, 2018, primarily due to the increases in the number of our advertisers and their average spending, reflecting our strategy and commitment to scaling our online marketing solutions business and also in line with the rapid industry growth.

Pan-entertainment Content Services Business

Our revenue from pan-entertainment content services business decreased significantly by 52.5% to RMB30.7 million for the year ended December 31, 2019 from RMB64.7 million for the year ended December 31, 2018, primarily as we were in the process of upgrading our text and image content services to short video content services to diversify our pan-entertainment content services.

Cost of Sales

Our cost of sales increased significantly by 99.8% to RMB2,153.7 million for the year ended December 31, 2019 from RMB1,077.9 million for the year ended December 31, 2018, primarily due to an increase of RMB1,088.5 million in cost of sales of our online marketing solutions business, offset by a decrease of RMB12.6 million in cost of sales of our pan-entertainment content services business.

Online Marketing Solutions Business

Our cost of sales of online marketing solutions business increased significantly by 104.5% to RMB2,129.7 million for the year ended December 31, 2019 from RMB1,041.3 million for the year ended December 31, 2018, primarily due to (i) an increase of RMB1,076.8 million in traffic acquisition costs as a result of our fast growing online marketing solutions business; and (ii) an increase of RMB8.7 million in employee benefits expenses attributable to the increase in the number of our operational staff, in line with our business expansion.

Pan-entertainment Content Services Business

Our cost of sales of pan-entertainment content services business decreased by 34.5% to RMB24.0 million for the year ended December 31, 2019 from RMB36.6 million for the year ended December 31, 2018, in line with our declining pan-entertainment content services business.

Gross Profit and Gross Profit Margin

As a result of foregoing, our gross profit increased by 47.1% to RMB159.3 million for the year ended December 31, 2019 from RMB108.3 million for the year ended December 31, 2018. Our gross profit margin decreased to 6.9% for the year ended December 31, 2019 from 9.1% for the year ended December 31, 2018, primarily due to a larger portion of our online marketing solutions business in 2019, which recorded a low gross profit margin.

Other Income and Gains

Our other income and gains increased significantly to RMB15.6 million for the year ended December 31, 2019 from RMB1.1 million for the year ended December 31, 2018, primarily due to an increase of RMB12.6 million in government grants resulting from the VAT rebates granted to modern service enterprises starting from April 2019.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 31.9% to RMB7.8 million for the year ended December 31, 2019 from RMB5.9 million for the year ended December 31, 2018, primarily due to an increase of RMB2.4 million in employee benefits expenses attributable to the increase in sales and marketing staff, corresponding to our rapid business expansion.

Administrative Expenses

Our administrative expenses increased significantly by 207.3% to RMB41.6 million for the year ended December 31, 2019 from RMB13.5 million for the year ended December 31, 2018, primarily due to (i) an increase of RMB10.9 million in employee benefits expenses attributable to the increase in the average compensation level of our management and administrative staff; (ii) an increase of RMB7.5 million in professional fees in relation to the Listing; (iii) an increase of RMB2.5 million in depreciation of right-of-use assets attributable to our new operation leases for office premises in 2018; and (iv) an increase of RMB2.5 million in office and rental expenses in line with our business expansion.

Impairment Losses on Financial Assets, Net

Our impairment losses on financial assets, net increased significantly to RMB29.6 million for the year ended December 31, 2019 from RMB3.3 million for the year ended December 31, 2018, primarily due to the one-off uncollectible trade receivables of RMB24.9 million defaulted by one of our online gaming advertisers.

Research and Development Expenses

Our research and development expenses increased by 43.1% to RMB9.9 million for the year ended December 31, 2019 from RMB6.9 million for the year ended December 31, 2018, primarily due to (i) an increase of RMB3.9 million in employee benefits expenses attributable to the increases in the number of research and development staff and their average compensation, partially offset by a decrease of RMB0.9 million in outsourcing development expenses.

Finance Costs

Our finance costs increased significantly by 140.6% to RMB6.5 million for the year ended December 31, 2019 from RMB2.7 million for the year ended December 31, 2018, primarily due to (i) an increase of RMB2.8 million arising from discount charges on note receivables; and (ii) an increase of RMB0.6 million in interest expenses on bank and other borrowings, as a result of an increase in bank borrowings to support our fast growing business.

Income Tax Expense

Our income tax expense increased by 20.1% to RMB6.2 million for the year ended December 31, 2019 from RMB5.1 million for the year ended December 31, 2018, primarily due to an increase of RMB11.7 million in current tax as a result of our rapid profit growth and additional income tax expenses arising from the sale of Letui Culture by Netjoy Network in relation to the Reorganization, offset by an increase of RMB10.6 million in deferred tax expense primarily as a result of the impairment losses on trade receivables. Our effective income tax rate increased to 7.8% for the year ended December 31, 2019 from 6.9% for the year ended December 31, 2018, as a result of the additional income tax expenses arising from the sale of Letui Culture by Netjoy Network in relation to the Reorganization.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 5.0% to RMB72.9 million for the year ended December 31, 2019 from RMB69.5 million for the year ended December 31, 2018. Our net profit margin, which represents profit for the year as a percentage of revenue, decreased from 5.9% for the year ended December 31, 2018 to 3.2% for the year ended December 31, 2019, as a result of (i) the rapid growth of our online marketing solutions business which has a low gross profit margin; and (ii) the one-off impairment losses on trade receivables.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenue

Our revenue increased significantly by 403.8% to RMB1,186.2 million for the year ended December 31, 2018 from RMB235.4 million for the year ended December 31, 2017, primarily due to an increase of RMB955.6 million in revenue from our online marketing solutions business, offset by a decrease of RMB4.8 million in revenue from our pan-entertainment content services business.

Online Marketing Solutions Business

Our revenue from online marketing solutions business increased significantly by 576.2% to RMB1,121.4 million for the year ended December 31, 2018 from RMB165.8 million for the year ended December 31, 2017, primarily as (i) we strategically shifted our focus to short video marketing to capture the huge growth opportunities offered by the rise of short videos as a popular and prevalent form of entertainment; and (ii) we became a national direct advertising agent of a leading short video platform for its short video marketing business.

Pan-entertainment Content Services Business

Our revenue from pan-entertainment content services business decreased by 7.0% to RMB64.7 million for the year ended December 31, 2018 from RMB69.6 million for the year ended December 31, 2017, primarily as we devoted more resources to short video marketing and production.

Cost of Sales

Our cost of sales increased significantly by 480.4% to RMB1,077.9 million for the year ended December 31, 2018 from RMB185.7 million for the year ended December 31, 2017, primarily due to an increase of RMB889.8 million in our cost of sales of online marketing solutions business.

Online Marketing Solutions Business

Our cost of sales of online marketing solutions business increased significantly by 587.6% to RMB1,041.3 million for the year ended December 31, 2018 from RMB151.4 million for the year ended December 31, 2017, primarily due to (i) an increase of RMB886.1 million in traffic acquisition costs in line with our business expansion; and (ii) an increase of RMB2.3 million in employee benefits expenses attributable to the increase in the number of our operational staff, reflecting our efforts to focus on online marketing solutions business.

Pan-entertainment Content Services Business

Our cost of sales of pan-entertainment content services business increased by 6.9% to RMB36.6 million for the year ended December 31, 2018 from RMB34.3 million for the year ended December 31, 2017, primarily due to an increase of RMB2.0 million in traffic acquisition costs, in line with the market trend of increasingly expensive user traffic.

Gross Profit and Gross Profit Margin

As a result of foregoing, our gross profit increased significantly by 117.8% to RMB108.3 million for the year ended December 31, 2018 from RMB49.7 million for the year ended December 31, 2017. Our gross profit margin decreased to 9.1% for the year ended December 31, 2018 from 21.1% for the year ended December 31, 2017, primarily as our revenue from fast growing online marketing solutions business that has a low gross profit margin accounted for a majority portion of our total revenue in 2018.

Other Income and Gains

Our other income increased to RMB1.1 million for the year ended December 31, 2018 from RMB0.4 million for the year ended December 31, 2017, primarily due to (i) an increase of RMB0.5 million in government grants as a result of tax refund and an increase of RMB0.3 million in investment income from financial assets at fair value through profit or loss.

Selling and Distribution Expenses

Our selling expenses increased significantly by 354.3% to RMB5.9 million for the year ended December 31, 2018 from RMB1.3 million for the year ended December 31, 2017, primarily due to (i) an increase of RMB3.2 million in employee benefits expenses attributable to the increase in the number of sales and marketing staff; and (ii) an increase of RMB0.9 million in entertainment expenses to explore new customers and maintain existing customers, both of which were in line with our business expansion.

Administrative Expenses

Our administrative expenses increased significantly by 139.0% to RMB13.5 million for the year ended December 31, 2018 from RMB5.7 million for the year ended December 31, 2017, primarily due to (i) an increase of RMB3.7 million in professional services fees in relation to the private placement of our shares to Wutong Holding; and (ii) an increase of RMB2.6 million in employee benefits expenses attributable to the increases in the number of our management and administrative staff and their increased average compensation level.

Impairment Losses on Financial Assets, Net

Our impairment losses on financial assets, net increased by 74.6% to RMB3.3 million for the year ended December 31, 2018 from RMB1.9 million for the year ended December 31, 2017, primarily due to the increase in our trade receivables, in line with the rapid growth of our online marketing solutions business.

Research and Development Expenses

Our research and development expenses increased by 25.6% to RMB6.9 million for the year ended December 31, 2018 from RMB5.5 million for the year ended December 31, 2017, primarily due to the increases in the number of research and development staff and their average compensation level.

Finance Costs

Our finance costs increased to RMB2.7 million for the year ended December 31, 2018 from RMB0.3 million for the year ended December 31, 2017, primarily due to an increase of RMB2.4 million in bank interest expenses as a result of more bank loans to support our business expansion.

Income Tax Expense

Our income tax expense increased significantly by 114.7% to RMB5.1 million for the year ended December 31, 2018 from RMB2.4 million for the year ended December 31, 2017, primarily due to the increase in our profit before tax in 2018, in line with our business growth. Our effective income tax rate remained stable at 6.9% for the year ended December 31, 2018 compared to 6.7% for the year ended December 31, 2017.

Profit for the Year

As a result of the foregoing, our profit for the year increased significantly by 110.6% to RMB69.5 million for the year ended December 31, 2018 from RMB33.0 million for the year ended December 31, 2017. Our net profit margin, which represents profit for the year as a percentage of revenue, decreased from 14.0% for the year ended December 31, 2017 to 5.9% for the year ended December 31, 2018, as a result of the rapid growth of our online marketing solutions business which recorded a low gross profit margin.

LIQUIDITY AND CAPITAL RESOURCES

Our business operations and expansion plans require a significant amount of capital, including acquiring user traffic from online publishers, enhancing our content production capabilities, improving our big data analytics and AI capabilities, upgrading our proprietary DMP and other infrastructures as well as other working capital requirements. Historically, we financed our capital expenditure and working capital requirements mainly through cash generated from operations, bank and other borrowings, and capital contributions from Shareholders. As of December 31, 2017, 2018 and 2019 and June 30, 2020, we had cash and cash equivalents of RMB26.2 million, RMB6.3 million, RMB34.8 million and RMB44.8 million, respectively, consisting of cash at bank and in hand.

Cash Flows

The following table sets forth a summary of our cash flows during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
			(RMB'000)		
Operating cash flows before movement in working capital	38,191	81,388	118,098	53,270	70,767
Changes in working capital	(30,107)	(192,802)	(116,603)	(64,703)	11,929
Interest paid	(60)	(53)	(189)	(104)	(102)
Tax paid	(927)	(2,433)	(5,274)	(5,211)	(11,018)
Net cash generated from/(used in) operating activities	7,097	(113,900)	(3,968)	(16,748)	71,576
Net cash used in investing activities	(1,235)	(5,910)	(10,769)	(1,844)	(45,772)
Net cash (used in)/generated from financing activities	(6,210)	99,920	43,277	20,764	(15,848)
Net (decrease)/increase in cash and cash equivalents	(348)	(19,890)	28,540	2,172	9,956
Cash and cash equivalents at the beginning of the year/period	26,538	26,190	6,300	6,300	34,840
Cash and cash equivalents at the end of the year/period	**26,190**	**6,300**	**34,840**	**8,472**	**44,796**

Operating Activities

We derive our cash inflow from operating activities primarily through provision of online marketing solutions business and pan-entertainment content services business. Cash outflow from operating activities primarily comprises traffic acquisition costs, employee benefit expenses, and other operating expenses. Our cash from operating activities reflects our profit before taxation, adjusted for non-cash or non-operating items, such as finance costs, investment income from short-term investment through profit or loss, provisions of impairment of trade receivables, net, depreciation of right-of-use assets, and the changes in working capital, including increases in trade receivables, prepayments, other receivables and other assets, trade payables, other payables and accruals, and contract liabilities.

We recorded negative operating cash flow of RMB113.9 million and RMB4.0 million in 2018 and 2019, respectively, primarily due to the relatively longer credit terms we granted to our advertising customers than those media partners granted to us, as we strategically shifted our focus to short video marketing in 2018 and intended to attract advertisers by offering longer credit terms. Our operating cash outflow decreased significantly from 2018 to 2019, primarily due to our tightened credit policy in payment collection, as we have become a leading short video marketing solutions provider and have stronger bargaining power. Due to our effective tightened credit policy, we generated cash inflow of RMB71.6 million in the first half of 2020. We will continue to strictly implement our enhanced credit policy in place to maintain and improve our operating cash flows after the Listing.

Our net cash generated from operating activities was RMB71.6 million for the six months ended June 30, 2020. This net cash inflow was primarily attributable to (i) our profit before tax of RMB60.8 million, as adjusted to reflect non-cash or non-operating items of RMB10.0 million, which principally included finance costs of RMB3.2 million, provisions of impairment of trade receivables, net of RMB4.0 million and depreciation of right-of-use assets of RMB2.3 million; (ii) a decrease of RMB87.1 million in trade receivables generally in line with the reduced user traffic acquisition during low season; (iii) an increase of RMB25.4 million in contract liabilities and an increase of RMB26.3 million in other payables and accruals mainly attributable to an increase in collections from customers, both of which were primarily as a result of our enhanced credit policy in 2020 that requires certain advertising customers to prepay for our online marketing solutions to offset the impact of certain online publishers' prepayment requirements on our liquidity. This net cash inflow was partially offset by (i) a decrease of RMB64.6 million in trade payables generally in line with the reduced user traffic acquisition during low season; (ii) an increase of RMB62.2 million in prepayments, other receivables and other assets, mainly as a result of our business expansion with leading online publishers that require prepayments for acquiring their traffic; and (iii) income tax paid of RMB11.0 million.

Our net cash used in operating activities was RMB16.7 million for the six months ended June 30, 2019. This net cash outflow was primarily attributable to (i) our profit before tax of RMB38.9 million, as adjusted to reflect non-cash or non-operating items of RMB14.4 million, which principally included provision for impairment of trade receivables, net of RMB12.1 million, finance costs of RMB1.3 million, investment income from short-term investment through profit or loss of RMB1.0 million and depreciation of right-of-use assets of RMB1.3 million; (ii) an increase of RMB39.0 million in prepayments, other receivables and other assets mainly attributable to an increase in prepayments for user traffic acquisition in line with the rapid expansion of our online marketing solutions business; and (iii) a decrease of RMB96.0 million in trade payables generally in line with the reduced user traffic acquisition during low season. This net cash outflow was partially offset by (i) a decrease of RMB50.4 million in trade receivables generally in line with the reduced revenue during low season; and (ii) an increase of RMB18.4 million in contract liabilities in line with the rapid expansion of our online marketing solutions business.

Our net cash used in operating activities was RMB4.0 million for the year ended December 31, 2019. This net cash outflow was primarily attributable to (i) our profit before tax of RMB79.1 million, as adjusted to reflect non-cash or non-operating items of RMB39.0 million, which principally included finance costs of RMB6.5 million, provisions of impairment of trade receivables, net of RMB29.6 million, depreciation of right-of-use assets of RMB3.2 million and investment income from short-term investment through profit or loss of RMB1.3 million; (ii) an increase of RMB106.3 million in trade receivables as a result of the rapid growth of our online marketing solutions business; (iii) an increase of RMB72.7 million in prepayments, other receivables and other assets; and (iv) income tax paid of RMB5.3 million. The increase in prepayments, other receivables and other assets was primarily due to (i) an increase of RMB70.3 million in prepayments for traffic acquisition as two top online publishers required prepayment for their user traffic which were our major traffic suppliers; (ii) an increase of RMB11.0 million of value-added tax recoverable as a result of an additional 10% input VAT deduction granted by the STA; and (iii) a decrease of RMB8.5 million in deposits as we terminated our cooperation with a mobile browser which required deposits. This net cash outflow was partially offset by (i) an increase in trade payables of RMB31.9 million due to more user traffic we acquired in line with the rapid growth of our online marketing solutions business; (ii) an increase of RMB9.6 million in other payables and accruals; and (iii) an increase of RMB21.0 million in contract liabilities as a result of the incremental advances prepaid by our customers for our online marketing solutions. The increase in other payables and accruals was primarily due to (i) an increase of RMB2.1 million in payroll and bonus payables attributable to the increases in the number of our employees and their average compensation level, in line with our business expansion; (ii) accrued expenses of RMB4.5 million in relation to the Listing; and (iii) an increase of RMB2.7 million in collections from customers for our advertisement distribution services, in line with our business expansion.

Our net cash used in operating activities was RMB113.9 million for the year ended December 31, 2018. This net cash outflow was primarily attributable to (i) our profit before tax of RMB74.6 million, as adjusted to reflect non-cash or non-operating items of RMB6.8 million, which principally included finance costs of RMB2.7 million and provisions of impairment of trade receivables, net of RMB3.3 million; (ii) an increase of RMB285.1 million in trade receivables in line with the rapid growth of our online marketing solutions business; (iii) an increase of RMB25.9 million in prepayments, other receivables and other assets; and (iv) income tax paid of RMB2.4 million. The increase in prepayments, other receivables and other assets was primarily due to (i) an increase of RMB10.3 million in prepayments for traffic acquisition reflecting our strategy to focus on and expand our online marketing solutions business; and (ii) an increase of RMB15.0 million in deposits primarily as a mobile browser required deposits for acquiring its user traffic. This net cash outflow was partially offset by (i) an increase of RMB99.2 million in trade payables due to more user traffic we acquired, in line with the rapid growth of our online marketing solutions business; (ii) an increase of RMB7.7 million in other payables and accruals; and (iii) an increase of RMB11.3 million in contract liabilities as a result of the incremental advances prepaid by our customers for our online marketing solutions. The increase in other payables and accruals was primarily due to (i) an increase of RMB2.5 million in payroll and bonus payables attributable to the increases in the number of our employees and their average compensation level; (ii) an increase of RMB1.7 million in tax payables; and (iii) an increase of RMB2.5 million in collection from customers for our advertisement distribution services, all of which reflected our business expansion.

Our net cash generated from operating activities was RMB7.1 million for the year ended December 31, 2017. This net cash inflow was primarily attributable to (i) our profit before tax of RMB35.4 million, as adjusted to reflect non-cash or non-operating items of RMB2.8 million, which principally included provisions of impairment of trade receivables, net of RMB1.9 million; (ii) an increase of RMB47.3 million in trade payables attributable to the tremendous increase in traffic acquisition costs paid to a leading news and information platform in line with the growth of our online marketing solutions, in particular text and image advertising; (iii) an increase of RMB4.9 million in other payables and accruals; and (iv) an increase of RMB3.8 million in contract liabilities as a result of the incremental advances prepaid by our customers for our online marketing solutions. The increase in other payables and accruals was primarily due to (i) an increase of RMB0.7 million in payroll and bonus payables attributable to the increases in the number of our employees and their average compensation level; (ii) an increase of RMB2.1 million in tax payables; and (iii) an increase of RMB1.8 million in collection from customers for our advertisement distribution services, all of which reflected our business expansion. This net cash generated from operating activities was partially offset by (i) an increase of RMB80.6 million in trade receivables, in line with the rapid growth of our online marketing solutions business; and (ii) an increase of RMB5.5 million in prepayments, other receivable and other assets. The increase in prepayments, other receivables and other assets was primarily due to an increase of RMB5.7 million in prepayments for traffic acquisition, in line with the growth of our online marketing solutions business.

Investing Activities

Our cash used in investing activities mainly reflects our cash used in payments for property, plant and equipment, other intangible assets, and investment in associates. Our cash generated from investing activities mainly comprises investment income from short-term investments through profit or loss.

Our net cash used in investing activities was RMB45.8 million for the six months ended June 30, 2020. This net cash outflow was primarily due to (i) addition of financial assets through profit or loss of RMB42.0 million because we purchased certain short-term wealth management products; and (ii) investment in an associate of RMB3.0 million as a result of our investment in Shanghai Shanju.

Our net cash used in investing activities was RMB1.8 million for the six months ended June 30, 2019. This net cash outflow was primarily due to (i) purchases of property, plant and equipment of RMB1.4 million in relation to video production equipment and office furnishing service; and (ii) purchases of other intangible assets of RMB1.5 million in relation to the acquisition of right of use of a website. This net cash outflow was offset by investment income from our short-term wealth management products of RMB1.0 million.

Our net cash used in investing activities was RMB10.8 million for the year ended December 31, 2019. This net cash outflow was primarily due to (i) purchases of property, plant and equipment of RMB2.5 million in relation to computers and other professional equipment; (ii) purchases of other intangible assets of RMB7.2 million in relation to the acquisition of a website and software; and (iii) investment in an associate of RMB2.3 million as we increased our capital in Shanghai Buwei. This net cash outflow was offset by investment income from short-term investments through profit or loss of RMB1.3 million. Our net cash used in investing activities in 2019 reflected our rapid business expansion.

Our net cash used in investing activities was RMB5.9 million for the year ended December 31, 2018. This net cash outflow was primarily due to investment in an associate, Yunlin Culture, of RMB6.0 million.

Our net cash used in investing activities was RMB1.2 million for the year ended December 31, 2017. This net cash outflow was primarily due to investment in an associate, Shanghai Buwei, of RMB1.0 million.

Financing Activities

Cash inflow from financing activities mainly comprises capital injections and bank and other borrowings. We use cash in financing activities primarily for repayments of bank and other borrowings and lease payments.

Our net cash used in financing activities was RMB15.8 million for the six months ended June 30, 2020. This net cash outflow was primarily due to repayment of bank loans of RMB90.0 million, partially offset by new bank loans of RMB79.5 million.

Our net cash generated from financing activities was RMB20.8 million for the six months ended June 30, 2019. This net cash inflow was primarily due to new bank loans of RMB48.0 million, partially offset by repayment of bank loans of RMB24.8 million.

Our net cash generated from financing activities was RMB43.3 million for the year ended December 31, 2019. This net cash inflow was primarily due to (i) new bank loans of RMB115.5 million; and (ii) loans from related parties of RMB112.9 million. This net cash inflow was partially offset by (i) repayment of bank loans and loans from related parties of RMB166.1 million; (ii) lease payments of RMB3.2 million; (iii) interests paid of RMB5.2 million; and (iv) dividend paid of RMB11.0 million.

Our net cash generated from financing activities was RMB99.9 million for the year ended December 31, 2018. This net cash inflow was primarily due to (i) new bank loans of RMB142.8 million; (ii) loans from related parties of RMB105.5 million; and (iii) capital injection from non-controlling shareholders of RMB78.0 million from Wutong Holding. This net cash inflow was partially offset by (i) repayment of bank loans and loans from related parties of RMB220.0 million; (ii) share issue expenses of RMB3.1 million in relation to the professional service fees for the private placement of our Shares to Wutong Holding; and (iii) interests paid of RMB2.6 million.

Our net cash used in financing activities was RMB6.2 million for the year ended December 31, 2017. This net cash outflow was primarily due to (i) repayment of bank loans of RMB9.8 million; and (ii) lease payments of RMB0.7 million, offset by new bank loans of RMB4.5 million.

CAPITAL EXPENDITURES AND COMMITMENTS

Our capital expenditures during the Track Record Period primarily consisted of expenditures on (i) property, plant and equipment for office equipment and leasehold improvement; and (ii) intangible assets for software and the user right of a website. The following table sets forth our capital expenditures for the periods indicated:

	Year ended December 31,			Six months ended June 30, 2020
	2017	2018	2019	
	(RMB'000)			
Property, plant and equipment	504	364	2,511	1,195
Intangible assets	–	–	8,730	111
Total	**504**	**364**	**11,241**	**1,306**

We expect to incur approximately RMB7.8 million for the year ending December 31, 2020, primarily related to office furniture and decoration as well as purchases of servers, software and website. We intend to fund our planned capital expenditures through cash generated from operations.

Our actual capital expenditures may differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial condition, economic conditions in the PRC, the availability of financing on terms acceptable to us and changes in the regulatory environment in the PRC. In addition, we may incur additional capital expenditures from time to time as we pursue new opportunities to expand our business.

Capital Commitments

The following table sets out our capital commitments as of the dates indicated:

	As of December 31,			As of June 30, 2020
	2017	2018	2019	
	(RMB'000)			
Contracted but not provided for purchases of office furnishing services	–	–	–	2,102

NET CURRENT ASSETS

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

	As of December 31,			As of June 30,	As of October 31,
	2017	2018	2019	2020	2020
					(unaudited)
			(RMB'000)		
Current assets:					
Financial assets at fair value through profit or loss	–	–	–	42,000	–
Trade receivables	98,504	380,312	457,025	365,951	599,872
Prepayments, other receivables and other assets	10,648	36,136	106,709	169,263	226,558
Cash and cash equivalents	26,190	6,300	34,840	44,796	12,734
Total current assets	**135,342**	**422,748**	**598,574**	**622,010**	**839,164**
Current liabilities:					
Trade payables	48,552	147,771	179,633	115,041	149,611
Other payables and accruals	6,386	25,063	24,897	50,402	127,111
Interest-bearing bank borrowings	–	27,800	91,547	80,942	151,299
Current portion of lease liabilities	652	684	4,037	5,862	5,385
Contract liabilities	5,000	16,319	37,353	62,756	65,043
Income tax payables	2,801	6,382	18,773	11,826	16,411
Total current liabilities	**63,391**	**224,019**	**356,240**	**326,829**	**514,860**
Net current assets	**71,951**	**198,729**	**242,334**	**295,181**	**324,304**

We had net current assets of RMB324.3 million as of October 31, 2020, consisting of current assets of RMB839.2 million and current liabilities of RMB514.9 million, which represented an increase of RMB29.1 million from our net current assets of RMB295.2 million as of June 30, 2020. This was primarily due to (i) an increase of RMB233.9 million in trade receivables, in line with the rapid growth of our online marketing solutions business during peak season; and (ii) an increase of RMB57.3 million in prepayments, other receivables and other assets, mainly as a result of our further business expansion with leading online publishers that require prepayments for acquiring their traffic. This was partially offset by (i) an increase of RMB76.7 million in other payables and accruals, primarily as a result of an increase in collections from customers for our advertisement distribution services during peak season; (ii) an increase of RMB70.4 million in interest-bearing bank borrowings to finance our fast growing business during peak season; (iii) a decrease of RMB42.0 million in financial assets at fair value through profit or loss because we redeemed all of our bank wealth management products in September 2020; (iv) an increase of RMB34.6 million in trade payables, primarily in line with the rapid growth of our online marketing solutions business during peak season; and (v) a decrease of RMB32.1 million in cash and cash equivalents, primarily as a result of the increase in prepayments to online publishers for traffic acquisition.

We had net current assets of RMB295.2 million as of June 30, 2020, consisting of current assets of RMB622.0 million and current liabilities of RMB326.8 million, which represented an increase of RMB52.8 million from our net current assets of RMB242.3 million as of December 31, 2019. This was primarily due to (i) a decrease of RMB64.6 million in trade payables generally in line with the reduced user traffic acquisition during low season; (ii) an increase of RMB62.6 million in prepayments, other receivables and other assets, mainly as a result of our business expansion with leading online publishers that require prepayments for acquiring their traffic; (iii) an increase of RMB42.0 million in financial assets at fair value through profit or loss; (iv) a decrease of RMB10.6 million in interest-bearing bank borrowings; and (v) an increase of RMB10.0 million in cash and cash equivalents. This was partially offset by (i) a decrease of RMB91.0 million in trade receivables generally in line with the reduced revenue during low season; and (ii) an increase of RMB25.4 million in contract liabilities, and an increase of RMB25.5 million in other payables and accruals mainly attributable to an increase in collections from customers, both of which were primarily due to our stricter credit policy in 2020 that requires certain advertising customers to prepay for our online marketing solutions to offset the impact of certain online publishers' prepayment requirements on our liquidity.

We had net current assets of RMB242.3 million as of December 31, 2019, consisting of current assets of RMB598.6 million and current liabilities of RMB356.2 million, which represented an increase of RMB43.6 million from our net current assets of RMB198.7 million as of December 31, 2018. This was primarily due to (i) an increase of RMB76.7 million in trade receivables in line with the repaid growth of our online marketing solutions business; (ii) an increase of RMB70.6 million in prepayments, other receivables and other assets mainly due to prepayments to two top online publishers for their traffic which were our major traffic suppliers; and (iii) an increase of RMB28.5 million in cash and cash equivalents mainly attributable to our increased bank borrowings. This was partially offset by (i) an increase of RMB31.9 million in trade payables, in line with the rapid growth of our online marketing solutions business; (ii) an increase of RMB63.7 million in interest-bearing bank borrowings; (iii) an increase of RMB21.0 million in contract liabilities as a result of the incremental amounts prepaid by our customers for our online marketing solutions; and (iv) an increase of RMB12.4 million in income tax payables, as a result of our increased taxable income.

We had net current assets of RMB198.7 million as of December 31, 2018, consisting of current assets of RMB422.7 million and current liabilities of RMB224.0 million, which represented an increase of RMB126.8 million from our net current assets of RMB72.0 million as of December 31, 2017. This was primarily due to (i) an increase of RMB281.8 million in trade receivables, in line with the repaid growth of our online marketing solutions business; and (ii) an increase of RMB25.5 million in prepayments, other receivables and other assets mainly due to the payment of deposits to a mobile browser for acquiring user traffic. This was partially offset by (i) a decrease of RMB19.9 million in cash and cash equivalents mainly attributable to the relatively longer credit terms we granted to our customers than those granted to us by our suppliers which led to net cash outflow; (ii) an increase of RMB99.2 million in trade payables in line with the rapid growth of our online marketing solutions business; (iii) an increase of RMB18.7 million in other payables and accruals mainly attributable to the payroll and bonus payables to our employees and dividends payables to our shareholders; (iv) an increase of RMB27.8 million in interest-bearing bank borrowings; and (v) an increase of RMB11.3 million in contract liabilities as a result of the incremental advances prepaid by our customers for our online marketing solutions business.

As of December 31, 2017, we had net current assets of RMB72.0 million, consisting of current assets of RMB135.4 million and current liabilities of RMB63.4 million.

Working Capital Sufficiency

During the Track Record Period, we met our working capital requirements mainly from cash generated from operations, capital injections from non-controlling shareholders, loans from related parties and bank borrowings.

Taking into account the financial resources available to us, including cash flow from operating activities, cash balance, bank borrowing, unutilized bank facilities, and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus.

Other than those disclosed in " — Key Factors Affecting Our Results of Operations", our Directors are not aware of any other factors that would have a material impact on our liquidity. See "— Future Plans and Use of Proceeds" for details of the funds necessary to meet our existing operations and to fund our future plans.

CERTAIN BALANCE SHEET ITEMS

Trade Receivables

The following table sets forth our trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
Trade receivables	100,681	385,805	492,148	405,074
Impairment	(2,177)	(5,493)	(35,123)	(39,123)
Total	**98,504**	**380,312**	**457,025**	**365,951**

Trade receivables mainly represent unsecured and non-interest-bearing balances due from our advertisers in relation to our online marketing solutions business.

Our trade receivables increased significantly by 286.1% to RMB380.3 million as of December 31, 2018 from RMB98.5 million as of December 31, 2017, reflecting the rapid growth of our online marketing solutions business. The significant growth of trade receivables in 2018 was caused by the longer credit terms we granted to our customers as we just launched our short video marketing solutions and would like to attract advertisers on favorable terms.

Our trade receivables increased by 20.2% to RMB457.0 million as of December 31, 2019 from RMB380.3 million as of December 31, 2018, reflecting a further growth of our online marketing solutions business. The growth of our trade receivables in 2019 was slower than that in 2018 as we adopted stricter credit policies in collecting trade receivables from our customers, including shortening the credit terms we granted to our customers.

Our trade receivables decreased by 19.9% to RMB366.0 million as of June 30, 2020 from RMB457.0 million as of December 31, 2019, generally in line with the reduced revenue as the first half of each calendar year is generally our low season.

The following table sets forth ageing analysis of our trade receivables, based on invoice date and net of impairment, as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
Within 60 days	51,465	336,773	384,357	271,859
61 to 180 days	41,729	33,084	37,856	35,871
181 to 365 days	5,172	10,254	33,408	56,172
Over one year	138	201	1,404	2,049
Total	**98,504**	**380,312**	**457,025**	**365,951**

The following table sets forth the ageing analysis of our trade receivables before impairment by due date:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
Not past due	52,685	333,729	356,291	278,857
0 to 60 days past due	38,443	32,294	70,589	31,649
61 to 180 days past due	6,184	17,407	47,273	40,083
181 to 365 days past due	2,488	1,118	11,439	43,334
Over one year past due	881	1,257	6,556	11,151
Total	**100,681**	**385,805**	**492,148**	**405,074**

We generally grant credit terms to our customers ranging from 30 days to 90 days. We seek to maintain strict control over our outstanding trade receivables, and overdue balances are reviewed regularly by the management.

During the Track Record Period, we either settled most of our traffic acquisition costs with our media partners within 30 days since the transaction dates or prepaid for the user traffic to be acquired from our media partners, while we generally settled with our customers within 30 to 90 days since the invoice dates or required prepayments for our online marketing solutions, which resulted in a mismatch between the timing of payments of traffic acquisition costs and the timing of receipt of revenue from advertising customers. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our cash conversion cycle, calculated as trade receivables turnover days minus trade payables turnover days, was approximately 28.8 days, 29.3 days, 26.6 days and 29.5 days, respectively.

To manage our trade receivables adequately, we will adopt an enhanced credit policy, which will be updated or renewed by our legal and compliance department from time to time. Credits and credit terms granted to our customers vary depending on their gross spending, industries and selected content distribution channels:

New customers. We generally require prepayments for our new customers. We may grant a credit term of three to seven days to our new customers when they have three or more transactions with us and their gross spending reach RMB500,000.

Different industries. Our management regularly reviews the credit profiles of specific industries, taking into account the overall performance of that particular industry, government policies and restrictions on the industry as well as the track record and reputation of such industry. When our management deems there may be a high risk to transact with such industry, we will temporarily suspend providing services to such industry, or require prepayment before we provide services. For online gaming companies, after internal review of their business qualifications, industry reputation, credit records and financial position, we may grant credit terms to them after their gross spending reaches RMB2.0 million; while for customers from other industries, the gross spending threshold for us to grant to them credit terms varies from RMB200,000 to RMB500,000.

Content distribution channels. Based on the different credit periods that our content distribution channels grant to us, we may grant to our advertising customers varying credit periods, which are generally not longer than those content distribution channels grant to us.

Taking into account other factors, such as peak seasons, our intention to tap into new industry verticals, to attract and retain major enterprises, or to achieve our annual performance goals, we may extend our credit terms to certain customers at our sole discretion.

For details of our credit policy, see "Business — Risk Management and Internal Control — Credit Risk Management."

The following table sets forth the movements in loss allowance for impairment of trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
		(RMB'000)		
At the beginning of the year	278	2,177	5,493	35,123
Impairment losses, net	1,899	3,316	29,630	4,000
At the end of the year	**2,177**	**5,493**	**35,123**	**39,123**

We apply the simplified approach to make provisions for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, the provision rates are based on aging analysis of customers that have similar loss patterns. In addition, our policy for impairment loss on trade receivables on an individual basis is based on an evaluation of collectability and ageing analysis of the receivables, which requires the use of judgment and estimation. Provisions are applied to the receivables when there are events or changes in circumstances which indicate that the balances may not be collectible. We closely review the trade receivable balance and any overdue balances on an ongoing basis and assess the collectability of overdue balances. As of December 31, 2017, 2018 and 2019 and June 30, 2020, we recognize net impairment losses of RMB1.9 million, RMB3.3 million, RMB29.6 million and RMB4.0 million on our trade receivables. For details regarding the impairment analysis of our trade receivable, see Note 18 in "Appendix I — Accountants' Report" to this prospectus.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our trade receivables turnover days were 55.6 days, 52.2 days, 45.1 days and 47.5 days, respectively. We calculate the trade receivables turnover days using the average of the opening and closing trade receivables balances for the period, net of impairment, divided by gross billing for the relevant period, multiplied by the number of days in the relevant period (365 days for 2017, 2018 and 2019 and 182 days for the six months ended June 30, 2020). Our trade receivables turnover days decreased from 55.6 days in 2017 to 52.2 days in 2018, and further decreased to 45.1 days in 2019 as we adopted stricter credit policy in collecting our trade receivables from our customers, mainly shortening the credit terms we granted to our customers. Our trade receivables turnover days increased slightly from 45.1 days in 2019 to 47.5 days in the six months ended June 30, 2020, primarily due to the prolonged settlement of trade receivables by certain customers in light of the COVID-19.

As of October 31, 2020, RMB314.0 million, or approximately 77.5% of our trade receivables as of June 30, 2020 were subsequently settled.

Prepayments, Other Receivables and Other Assets

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

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
Included in non-current assets:				
Prepayments	161	581	2,738	2,402
Included in current assets:				
Prepayments	9,047	18,972	82,095	129,009
Prepayments for investment in film	–	–	5,000	5,000
Value-added tax recoverable	–	535	11,516	22,761
Deposits	1,601	16,629	8,098	12,493
Total	**10,809**	**36,717**	**109,447**	**171,665**

The non-current portion of prepayments represent amounts we prepaid to a credit reporting agency to obtain basic information, such as legal representative, registered capital, and penalties and proceedings, of our potential customers. The current portion of prepayments represent amounts we prepaid to our media partners for acquiring user traffic. Our current portion of prepayments increased by 109.7% from RMB9.0 million as of December 31, 2017 to RMB19.0 million as of December 31, 2018, as a result of our business expansion. Our current portion of prepayments increased by 359.1% from RMB19.0 million as of December 31, 2018 to RMB87.1 million as of December 31, 2019, primarily due to the further rapid growth of our online marketing solutions business where certain leading online publishers required prepayments for acquiring their user traffic. Our current portion of prepayments increased by 53.9% from RMB87.1 million as of December 31, 2019 to RMB134.0 million as of June 30, 2020, mainly as a result of our business expansion with leading online publishers that require prepayments for acquiring their traffic. In particular, online marketing solutions providers serving e-commerce advertisers were required by Supplier A to make prepayments, and our business expansion with e-commerce advertisers in the six months ended June 30, 2020 had resulted in a significant increase in our prepayments.

Prepayments for investment in film represent our investment in a movie produced by a leading PRC media group listed on the Shenzhen Stock Exchange. As of the Latest Practicable Date, this movie has completed filming and was in the process of post-production. The investment in film is an one-off investment, as one of our measures to implement our strategy of upgrading our pan-entertainment content services. We will evaluate our investment in this web film to see if it adds value and synergies to our service offerings, operations and brand buildings to decide whether to make future investments in movies.

Our prepayments turnover days, calculated as dividing the average of the opening and closing balance for the period by our gross spending of traffic acquisition for the relevant period, multiplied by the number of days in the relevant period (365 days for 2017, 2018 and 2019 and 182 days for the six months ended June 30, 2020), decreased from 6.8 days in 2017 to 3.3 days in 2018, primarily as a result of a significant increase in our gross spending of traffic acquisition from our media partners, in line with our strategical shift of business focus to online marketing solutions business. Our prepayments turnover days increased from 3.3 days in 2018 to 6.2 days in 2019 and further to 13.8 days in the six months ended June 30, 2020, in line with our rapid growth of prepayments which results from our fast expansion of online marketing solutions business.

The following table sets forth an aging analysis of our prepayments as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
Within 3 months	7,463	8,450	78,863	119,531
Over 3 months but within 12 months	1,683	10,204	3,706	9,616
Over 12 months	62	899	7,264	7,264
Total	**9,208**	**19,553**	**89,833**	**136,411**

Our prepayments aged over 3 months but within 12 months as of December 31, 2018 were primarily due to (i) an investment of RMB5.0 million in a movie; and (ii) an amount of RMB2.3 million prepaid to a media agent for acquiring user traffic from online publishers. Our prepayments aged over 3 months but within 12 months as of June 30, 2020 were primarily due to an aggregate amount of RMB6.3 million prepaid to media agents for acquiring user traffic from online publishers. Prepayments to these media agents were not utilized in a timely manner because we intended to continue our cooperation with them but finally ceased to do so as a result of the ineffective user traffic we acquired through these media agents.

Our prepayments aged over 12 months of RMB7.3 million as of December 31, 2019 and June 30, 2020 were primarily due to an investment of RMB5.0 million in a movie, which was in the post-production stage.

Prepayments for traffic acquisition to suppliers are crucial to our operations and business expansion in the sense that (i) prepayments are required by certain leading online publishers, which are usually preferred and chosen by advertising customers to place their advertisements; and (ii) prepayments are usually required in establishing cooperation with leading online publishers that are admired by advertisers. As a consequence, in general, the larger amounts of prepayments to suppliers, the larger scale of our business, which is evidenced by the rapid growth of both our revenue and prepayments throughout the Track Record Period. Such prepayments are fully refundable upon our request, provided that (i) when we determine to cease to acquire traffic from a certain supplier and (ii) if a certain supplier fails to provide the relevant traffic resources to us in a timely manner or at all. Prepayments are subject to (i) the price pressure caused by the changes in the unit price of ad inventories and (ii) any major changes in online publishers' internal terms or policies regulating their prepayments. Despite that prepayments help boost our business, any significant increase in prepayments may also result in an adverse impact on our cash flows generated from operating activities and working capital sufficiency and expose us to credit and liquidity risks. See "— Financial Risks" and Note 34 in the Accountants' Report set out in Appendix I to this prospectus. However, to satisfy our working capital requirement and to reduce the associated credit and liquidity risks, we (i) require certain advertising customers to make prepayments to us which are recorded as contract liabilities; (ii) encourage advertising customers to top up their advertisement distribution service fees (net basis) which are recorded as collections from customers; and (iii) utilize a portion of the gross proceeds from the Global Offering as prepayments to expand our business so as to reduce the potential impact on our cash flows from operating activities. If our online publisher suppliers fail to provide the relevant traffic resources to us in a timely manner or at all, we may be exposed to prepayment default risks. See "Risk Factors — Risks Relating to Our Business and Industry — Our large prepayments to major suppliers may involve significant uncertainty. Failure to recover our prepayments in part or in full could have a material and adverse impact on our business and financial position."

To manage our large and rapidly growing amounts of prepayments adequately, we have the following internal control measures in place to monitor the funding and utilization of prepayments, which will be reviewed and updated by our legal and compliance department from time to time:

(i) Where we are required to make prepayments to certain online publishers for acquiring their traffic, we generally require our advertising customers that choose such online publishers to make prepayments to us so as to maintain our liquidity;

(ii) We impose a limit on the maximum amounts of prepayments that are generally expected to cover traffic acquisition costs of seven to 14 days for each advertising customer, depending on its scale of business, industry reputation, track record and relationship with us; and

(iii) We keep track of and regularly review our prepayments balances with each online publisher through our accounting system and when we notice any major unusual fluctuations we will conduct relevant investigations.

Value-added tax recoverable represents the deductible input VAT. Our value-added tax recoverable increased from nil as of December 31, 2017 to RMB0.5 million as of December 31, 2018, and further to RMB11.5 million as of December 31, 2019, and further to RMB22.8 million as of June 30, 2020, primarily due to the additional 10% input VAT deduction granted by the STA since April 2019.

Deposits represent amounts deposited with online publishers for user traffic acquisition. During the Track Record Period, we entered into tripartite framework agreements with advertising customers and online publishers, which required payment of deposits to guarantee minimum gross spending of advertising customers, failing to meet which such deposits would be forfeited by online publishers. Our deposits increased from RMB1.6 million as of December 31, 2017 to RMB16.6 million as of December 31, 2018, primarily due to the deposits paid to a mobile browser for acquiring its user traffic. Our deposits decreased from RMB16.6 million as of December 31, 2018 to RMB8.1 million as of December 31, 2019, primarily as we terminated cooperation with such mobile browser in the second quarter of 2019. Our deposits increased from RMB8.1 million as of December 31, 2019 to RMB12.5 million as of June 30, 2020, primarily because our payment of deposits on behalf of additional advertising customers pursuant to tripartite agreements entered into with a leading online publisher in the first half of 2020 in exchange for more favourable pricing of ad inventories.

As of October 31, 2020, RMB111.9 million, or approximately 82.0% of our prepayments as of June 30, 2020 had been subsequently utilized.

Trade Payables

The following table sets forth our trade payables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
Trade payables	48,552	147,771	179,633	115,041

Trade payables primarily represent outstanding amounts due to our suppliers for user traffic acquisition.

Our trade payables increased significantly by 204.4% from RMB48.6 million as of December 31, 2017 to RMB147.8 million as of December 31, 2018, and further increased by 21.6% to RMB179.6 million as of December 31, 2019, in line with the rapid growth of our online marketing solutions business. Our trade payables decreased by 36.0% from RMB179.6 million as of December 31, 2019 to RMB115.0 million as of June 30, 2020, generally in line with the reduced user traffic acquisition as the first half of each calendar year is generally our low season.

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

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
0 to 90 days	32,561	140,386	179,229	113,305
91 to 365 days	15,991	5,498	315	1,378
Over one year	–	1,887	89	358
Total	**48,552**	**147,771**	**179,633**	**115,041**

Our suppliers generally settle with us within 30 days to 90 days. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our trade payables turnover days were 26.8 days, 22.9 days, 18.5 days and 18.0 days, respectively. We calculate the trade payables turnover days using the average of the opening and closing trade payable balances for the year, divided by the total purchases of user traffic for the relevant period, multiplied by the number of days in the relevant period (365 days for 2017, 2018 and 2019 and 182 days for the six months ended June 30, 2020). Our trade payables turnover days decreased during the Track Record Period, primarily due to the growth of our total purchases of user traffic outpaced that of our trade payables, as we prepaid to certain of our major suppliers for user traffic acquisition.

As of October 31, 2020, RMB113.4 million, or approximately 98.6% of our trade payables as of June 30, 2020 had been subsequently settled.

Other Payables and Accruals

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

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
Payroll and bonus payables	1,242	3,708	5,784	4,966
Tax payables	2,862	4,581	5,106	9,729
Collections from customers	1,807	4,351	7,006	26,637
Other payables	475	12,423	7,001	9,070
Total	**6,386**	**25,063**	**24,897**	**50,402**

Payroll and bonus payables represent wages and bonuses payable to our employees. Our payroll and bonus payables increased from RMB1.2 million as of December 31, 2017 to RMB3.7 million as of December 31, 2018, and further increased to RMB5.8 million as of December 31, 2019, primarily due to the increases in the number of our employees and their average compensation level, in line with our business expansion. Our payroll and bonus payables decreased from RMB5.8 million as of December 31, 2019 to RMB5.0 million as of June 30, 2020, primarily due to payment of the 2019 annual bonus to our employees in the first half of 2020.

Collections from customers represent the pre-collected payment from customers seeking for our advertisement distribution services, the balance of which will be refunded if our customers terminate to purchase our services. Our collections from customers increased from RMB1.8 million as of December 31, 2017 to RMB4.4 million as of December 31, 2018, and further increased to RMB7.0 million as of December 31, 2019, reflecting and in line with the rapid growth of our online marketing solutions business. Our collections from customers increased from RMB7.0 million as of December 31, 2019 to RMB26.6 million as of June 30, 2020, primarily as a result of our stricter credit policy in 2020 that requires certain advertising customers to prepay for our online marketing solutions to offset the impact of certain online publishers' prepayment requirements on our liquidity.

Tax payables represent taxes other than income tax, including stamp duties and VAT, to be paid to the relevant government tax authorities. Our tax payables increased from RMB2.9 million as of December 31, 2017 to RMB4.6 million as of December 31, 2018, and further increased to RMB5.1 million as of December 31, 2019, in line with our business expansion. Our tax payables increased from RMB5.1 million as of December 31, 2019 to RMB9.7 million as of June 30, 2020, primarily due to the delay in the issuance of invoices caused by the outbreak of COVID-19.

Other payables increased significantly from RMB0.5 million as of December 31, 2017 to RMB12.4 million as of December 31, 2018, primarily as we declared dividends of RMB11.0 million to our shareholders in November 2018. Other payables decreased from RMB12.4 million as of December 31, 2018 to RMB7.0 million as of December 31, 2019, primarily as (i) we settled such dividend payables in January 2019; (ii) an increase of RMB4.5 million in professional fees payables in relation to the Listing; and (iii) payable of RMB1.5 million for the purchase of a website. Other payables increased from RMB7.0 million as of December 31, 2019 to RMB9.1 million as of June 30, 2020, primarily due to the accrued professional fees in relation to the Listing.

Our Directors confirm that we had no material defaults in our trade payables or other payables and accruals during the Track Record Period and up to the Latest Practicable Date.

Contract Liabilities

Our contract liabilities represent advance payments from our advertising customers for our online marketing solutions while the underlying services have not been provided. The table below sets forth revenue-related contract liabilities we recognized as of the dates as indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
Included in current liabilities				
Online marketing services revenue . . .	5,000	16,319	37,353	62,756

Our contract liabilities increased from RMB5.0 million as of December 31, 2017 to RMB16.3 million as of December 31, 2018, and further increased to RMB37.4 million as of December 31, 2019, primarily due to the rapid growth of our online marketing solutions business from 2017 to 2019. Our contract liabilities increased from RMB37.4 million as of December 31, 2019 to RMB62.8 million as of June 30, 2020, primarily as a result of our stricter credit policy in 2020 that requires certain advertising customers to prepay for our online marketing solutions to offset the impact of certain online publishers' prepayment requirements on our liquidity.

The table below sets forth revenue we recognized during the Track Record Period in relation to carried-forward contract liabilities:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
				(unaudited)	
Revenue recognized that was included in the balance of contract liabilities	1,250	5,000	16,319	5,000	37,353

As of October 31, 2020, RMB47.6 million, or approximately 75.9% of our contract liabilities as of June 30, 2020 had been subsequently settled.

Lease Liabilities

We are the lessee in respect of certain properties as our office premises and office equipment for our operations under operating leases. Leases of properties generally have lease terms of one to four years. Office equipment generally has lease terms of 12 months or less and is individually of low value. For any lease with a term of more than 12 months, unless the underlying asset is of low value, we recognize a right-of-use asset representing our right to use the underlying leased asset and a lease liability representing our obligation to make lease payments.

The table below sets forth the carrying amount of our lease liabilities as of the dates as indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
		(RMB'000)		
Carrying amount of lease liabilities				
Current portion	652	684	4,037	5,862
Non-current portion	1,523	839	756	3,809
Total	**2,175**	**1,523**	**4,793**	**9,671**

INDEBTEDNESS AND CONTINGENT LIABILITIES

Indebtedness

During the Track Record Period, our indebtedness mainly consisted of bank borrowings, loans from related parties and lease liabilities.

The following table sets forth a breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2017	2018	2019	2020	2020
					(unaudited)
			(RMB'000)		
Included in current liabilities					
Bank borrowings					
— Short-term borrowings[1]	–	27,800	91,547	80,942	151,299
Loans from related parties	–	450	–	–	–
Current portion of lease liabilities	652	684	4,037	5,862	5,385
Sub-total	652	28,934	95,584	86,804	156,684
Included in non-current liabilities					
Non-current portion of lease liabilities	1,523	839	756	3,809	1,917
Total	**2,175**	**29,773**	**96,340**	**90,613**	**158,601**

Note:

(1) The terms of such bank borrowings were less than one year, and such bank borrowings were guaranteed by certain of our related parties and certain non-bank financial institutions. See Note 25 in "Appendix I — Accountants' Report" to this prospectus for details.

Our bank borrowings during the Track Record Period were denominated in Renminbi and were used to finance our working capital requirements. As of December 31, 2017, 2018 and 2019, June 30, 2020 and October 31, 2020, the weighted average interest rate of our bank borrowings was 5.5%, 6.1%, 6.0%, 5.3% and 5.6%, respectively.

Our Directors confirm that there has been no material change in our indebtedness position since October 31, 2020, being the latest practicable date for the purpose of the indebtedness statement.

As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to undertake additional debt or equity financing, nor was there any breach of covenant during the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, except for bank borrowings, we did not have plans for other material external debt financing. As of October 31, 2020, we had unutilized credit facilities of RMB35.0 million. We do not anticipate any changes to the availability of bank financing to finance our operations in the future, although we cannot assure you that we will be able to access bank financing on favorable terms or at all.

Contingent Liabilities

We did not have, as of October 31, 2020, any outstanding debt securities, mortgage, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness, leasing and financial leasing commitments, hire purchase commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our equity interest and classified as owners' equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

RELATED PARTY TRANSACTIONS

The following table sets forth a breakdown of our amounts due from/to related parties as of the dates indicated:

	As of December 31,			As of June 30, 2020	Relationship with our Group
	2017	2018	2019		
	(RMB'000)				
Amounts due from related parties:					
Trade in nature					
Baixing Net[1]	95	–	–	–	An entity controlled by our Director
Shanghai Buwei[1]	3,327	–	–	–	An associate
Total	**3,422**	**–**	**–**	**–**	
Amounts due to related parties:					
Trade in nature					
Baixing Net[2]	84	15	38	38	An entity controlled by our Director
Kijiji[2]	258	5,395	237	237	Our shareholder
Shangzequn[2]	70	70	70	70	An entity controlled by our Director
Horgos Buwei[3]	–	–	1,600	–	An associate
Shanghai Buwei[3]	–	–	1,400	–	An associate
Yunlin Culture[4]	–	–	23	–	An associate
Sub-total	412	5,480	3,368	345	
Non-trade in nature					
Mr. Xu[5]	–	450	–	–	Our Director
Total	**412**	**5,930**	**3,368**	**345**	

Notes:

(1) Represented service fees due from related parties for our pan-entertainment content services.

(2) Represented prepayments to us for our online marketing solutions. Kijiji and Shangzequn are subsidiaries of Baixing Net.

(3) Represented prepayments to us for our content production services. Horgos Buwei is a wholly owned subsidiary of Shanghai Buwei.

(4) Represented service fees due to a related party for its content production services.

(5) Represented loans from our shareholder to finance our working capital.

For details regarding the transactions with related parties during the Track Record Period, see Note 30(a) in "Appendix I — Accountants' Report" in this prospectus.

In addition to the shareholder loans from Mr. Xu stated above, we had borrowings from and repayment of borrowings to certain other related parties during the Track Record Period. See Note 30(a) in Appendix I to this prospectus for details. In particular, in order to accommodate our anticipated needs of working capital in support of the then rapid growth of our online marketing solutions business, we obtained a shareholder loan of RMB100.0 million with an annual interest rate at 5% from Baixing Net utilized by its general working capital, the holding company of Kijiji, one of the then existing shareholders of Netjoy Network, in May 2018 and repaid such loan in December 2018. As of June 30, 2020, our bank borrowings with principal amounts and interests thereon of RMB80.9 million were guaranteed by certain related parties, which will be released upon the Listing.

As of June 30, 2020, we had settled all non-trade amounts due from/to related parties. We will discontinue all non-trade related party transactions upon the Listing, except as in compliance with the Listing Rules.

It is the view of our Directors that each of the related party transactions set out in Note 30 of the Accountants' Report in Appendix I to this prospectus (i) was conducted on normal and arm-length commercial terms, which is considered fair, reasonable and in the interest of our Shareholders as a whole; and (ii) did not distort our results during Track Record Period or make our historical results not reflective of future performance.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates or for the periods indicated:

	Year ended December 31,			Six months ended June 30, 2020
	2017	2018	2019	
	%			
Profitability ratios				
Gross profit margin[(1)]	21.1	9.1	6.9	10.6
Net profit margin[(2)]	14.0	5.9	3.2	7.2
Return on equity[(3)]	44.1	33.4	25.9	N/A
Return on assets[(4)]	23.6	16.0	11.4	N/A

	As of December 31,			As of June 30, 2020
	2017	2018	2019	
Liquidity ratios				
Current ratio[(5)]	2.14	1.89	1.68	1.90
Quick ratio[(6)]	2.14	1,89	1.68	1.90
Capital adequacy ratio				
Gearing ratio (%)[(7)]	2.9	14.1	34.2	26.7
Net debt to equity ratio (%)[(8)]	N/A[(9)]	11.3	21.8	13.5

Notes:

(1) Gross profit margin is calculated based on gross profit for the year/period divided by revenue for the respective year/period and multiplied by 100%.

(2) Net profit margin is calculated based on profit for the year/period divided by revenue for the respective year/period and multiplied by 100%.

(3) Return on equity is calculated based on profit for the year divided by total equity at the end of the year and multiplied by 100%.

(4) Return on assets is calculated based on profit for the year divided by total assets at the end of the year and multiplied by 100%.

(5) Current ratio is calculated based on total current assets divided by total current liabilities.

(6) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities. Our quick ratio equaled to our current ratio as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively as we did not have inventories balance as of the same dates.

(7) Gearing ratio is calculated based on total borrowings (including bank and other borrowings and lease liabilities) divided by total equity multiplied by 100%.

(8) Net debt to equity ratio is calculated based on total borrowings (including bank and other borrowings and lease liabilities) less cash and cash equivalents divided by total equity multiplied by 100%.

(9) Net debt to equity ratio as of December 31, 2017 was not applicable as we had net cash as of the same date.

See "— Period to Period Comparison of Results of Operations" for a discussion of the factors affecting our gross profit margin and net profit margin during the respective periods.

Return on Equity

Our return on equity decreased from 44.1% in 2017 to 33.4% in 2018, primarily due to the increase in total equity as a result of capital contributions of RMB78.0 million from Wutong Holding. Our return on equity decreased from 33.4% in 2018 to 25.9% in 2019, primarily as the increase of our total equity outpaced that of our profit for the year.

Return on Assets

Our return on assets decreased from 23.6% in 2017 to 16.0% in 2018 and further decreased to 11.4% in 2019, primarily as the increase of our assets outpaced that of our profit for the year. The increase in assets was mainly attributable to the increases in trade receivables and prepayments, other receivables and other assets, in line with the rapid growth of our online marketing solutions business.

Current Ratio

Our current ratio decreased from 2.14 as of December 31, 2017 to 1.89 as of December 31, 2018 and further decreased to 1.68 as of December 31, 2019, primarily as the increase of our total current liabilities outpaced that of our total current assets. The increase in our total current liabilities was mainly attributable to the increases in contract liabilities and bank borrowings, in line with and to support the rapid growth of our online marketing solutions business.

Our current ratio increased from 1.68 as of December 31, 2019 to 1.90 as of June 30, 2020, primarily due to (i) an increase in prepayments, other receivables and other assets as a result of our business expansion with leading online publishers that require prepayments for acquiring their traffic; and (ii) a decrease in trade payables generally in line with the reduced user traffic acquisition during low season.

Gearing Ratio

Our gearing ratio increased from 2.9% as of December 31, 2017 to 14.1% as of December 31, 2018 and further to 34.2% as of December 31, 2019, primarily due to the increases in bank borrowings to support our business expansion. Our gearing ratio decreased from 34.2% as of December 31, 2019 to 26.7% as of June 30, 2020, primarily due to an increase in total equity as a result of the large amount of net profit earned in the first half of 2020.

Net debt to equity Ratio

Our net debt to equity ratio increased from 11.3% as of December 31, 2018 to 21.8% as of December 31, 2019, primarily due to the increase in bank borrowings to support our business expansion. Our net debt to equity ratio decreased from 21.8% as of December 31, 2019 to 13.5% as of June 30, 2020, primarily due to an increase in total equity as a result of the large amount of net profit earned in the first half of 2020.

FINANCIAL RISKS

We are exposed to a variety of financial risks, including credit risk and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. As of the Latest Practicable Date, we did not hedge or consider necessary to hedge any of these risks. For further details, see Note 34 in the Accountants' Report set out in Appendix I to this prospectus.

Credit Risk

Our credit risk is primarily attributable to trade receivables, financial assets included in prepayments, other receivables and other assets, and cash deposits at banks. The maximum exposure to credit risk is represented by the gross carrying amounts of these financial assets in our consolidated statements of financial position.

Management has a credit policy in place and the exposure to these credit risks is monitored on an on-going basis. As part of our credit policy, we only trade with recognized and credit worthy third parties and require that all debtors who which to trade on credit terms are subject to credit verification procedures. Therefore, our exposure to bad debts is not significant. There are no significant concentrations of credit risk as the customer bases of our trade receivables are widely dispersed.

Liquidity Risk

We manage liquidity risk by closely and continuously monitoring our financial position. We aim to maintain adequate cash and cash equivalents to meet our liquidity requirements, finance our business operations and mitigate the effects of fluctuations in cash flows. Please see Note 34 to the Accountants' Report set forth in Appendix I to this prospectus for more details about our financial liabilities by different maturity groups.

DIVIDENDS

Netjoy Network declared dividends of RMB11.0 million to its shareholders in November 2018, which was settled in January 2019. In addition to cash dividends, Netjoy Network distributed bonus shares as dividends to the then existing Shareholders in 2017 and 2018, amounting to RMB12.9 million and RMB13.8 million, respectively. Other than that, no dividend has been proposed, paid or declared by our Company since its incorporation, or by any of the subsidiaries of our Group during the Track Record Period. We do not currently have a formal dividend policy or a fixed dividend payout ratio.

Subject to the Cayman Companies Law and our Articles of Association, through a general meeting, we may declare dividends, but no dividend may be declared unless out of either profits or share premium account and no dividend shall exceed the amount recommended by our Board. Any declaration of dividends will be at the absolute discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Our Board may also from time to time pay interim dividends as our Board believes to be justified by the profits of our Company, as well as special dividends on shares of any class of such amounts and on such dates as it deems fit. We cannot guarantee in what form dividends will be paid in the future.

As we are a holding company, our ability to declare and pay dividends will also depend on the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

DISTRIBUTABLE RESERVES

As of June 30, 2020, the Company did not have any distributable reserves available for distribution to Shareholders.

LISTING EXPENSES

Our listing expenses mainly include underwriting commissions, professional fees paid to legal advisers and the Reporting Accountants for their services rendered in relation to the Listing and the Global Offering. The estimated total listing expenses (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised, excluding any discretionary incentive fee which may be payable by us) for the Global Offering are approximately RMB82.6 million, representing 7.7% of the gross proceeds (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised) of the Global Offering. During the Track Record Period, we incurred listing expenses of RMB19.9 million, of which approximately RMB16.0 million were charged to the consolidated statements of profit or loss for the year ended December 31, 2019 and the six months ended June 30, 2020, as administrative expenses and approximately RMB3.9 million was capitalized in the consolidated statements of financial position as of June 30, 2020 to be charged against equity upon successful Listing. We expect to incur additional listing expenses of approximately RMB62.7 million, of which approximately RMB16.2 million is expected to be recognized as administrative expenses and approximately RMB46.5 million is expected to be recognized as a deduction in equity directly upon the Listing. Our Directors do not expect that such expenses will have a material adverse effect on our results of operations for the year ending December 31, 2020.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is set out to show the effect of the Global Offering on our net tangible assets as of June 30, 2020, as if the Global Offering had taken place on that date. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of our net tangible assets had the Global Offering been completed as of June 30, 2020 or at any future date. The unaudited pro forma statement of adjusted net tangible assets is based on the unaudited consolidated total net tangible assets of the Group attributable to the owners of the Company as of June 30, 2020 derived from the Accountants' Report as set out in Appendix I to this prospectus, and adjusted as follows:

	Consolidated tangible assets attributable to owners of the Company as of June 30, 2020[1]	Estimated net proceeds from the Global Offering[2]	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company as of June 30, 2020	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share as of June 30, 2020[3]	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share as of June 30, 2020[4]
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB)	(HK$ equivalent)
Based on an Offer Price of HK$5.56 per Share	330,885	865,928	1,196,813	1.50	1.76
Based on an Offer Price of HK$7.08 per Share	330,885	1,113,511	1,444,396	1.81	2.13

Notes:

1. The consolidated net tangible assets attributable to owners of the Company as of June 30, 2020 is arrived at after deducting other intangible assets of RMB7,952,000 from consolidated equity attributable to owners of the Company of RMB338,837,000 as of June 30, 2020, as shown in the Unaudited Interim Financial Information, the text of which is set forth in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on an Offer Price of HK$5.56 and HK$7.08, after deducting the underwriting fees and other related expenses without taking account of the exercise of the Over-allotment Option.
3. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share is arrived at on the basis that 800,000,000 Shares are in issue assuming that the Global Offering has been completed on June 30, 2020. No adjustment has been made to the pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as of June 30, 2020 to reflect any trading result or other transaction of the Group entered into subsequent to June 30, 2020.
4. The unaudited pro forma adjusted consolidated net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of RMB0.84835 to HK$1.00.

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, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2020, being the date of the latest audited consolidated financial position of our Group as set out in the Accountants' Report in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules upon the Listing of the Shares on the Stock Exchange.