

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F**

- (Mark One)
- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2019
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____
For the transition period from _____ to _____
Commission file number 001-38644

Qutoutiao Inc.

(Exact name of Registrant as specified in its charter)

Cayman Islands

(Exact name of Registrant as specified in its charter)

11/F, Block 3, XingChuang Technology Center
5005 Shen Jiang Road, Pudong New Area
Shanghai 200120
People's Republic of China

(Address of principal executive offices)

Mr. Xiaolu Zhu, Chief Financial Officer
Telephone: +86-21-6858-3790
Email: ir@qutoutiao.net

At the address of the Company set forth above

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
American Depositary Shares, every four representing one Class A ordinary shares	QTT	NASDAQ Global Select Market
Class A Ordinary Shares, par value US\$0.0001 per share*	N/A	NASDAQ Global Select Market

* Not for trading, but only in connection with the listing on the NASDAQ Global Select Market of American depositary shares.

Securities registered or to be registered pursuant to Section 12(g)

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

39,645,820 Class A ordinary shares were outstanding as of December 31, 2019
32,937,193 Class B ordinary shares were outstanding as of December 31, 2019

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registration has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which consolidated financial statement item the registrant has elected to follow Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934) Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court Yes No

Table of Contents

	<u>Page</u>
<u>PART I.</u>	4
ITEM 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	4
ITEM 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	4
ITEM 3. <u>KEY INFORMATION</u>	4
ITEM 4. <u>INFORMATION ON THE COMPANY</u>	51
ITEM 4A. <u>UNRESOLVED STAFF COMMENTS</u>	77
ITEM 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	77
ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	103
ITEM 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	115
ITEM 8. <u>FINANCIAL INFORMATION</u>	116
ITEM 9. <u>THE OFFER AND LISTING</u>	117
ITEM 10. <u>ADDITIONAL INFORMATION</u>	117
ITEM 11. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	124
ITEM 12. <u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	125
<u>PART II.</u>	128
ITEM 13. <u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	128
ITEM 14. <u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	128
ITEM 15. <u>CONTROLS AND PROCEDURES</u>	128
ITEM 16A. <u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	129
ITEM 16B. <u>CODE OF ETHICS</u>	130
ITEM 16C. <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	130
ITEM 16D. <u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	130
ITEM 16E. <u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	131
ITEM 16F. <u>CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT</u>	131
ITEM 16G. <u>CORPORATE GOVERNANCE</u>	131
ITEM 16H. <u>MINE SAFETY DISCLOSURE</u>	131
<u>PART III.</u>	132
ITEM 17. <u>FINANCIAL STATEMENTS</u>	132
ITEM 18. <u>FINANCIAL STATEMENTS</u>	132
ITEM 19. <u>EXHIBITS</u>	132

CONVENTIONS THAT APPLY TO THIS ANNUAL REPORT ON FORM 20-F

Except where the context otherwise requires, references in this annual report to:

- “installed users” are to the aggregate number of unique mobile devices that have downloaded and launched our relevant mobile application at least once;
- “ADSs” are to American depositary shares, with every four ADSs representing one Class A ordinary share, and “ADRs” are to American depositary receipts that evidence ADSs;
- “CAGR” are to compound annual growth rate;
- “China” and the “PRC” are to the People’s Republic of China, excluding, for the purposes of this annual report only, Taiwan, the Hong Kong Special Administrative Region and the Macao Special Administrative Region;
- “DAUs” are to the number of unique mobile devices that accessed our relevant mobile application on a given day. “Combined average DAUs” for a particular period is the average of the DAUs for all of our mobile applications on each day during that period;
- “MAUs” are to the number of unique mobile devices that accessed our relevant mobile application in a given month. “Combined average MAUs” for a particular period is the average of the MAUs for all of our mobile applications in each month during that period;
- “oCPC” are to optimized cost-per-click as basis for charging our advertising services;
- “oCPM” are to optimized cost-per-thousand-impressions as basis for charging our advertising services;
- “R&D” are to research and development;
- “registered users” are to users that have registered accounts on our relevant mobile application;
- “RMB” or “Renminbi” are to the legal currency of China;
- “lower-tier cities” are to cities in China that are not tier-1 and tier-2 cities;
- “tier-1 and tier-2 cities” refer to (i) tier-1 cities in China, which are Beijing, Shanghai, Guangzhou and Shenzhen and (ii) tier-2 cities in China, which are Hangzhou, Nanjing, Jinan, Chongqing, Qingdao, Dalian, Ningbo, Xiamen, Tianjin, Chengdu, Wuhan, Harbin, Shenyang, Xi’an, Changchun, Changsha, Fuzhou, Zhengzhou, Shijiazhuang, Suzhou, Foshan, Dongguan, Wuxi, Yantai, Taiyuan, Hefei, Kunming, Nanchang, Nanning, Tangshan, Wenzhou and Zibo;
- “US\$,” “U.S. dollars,” or “dollars” are to the legal currency of the United States; and
- “we,” “us,” “our company” and “our” are to Qutoutiao Inc., its consolidated VIEs and their respective subsidiaries, as the context requires.

Unless specifically indicated otherwise or unless the context otherwise requires, all references to our ordinary shares exclude ordinary shares issuable upon the exercise of outstanding options with respect to our ordinary shares under our share incentive plan.

This annual report contains translations between Renminbi and U.S. dollars solely for the convenience of the reader. The translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.9618 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on December 31, 2019. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all.

Unless the context indicates otherwise, all share and per share data in this annual report have given effect to a share split in September 2017 in which each one of the previously issued ordinary shares was split into 10,000 ordinary shares.

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2017, 2018 and 2019, and as of December 31, 2018 and December 31, 2019.

Our ADSs are listed on the NASDAQ Global Select Market under the symbol “QTT.”

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains statements of a forward-looking nature. All statements other than statements of historical facts are forward-looking statements. These forward-looking statements are made under the “safe harbor” provision under Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and as defined in the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. In some cases, these forward-looking statements can be identified by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “potential,” “continue,” “is/are likely to” or other similar expressions. These forward-looking statements relate to, among others:

- our goal and strategies;
- our ability to maintain and strengthen our position as a leader amongst mobile content platform companies in China’s mobile content industry;
- our expansion plans;
- our ability to monetize through advertising and other products and services that we plan to introduce;
- our future business development, financial condition and results of operations, including our expectations regarding the impact of the coronavirus (COVID-19) outbreak on our business, financial condition and results of operations;
- PRC laws, regulations, and policies relating to the Internet and Internet content providers; and
- general economic and business conditions.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs.

You should read these statements in conjunction with the risks disclosed in “Item 3. Key Information—D. Risk Factors” of this annual report and other risks outlined in our other filings with the Securities and Exchange Commission, or the SEC. Moreover, we operate in an emerging and evolving environment. New risks may emerge from time to time, and it is not possible for our management to predict all risks, nor can we assess the impact of such risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ materially from those contained in any forward-looking statements. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report and the documents that we have referred to in this annual report, completely and with the understanding that our actual future results may be materially different from what we expect.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated statements of operations data for the years ended December 31, 2017, 2018 and 2019 and selected consolidated balance sheet as of December 31, 2018 and 2019 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated statements of operations data for the years ended December 31, 2016 and selected consolidated balance sheets as of December 31, 2016 and 2017 have been derived from our audited consolidated financial statements not included in this annual report.

You should read the selected consolidated financial data in conjunction with the financial statements and the related notes included elsewhere in this annual report and “Item 5. Operating and Financial Review and Prospects.” Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate our results expected for any future periods.

	Year Ended December 31,				
	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	US\$
(in thousands, except for percentages, share and per share data)					
Condensed Consolidated Statement of Operations					
Data:					
Revenues(1):					
Advertising and marketing revenues	57,880	512,883	2,814,258	5,415,321	777,862
Other revenue	74	4,170	207,888	154,760	22,230
Net revenues	57,954	517,053	3,022,146	5,570,081	800,092
Cost of revenues(2)	(7,178)	(76,481)	(503,613)	(1,640,632)	(235,662)
Gross profit	50,776	440,572	2,518,533	3,929,449	564,430
Operating expenses(2):					
Research and development expenses	(2,627)	(15,317)	(270,108)	(926,232)	(133,045)
Sales and marketing expenses	(54,633)	(494,724)	(3,250,038)	(5,489,708)	(788,547)
General and administrative expenses	(4,427)	(25,947)	(980,725)	(267,033)	(38,357)
Total operating expenses	(61,687)	(535,988)	(4,500,871)	(6,682,973)	(959,949)
Other operating income	—	—	725	30,292	4,351
Loss from operations(3)	(10,911)	(95,416)	(1,981,613)	(2,723,232)	(391,168)
Interest income	51	674	27,087	48,440	6,958
Interest expense	—	—	—	(26,878)	(3,861)
Foreign exchange related gains, net	—	—	4,134	1,869	268
Investment income	—	—	4,215	6,327	909
Other income/(expenses), net	(2)	(17)	(69)	9,049	1,300
Loss before income taxes	(10,862)	(94,760)	(1,946,247)	(2,684,425)	(385,594)
Income tax benefit/(expense)	—	—	401	(4,843)	(695)
Net loss	(10,862)	(94,760)	(1,945,846)	(2,689,268)	(386,289)
Net loss attributable to non-controlling interests	—	—	3,275	587	84
Net loss attributable to Qutoutiao Inc.	(10,862)	(94,760)	(1,942,572)	(2,688,681)	(386,205)
Accretion to convertible redeemable preferred shares redemption value	—	(6,012)	(101,807)	—	—
Accretion to redemption value of convertible redeemable preferred shares interests of a subsidiary	—	—	(978)	(20,548)	(2,951)
Gains on repurchase of convertible redeemable preferred shares	—	—	18,332	—	—
Deemed dividend to preferred shareholders	—	—	(1,917)	—	—
Net loss attributable to Qutoutiao Inc.'s ordinary shareholders	(10,862)	(100,772)	(2,028,941)	(2,709,229)	(389,156)
Net loss	(10,862)	(94,760)	(1,945,846)	(2,689,268)	(386,289)
Other comprehensive income/(loss)					
Foreign currency translation adjustment, net of nil tax	—	25	(16,454)	(1,505)	(216)
Total comprehensive loss	(10,862)	(94,735)	(1,962,300)	(2,690,773)	(386,505)
Comprehensive loss attributable to non-controlling interests	—	—	3,275	587	84
Comprehensive loss attributable to Qutoutiao Inc.	(10,862)	(94,735)	(1,959,025)	(2,690,186)	(386,421)
Net loss per share attributable to Qutoutiao Inc.'s ordinary shareholders(4)					
— Basic and diluted	(0.45)	(3.95)	(52.69)	(39.41)	(5.66)
Weighted average number of ordinary shares used in per share calculation: (4)(5)					
— Basic and diluted	24,062,500	25,542,031	38,507,184	68,749,981	68,749,981

(1) Revenues from transactions with related parties are set forth below for the periods indicated:

	Year Ended December 31,				
	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	US\$
	(in thousands)				
Advertising and marketing revenues	—	—	17,447	473,216	67,973
Other revenue	—	—	29,597	—	—

(2) Cost of revenues and operating expenses from transactions with related parties are set forth below for the periods indicated:

	Year Ended December 31,				
	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	US\$
	(in thousands)				
Cost of revenues	120	484	6,020	42,412	6,092
Research and development expenses	166	220	—	—	—
Sales and marketing expenses	74	950	23,671	3,284	472
General and administrative expenses	2,664	15,134	—	—	—

- (3) We recognized share-based compensation expenses of RMB3.4 million, RMB951.6 million and RMB272.0 million (US\$39.1 million) in 2017, 2018 and 2019, respectively. Share-based compensation expenses in 2018 included RMB864.7 million that related to certain ordinary shares beneficially owned by certain of our co-founders that became restricted pursuant to share restriction deeds entered into by them in January 2018 and fully vested upon completion of our initial public offering in September 2018.
- (4) The net loss per share for the years ended December 31, 2017 and 2018 has been revised to correct for an immaterial error related to the calculations of basic loss per share due to a failure to include the contingently issuable shares related to options exercisable for a minimal exercise price of RMB0.0007 in the denominator of basic loss per share once there were no further vesting conditions or contingencies associated with them. Accordingly, the basic and diluted net loss per share was revised from RMB4.19 to RMB3.95 and RMB57.97 to RMB52.69 for the years ended December 31, 2017 and 2018. The weighted average number of ordinary shares used in the computation of basic and diluted net loss per share was revised from 24,062,500 to 25,542,031 and 35,000,472 to 38,507,184 for the years ended December 31, 2017 and 2018.
- (5) The number of ordinary shares used in the per share calculation does not include the ordinary shares held by our equity incentive trusts, which, although legally issued and outstanding, are accounted for as treasury shares and as a result, are not deemed as outstanding from an accounting perspective. See “Item 6. Directors, Senior Management and Employees—B. Compensation—Equity Incentive Trusts.”

	Year Ended December 31,				
	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	US\$
	(in thousands)				
Summary Consolidated Balance Sheets:					
Cash and cash equivalents	269	278,458	2,186,288	347,817	49,961
Restricted cash	—	—	—	27,872	4,003
Short-term investments	12,370	129,770	115,436	1,276,831	183,405
Total current assets	29,758	466,208	2,626,074	2,692,227	386,714
Total assets	29,896	476,581	2,752,472	2,940,197	422,333
Registered users' loyalty payable	1,023	20,977	256,662	134,145	19,269
Accrued liabilities related to users' loyalty programs	24,509	187,003	44,134	89,185	12,811
Total liabilities	41,087	311,246	1,144,302	3,149,696	452,426
Total mezzanine equity	—	273,895	96,937	495,845	71,224
Total Qutoutiao Inc. shareholders' equity (deficit)	(11,191)	(108,560)	1,514,507	(701,482)	(100,762)
Non-controlling interests	—	—	(3,274)	(3,862)	(554)
Total shareholders' equity (deficit)	(11,191)	(108,560)	1,511,233	(705,344)	(101,316)

Non-GAAP Financial Measure

We use non-GAAP net loss attributable to Qutoutiao Inc., which is a non-GAAP financial measure, in evaluating our results of operation and for financial and operational decision-making purposes. Non-GAAP net loss attributable

to Qutoutiao Inc. represents net loss attributable to Qutoutiao Inc. before share-based compensation expenses. We believe that such non-GAAP financial measure help identify underlying trends in our business that could otherwise be distorted by the effect of such share-based compensation expenses that we include in cost of revenues, total operating expenses and net loss attributable to Qutoutiao Inc. In particular, share-based compensation expenses in 2018 included RMB864.7 million that related to certain ordinary shares beneficially owned by certain of our co-founders that became restricted pursuant to share restriction deeds entered into by them in January 2018 and fully vested upon completion of our initial public offering in September 2018. We believe that such non-GAAP financial measure also provides useful information about our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

The non-GAAP financial measure is not defined under U.S. GAAP and is not presented in accordance with U.S. GAAP. It should not be considered in isolation or construed as alternatives to net loss or any other measure of performance or as an indicator of our operating performance. Investors are encouraged to review the historical non-GAAP financial measure in light of the most directly comparable GAAP measures, as shown below. The non-GAAP financial measure presented here may not be comparable to similarly titled measures presented by other companies. Other companies may calculate similarly titled measures differently, limiting its usefulness as comparative measures to our data. We encourage investors and others to review our financial information in its entirety and not rely on a single financial measure.

The table below sets forth a reconciliation of the non-GAAP financial measure for the periods indicated:

	Year Ended December 31,				
	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	US\$
	(in thousands)				
Net loss attributable to Qutoutiao Inc.	(10,862)	(94,760)	(1,942,572)	(2,688,681)	(386,205)
Add: share-based compensation expenses:					
Cost of revenues	1	942	5,711	6,190	889
Research and development	149	1,317	29,623	138,792	19,936
Sales and marketing	35	939	9,538	45,042	6,470
General and administrative	209	181	906,754	81,955	11,772
Non-GAAP net loss attributable to Qutoutiao Inc.	(10,468)	(91,381)	(990,945)	(2,416,702)	(347,138)

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Relating to Our Industry and Business

We have a limited operating history, which makes it difficult to evaluate our business.

We launched *Qutoutiao* in June 2016 and *Midu Novels* in May 2018, and further introduced *Midu Lite* in May 2019. We have experienced rapid growth in terms of installed users, MAUs, DAUs and revenues. However, our historical growth may not be indicative of our future performance, and we cannot assure you that this level of significant growth will be sustainable or achievable at all in the future. Our growth prospects should be considered in light of the risks and uncertainties that fast-growing companies with a limited operating history in our industry may encounter, including, among others, risks and uncertainties regarding our ability to:

- retain existing users on, and attract new users to, our platform;

- present real-time customized feeds to users based on their profiles, behaviors and social relationships;
- maintain the effectiveness of our user loyalty programs;
- maintain stable relationships with our content providers;
- develop and implement successful monetization measures;
- convince advertising customers of the benefits of our advertising and marketing services compared to alternative forms of marketing;
- increase brand awareness through marketing and promotional activities;
- upgrade existing technology and infrastructure and develop new technologies to support increasing user traffic, improve user experience, expand functionality and ensure system stability;
- successfully compete with other companies that are currently in, or may in the future enter, our industry;
- attract, retain and motivate talented employees;
- adapt to the evolving regulatory environment; and
- defend ourselves against litigation, regulatory, intellectual property, privacy or other claims.

All of these endeavors involve risks and will require significant capital expenditures and allocation of valuable management and employee resources. We cannot assure you that we will be able to effectively manage our growth or implement our business strategies effectively. If the market for our platform does not develop as we expect or if we fail to address the needs of this dynamic market, our business, results of operations and financial condition will be materially and adversely affected.

If we fail to acquire new users or retain existing users, or if user engagement on our platform declines, our business, results of operations and financial condition may be materially and adversely affected.

The growth of our user base and the level of user engagement are critical to our success. Our mobile applications had approximately 137.9 million combined average MAUs, approximately 45.7 million combined average DAUs and average daily time spent per DAU of approximately 59.4 minutes in the three months ended December 31, 2019. Our business has been and will continue to be significantly affected by our success in growing the number of active users and increasing their overall level of engagement on our platform. We anticipate that our user growth rate will slow over time as the size of our user base increases. To the extent our user growth rate slows, our success will become increasingly dependent on our ability to increase user engagement with our platform. We have implemented user account systems and loyalty programs to, among other things, help us cost-effectively acquire new users and develop an engaged and loyal user base. However, although such user account systems and loyalty programs have contributed significantly to the growth in our installed users and high user engagement in the past, there can be no assurance that such systems and programs will continue to function effectively. Additionally, our acquisition cost per user may increase as we implement new marketing initiatives, such as placing advertisements in app stores. Our user engagement efforts, including by increasing the number of content providers, expanding the breadth and quality of content, including video and user generated content, on our platform, diversifying into new content formats and strengthening our content recommendation capabilities, may also not achieve expected results. Users may no longer perceive content and other products and services on our platform to be entertaining and relevant, and we may not be able to attract users or increase their usage frequency of our platform. If we fail to execute any such new initiatives successfully or in a cost-effective manner, our business, results of operations and financial condition would be materially and adversely affected. If we are unable to grow our user base or the level of user engagement, or if the number of users or their level of engagement declines, this could result in our platform being less attractive to potential new users and thus advertising customers, which would have a material and adverse impact on our business, results of operations and financial condition.

The Chinese government may prevent us from distributing content that it believes is noncompliant and we may be subject to penalties for such content or we may have to interrupt or suspend the operation of our platform to

comply with these regulatory requirements from time to time, which may materially and adversely affect our results of operation.

China has enacted regulations governing Internet access and the distribution of news and other information. In the past, the Chinese government has stopped the distribution of information over the Internet or through mobile Internet devices that it believes violates Chinese law, including content that it believes is obscene, defamatory, misleading or inappropriately satirical, incites violence, endangers the national security, concerns politically sensitive topics, or contravenes the national interest. In the past, new downloads of certain mobile content aggregator applications and mobile news applications were temporarily blocked and suspended for different lengths of time, ranging from a few days to weeks, following the publication of content considered to be noncompliant. In July 2018, PRC governmental and regulatory authorities responsible for “eradicating pornography and illegal publications” announced new coordinated efforts to regulate and control the nascent online short video sector, including citations against 19 online short video platforms which allegedly had disregarded repeated warnings not to distribute content deemed by the authorities as obscene, misleading, pornographic, violent, infringing, sensationalist, deviant from socialist core values, harmful to younger viewers, or otherwise unlawful or detrimental. Of these 19 platforms, 15 had their applications removed from app stores and new downloads blocked; among these 15 platforms, three also had their operations suspended by relevant authorities. Any such future suspension in operations or downloads of our mobile applications for this or other reasons may negatively affect our relationships with users and advertisers, and adversely affect our business and results of operations.

While we strive to comply with applicable regulatory requirements and other obligations we may have with respect to our operation, the failure or perceived failure to comply may result, and in some cases has resulted, in inquiries and other proceedings or actions against us by government agencies or others, as well as negative publicity and damage to our reputation and brand, any of which could cause us to lose users and customers and may materially and adversely affect our business, results of operations and financial condition. For example, in order to comply with recent regulatory requirements, we undertook product upgrades and temporarily suspended content updates and certain commercial activities on *Midu Novels* from July 16 to October 15, 2019. *Midu Novels* has resumed regular content updates and commercial activities since October 16, 2019. We have endeavored to use our technologies, employees and other resources in a manner that complies with applicable regulatory requirements, and as such, we believe that the likelihood of us receiving material administrative penalties is low. However, there can be no assurance that similar suspensions relating to our mobile applications will not recur in the future, or that such incidents will not result in loss of users or advertisers, decrease in revenues or reputational damage to us, or have an adverse effect on our business and results of operations.

The Chinese government may continue to implement stricter standards for compliant content, and increase enforcement against content considered to be noncompliant. In addition, certain news items, such as news relating to national security, may not be published without permission from the Chinese government. If the Chinese government were to take any action to limit or prohibit the distribution of information through our mobile applications, or to limit or regulate any current or future content or services available to users on our platform, our business could be significantly harmed. Although we have adopted internal procedures to monitor the content displayed on our platform, due to the significant amount of content, including user generated content, we may not be able to identify all the content that may violate relevant laws and regulations, whether or not due to our fault or oversight in content monitoring. Failure to identify and prevent inappropriate or illegal content from being displayed on our platform may subject us to penalties, including suspension of operations.

Moreover, as the interpretation of noncompliant content is vague and subjective in many cases, and the definition of noncompliant content may be subject to constant changes, it is not always possible to determine or predict what content might be considered noncompliant under existing restrictions, or what restrictions might be imposed in the future. Chinese government authorities may also prohibit the marketing of other types of wireless value-added services and contents through mobile applications, which could materially and adversely affect our business, results of operations and financial condition.

We have incurred net losses and negative cash flows from operating activities in the past, and we may not achieve or sustain profitability.

We have grown rapidly over the past several years. Our net revenues have increased rapidly from RMB517.1 million in 2017 to RMB3,022.1 million in 2018, and further to RMB5,570.1 million (US\$800.1 million) in 2019. Our gross profit has increased significantly from RMB440.6 million in 2017 to RMB2,518.5 million in 2018, and

further to RMB3,929.4 million (US\$564.4 million) in 2019. However, you should not rely on our revenues and gross profit from any previous period as an indication of our future revenues or gross profit. The growth rate of our revenues or gross profit may slow down for a number of reasons, including declined demand for our products and services, increasing competition, emergence of alternative business models, changes in regulations and government policies, changes in general economic conditions, as well as other risks described in this annual report.

We incurred net loss of RMB94.8 million, RMB1,945.8 million and RMB2,689.3 million (US\$386.3 million) for the years ended December 31, 2017, 2018 and 2019, respectively. We had cash flow provided by operating activities of RMB132.2 million for the year ended December 31, 2017 and negative cash flow from operating activities of RMB434.8 million and RMB2,367.3 million (US\$340.0 million) for the years ended December 31, 2018 and 2019. Our ability to continue as a going concern is dependent on management's ability to successfully execute our business plans, which includes adjusting the pace of our operation expansion and controlling operating cost and expenses to reduce the cash used in operating cash flows. To implement the plans, we will enhance user engagement and retention by offering higher quality and diversified contents while closely control the content costs with more selective content acquisition and better leverage of existing content varieties, and continue to optimize the user loyalty programs and the traffic acquisition strategy to efficiently control and reduce these user related costs. We will further preserve liquidity and manage cash flows by reducing discretionary expenditure including advertising expenses and general and administrative expenses. Management has concluded, after giving consideration to our plans as noted above, that they have alleviated the substantial doubt as to our ability to continue as a going concern and believes we have sufficient cash and other financial resources and liquidity to fund our operations for one year from the date of this annual report, and that there is no substantial doubt about our ability to continue operations as a going concern for that one-year period. We expect to continue to make investments in the development and expansion of our business, which will place significant demands on our management and our operational and financial resources. Continuous expansion may increase the complexity of our business, and we may encounter various difficulties. We may fail to develop and improve our operational, financial and management controls, enhance our financial reporting systems and procedures, recruit, train and retain highly skilled personnel, or maintain customer satisfaction to effectively support and manage our growth. If we invest substantial time and resources in expanding our operations but fail to manage the growth of our business and capitalize on our growth opportunities effectively, we may not be able to achieve profitability, and our business, financial condition, results of operations, liquidity and prospects would be materially and adversely affected.

Our inability to fully comply with Audio-visual Program Provisions may expose us to administrative sanctions, which would materially and adversely affect our business, results of operations and financial condition.

Pursuant to the *Administrative Provisions on Internet Audio-visual Program Service*, or the Audio-visual Program Provisions, which was issued by the State Administration of Radio, Film and Television (the predecessor of GAPPRFT), or SARFT, and MIIT on December 20, 2007 and came into effect on January 31, 2008 and was amended on August 28, 2015, online transmission of audio and video programs requires an Internet audio-visual program transmission license and online audio-visual service providers must be either wholly state-owned or state-controlled. In a press conference jointly held by SARFT and MIIT to answer questions with respect to the Audio-visual Program Provisions in February 2008, SARFT and MIIT clarified that online audio-visual service providers that had already been operating lawfully prior to the issuance of the Audio-visual Program Provisions may re-register and continue to operate without becoming state-owned or controlled, provided that such providers have not engaged in any unlawful activities. This exemption will not be granted to online audio/video service providers established after the Audio-visual Program Provisions was issued. See "Item 4. Information on the Company — C. Regulations — Regulation on Online Transmission of Audio-visual Programs."

Although we have been taking measures to ensure compliance, we may not be able to fully comply with Audio-visual Program Provisions. As a result, we may face, according to Audio-visual Program Provisions, administrative sanctions including receiving a warning and be ordered to pay a fine of not more than RMB30,000. In the case of severe contravention, we may be ordered to cease transmission of audio and video programs, be subject to a penalty equal to one to two times our total investment in the affected business and the devices we used for such operation may be confiscated. Furthermore, according to the Audio-visual Program Provisions, the telecommunications administrative authorities may, based on written opinions of GAPPRFT, and in accordance with the relevant laws and regulations on supervision of telecommunications and Internet, close our platform, revoke the license for the provision of Internet information services, or the ICP license, and order the relevant network operation entity which

provides us signal access services to stop such provision of services. Such penalties would materially and adversely affect our business, results of operations and financial condition.

If we fail to maintain our Internet news license, we may be exposed to administrative sanctions, including an order to cease our Internet information services that provide news or to cease the Internet access services provided by third parties to us.

The PRC government regulates the Internet industry extensively, including foreign ownership of, and the licensing requirements pertaining to, companies in the Internet industry. A number of regulatory agencies, including the Ministry of Culture, or the MOC, the Ministry of Industry and Information Technology, or MIIT, the Cyberspace Administration of China, or the CAOC, the State Administration of Radio and Television, or the SART (previously known as GAPPRFT and SARFT), the State Council Information Office, or the SCIO, and other governmental authorities, jointly regulate all major aspects of the Internet industry. Operators are required to obtain various government approvals and licenses prior to providing the relevant Internet information services.

Our platform primarily focuses on light entertainment content. Nonetheless, certain content related to current affairs, finance, society and economy provided on our *Qutoutiao* mobile application may be deemed to be news content. According to the Provisions for the Administration of Internet News Information Services issued by the CAOC on May 2, 2017 that became effective on June 1, 2017, an Internet news license shall be obtained for a provider of Internet news information services to the public in a variety of ways, including through the offering of platforms for the dissemination of Internet news.

Shanghai Jifen Culture Communications Co., Ltd., or Shanghai Jifen, one of our consolidated VIEs, obtained an Internet news license from the CAOC in July 2019. However, if we fail to maintain such license, we may be ordered to cease disseminating news and impose a fine on us of not less than RMB10,000 but not more than RMB30,000. In the event we were ordered to cease disseminating news, our business, results of operations and financial condition could be materially and adversely affected.

If we do not continue to increase the strength of our brand, we may not be able to maintain current or attract new users and customers for our products and services.

Our operational and financial performance is highly dependent on the strength of our brand. We believe we enjoy lower user acquisition cost compared to acquiring users through other means. Our platform's innovative user account systems and gamified loyalty programs enable us to focus our resources on directly connecting with new users. In order to further expand our user base, we may need to substantially increase our marketing expenditures to enhance brand awareness.

In addition, negative coverage in the media of our company could threaten the perception of our brand, and we cannot assure you that we will be able to defuse negative press coverage about our company to the satisfaction of our investors, users, advertising customers and content providers. If we are unable to defuse negative press coverage about our company, our brand may suffer in the marketplace, our operational and financial performance may be negatively impacted and the price of the ADSs may decline.

Negative publicity about us, our services, operations and our management has adversely affected and may adversely affect our reputation and business in the future.

We have from time to time received negative publicity, including negative Internet and blog postings about us, our services, operations and our management. For example, a short seller recently published a report on December 10, 2019 with certain negative opinions on us, such as, our related party transactions, our products, our financial conditions and our acquisition decision, which could have a negative impact on our reputation, despite the fact that the short seller's claims were based on factual errors and misunderstanding of business and accounting rules, which we subsequently explained in a detailed public response. On January 18, 2020, the same short seller published another report on us, containing mostly the same negative opinions regarding us, and we have reported in detail the unfounded allegations in this report to the audit committee of our board of directors. Negative publicity could be the result of malicious intentions, direct or indirect anti-competitive behaviours or, as in the above-mentioned case, agendas of short sellers. We may even be subject to government or regulatory investigation as a result of such third-

party conduct or misconduct and may be required to spend significant time and incur substantial costs to defend ourselves against such third-party conduct or misconduct, and we may not be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Our brand and reputation may be materially and adversely affected as a result of any negative publicity, which in turn may cause us to lose market share, users, advertising customers and other third parties we conduct business with. As a result, our financial position or operating results may be adversely affected and the price of the ADSs may decline.

We have implemented user loyalty programs to gamify user experience and tap into the competitive reward psyche of users. However, some users have taken interest in utilizing aggressive tactics to extract maximum monetary reward from the applications. Although we have put in mechanisms to detect and prevent such behaviors and the absolute amount of monetary reward so earned is never more than paltry, this feature of our applications has in some cases given rise to criticisms from the very same users who take it to be a case of us not adequately rewarding or in fact overpromising reward to users in general. Such negative reviews could appear in open blogs on the internet, and, however unmerited, may twist the perception of those unfamiliar with or have no prior experience with our applications, hence adversely impacting our ability to acquire new users.

Techniques employed by short sellers may drive down the market price of the ADSs.

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller's interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions, justified or not, regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. These short attacks have, in the past, led to selling of shares in the market.

Public companies that have substantially all of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations and, in the interim, are subject to shareholder lawsuits and/or SEC enforcement actions.

A short seller recently published a report with certain negative opinions regarding us, which negatively affected our reputation. However, it is not clear what effect such negative publicity could continue to have on us. If we were to become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we might have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which we can proceed against the relevant short seller by principles of freedom of speech, applicable state law or issues of commercial confidentiality. Such a situation could be costly and time-consuming, and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact our business operations and the trading price of the ADSs, and any investment in the ADSs could be greatly reduced or even rendered worthless.

Any catastrophe, including natural catastrophes and outbreaks of health pandemics and other extraordinary events, could disrupt our business operation. In particular, the coronavirus outbreak in China and worldwide could have a material adverse effect on our business, results of operations and financial condition, as well as the trading price of the ADSs.

We are vulnerable to natural disasters and other calamities. Fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events may give rise to server interruptions, breakdowns, system failures or Internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide our products or services.

Our business could also be adversely affected by the effects of Ebola virus disease, H1N1 flu, H7N9 flu, avian flu, Severe Acute Respiratory Syndrome, or SARS, or other epidemics. For instance, in December 2019, an outbreak of a novel strain of coronavirus (COVID-19) was reported in Wuhan, China and has since spread throughout China and to other countries. In March 2020, the World Health Organization declared the COVID-19 a pandemic. The outbreak of COVID-19, if persists or intensifies, could materially and adversely affect our business, results of operations and financial condition. The outbreak of COVID-19 across the globe has put pressure on the overall advertising market in the near-term, as advertising budget in general could be constrained. We currently expect a growth in our revenues in the first quarter of 2020 on a year-over-year basis, and the outbreak has not had a material impact on our financial results for the first quarter of 2020. However, the outbreak has slowed down and may continue to affect our growth speed.

Our operations have been, and may continue to be, impacted by measures taken by national and regional Chinese government to contain COVID-19, including extension of lunar new year holiday, travel restrictions, closures and quarantines. Our business operations could be disrupted if any of our employees is suspected of being infected with COVID-19, since it could require our employees to be quarantined and/or our offices to be shut down for disinfection. We may be short on workforce if a large number of our employees are diagnosed with COVID-19 or are required to be self-isolated. Our business could also be impacted if any of our advertising customers or suppliers is affected by COVID-19, which may result in suspension of our services, reduction in our advertising and marketing revenues, delay in collection of account receivables and additional allowances for doubtful accounts.

In addition, COVID-19 could adversely affect national and regional economy in China as well as global economy and financial markets, which could cause economic downturn or financial crisis. Our business, results of operations and financial condition could be adversely affected to the extent that COVID-19 harms the Chinese and global economy in general, and the trading price of the ADSs may decline significantly.

We have been closely monitoring the impact of COVID-19 on macro economy and advertising market in general, as well as the extent to which COVID-19 impacts our business, results of operations and financial condition. At this point, the exact impact on our results is uncertain and difficult to predict and will depend on future developments, including the duration, severity and reach of the COVID-19 outbreak, and actions taken to contain the outbreak or treat its impacts.

New content formats and other products and services and changes to existing content formats and products and services could fail to attract users or generate revenues.

Our ability to increase the size and engagement level of our user base, attract advertising customers and generate revenues will depend in part on our ability to create and offer successful new content formats and other products and services. Such new content formats and other products and services may involve new distribution capabilities or technologies with which we have little or no prior development or operating experience, such as literature, casual games and live-streaming. We may also continuously refine our existing content formats and other products and services as part of our efforts to further enhance user engagement. However, if such efforts or our efforts in launching new content formats and other products and services fail to engage users, we may fail to attract or retain users or to generate sufficient revenues to justify our investments, and our business, results of operations and financial condition could be adversely affected.

If we are unable to compete effectively in the industry we operate, our business, results of operations and financial condition may be materially and adversely affected.

Competition for user traffic and user engagement, as well as advertising and marketing spending, is intense and we face strong competition in our business. Our primary competitors include content aggregators such as Jinritoutiao (operated by Bytedance), Kuaibao (operated by Tencent) and Yidianzixun (an affiliate of Phoenix News). To a lesser extent, we also compete with mobile news portals such as Tencent News, SINA News, Sohu News, NetEase News and Phoenix News. We also compete with other mobile literature applications, such as iReader, QQ Reading, Qimao Free Novels and Fanqie Novels, as well as other mobile literature applications that have a business model similar to ours. To a lesser extent, we compete with traditional PC-based online literature platforms. Many of our competitors have more resources and longer operating history than us. New players may emerge and seek to imitate our business strategies, thereby directly competing with us for users. Furthermore, we may face potential

competition from global online content delivery platforms that seek to enter the China market, whether independently or through the formation of strategic alliances with, or acquisition of, PRC Internet companies. If we are not able to effectively compete with our competitors, our overall user base and level of user engagement may decrease. We may be required to spend additional resources to further enhance our brand recognition and promote our products and services, and such additional spending could adversely affect our profitability. Furthermore, if we are involved in disputes with any of our competitors that result in negative publicity to us, such disputes, regardless of their veracity or outcome, may harm our reputation or brand image and in turn lead to reduced number of users and advertising customers. Our competitors may unilaterally decide to adopt a wide range of measures targeted at us, including possibly designing their products to negatively impact our operations. Any legal proceedings or measures we take in response to competition and disputes with our competitors may be expensive, time-consuming and disruptive to our operations and divert our management's attention.

In addition, our users face a vast array of entertainment choices. Other forms of entertainment, including other Internet-based activities such as social networking, online video or games, live-streaming, as well as offline games and activities such as television, movies and sports, are much larger and more well-established markets and may be perceived by our users to offer greater variety, affordability, interactivity and enjoyment. Our platform competes against these other forms of entertainment for the discretionary time and spending of our users. If we are unable to sustain sufficient interest in our platform in comparison to other forms of entertainment, including new forms of entertainment that may emerge in the future, our business model may no longer be viable.

We generate a substantial majority of our revenues from advertising and marketing. A decline in our advertising and marketing revenues could harm our business.

We generated a substantial majority of our revenues from advertising and marketing services in 2017, 2018 and 2019. When we first commenced our business, we collaborated with various third-party advertising platforms to place advertisements on our mobile applications, and derived a large percentage of our revenues from a limited number of customers. To reduce the concentration risk and to build our in-house advertising platform which was becoming necessary in order to support the rapid growth of our business, we acquired an advertising agent in February 2018 that operated a programmatic advertising system. Upon full integration with our internal resources and with continuous R&D investments, we have developed it into a technology driven system that has powered our advertising solutions while reducing the use of third-party advertising platforms. Given our short history, we have limited experience in operating the programmatic advertising system and in acquiring our own advertising agents and advertising customers. We may not be able to recruit sufficient sales personnel to effectively and efficiently acquire and retain advertising agents and advertising customers. The effectiveness of our programmatic advertising system may not perform as expected and achieve widespread acceptance by advertising customers.

Our advertising customers for our programmatic advertising system are comprised of advertising agents and end advertisers. There can be no assurance that these advertising agents will continue to attract advertising customers to our platform. Furthermore, as is common in the industry, we do not enter into long-term agreements with advertising agents or advertising customers. Advertising agents and advertising customers are not obligated to use our advertising and marketing solutions on an exclusive basis and they generally use multiple channels to manage their advertising and marketing need. Accordingly, we or advertising agents must convince advertising customers to use our programmatic advertising system, increase their usage and spend a larger share of their online advertising and marketing budgets with us, and to do so on an on-going basis. Advertising customers may not continue to utilize our platform or may only be willing to advertise with us at reduced prices if we do not deliver advertising and marketing services in an effective manner, including persuading our advertising customers as to the relevancy of our user base for their products or services, or if they do not believe that their investment in advertising and marketing with us will generate a competitive return relative to alternative advertising platforms. If we fail to retain existing advertising customers or ensure that their advertising spend with us remains at similar or increased levels or attract new advertising customers to advertise on our platform, our business, results of operations and financial condition may be materially and adversely affected.

Our efforts to expand the monetization of our products and services in addition to advertising may not be successful.

In order to sustain our revenue growth, we must effectively monetize our user base and expand the monetization of our products and services in addition to advertising. We plan to leverage our user account systems and loyalty programs to induce users not only to spend the cash credits in their accounts from using our platform but also to supplement their spending on our platform with additional funds. These measures include introducing paid content such as literature, casual games, animation and comics, as well as live-streaming products. There can be no assurance that we can successfully capture such monetization opportunities. For example, users may prefer to purchase merchandise from “pure play” e-commerce platforms, which tend to offer wider selections and may provide better services due to their deeper industry experience. In addition, we have primarily offered free content to users, and our paid content may not gain significant user acceptance. If we were unable to successfully execute our monetization strategies, our business, results of operations and financial condition would be materially and adversely affected.

If we fail to continue to anticipate user preferences and interests, we may not be able to generate sufficient user traffic to remain competitive.

Our success depends on our ability to intelligently deliver personalized light entertainment content to users. Through an automated process, we develop interest and social graphs for each user based on such person’s profile, behavior and social relationships. The user’s behavior also provides us with a granular view of the topics and content characteristics that likely are of interest to the user. In addition, the interest and social graphs take into account the user’s social relationships with other users and such other users’ interests, including their behaviors. Our content recommendation engine analyzes content and the interest and social graphs of each user to identify content that is most likely to interest such person. Such recommendation is based on analysis we have made as to user preferences and interests, and any errors in such analysis may lead our system to recommend content that fails to attract users. Furthermore, our future success will depend on our ability to anticipate and adapt new technologies. If we fail to continuously improve user experience through better recommendation results, we may not be able to compete effectively with our competitors, and our business, results of operations and financial condition may be materially and adversely affected.

If content providers on our platform do not continue to contribute content, decrease the amount of content contributed or the quality of their contributions declines, we may experience a decrease in the number of users and level of user engagement.

Our success depends on our ability to generate sufficient user traffic through the intelligent delivery of personalized light entertainment content, which in turn depends on the content contributed by our content providers. We believe that access to light entertainment-oriented and easily digestible content is one of the main reasons users visit *Qutoutiao*. We encourage our content providers to actively contribute quality content that will resonate with our users by implementing a system in which fees paid to them are related to the amount of views associated with content they contribute. We also seek to foster a broader and more engaged user base by encouraging social interactions and production of user generated content. If our content providers do not continue to contribute content, including user generated content, to our mobile applications due to their dissatisfaction with our fee arrangements with them, their entry into exclusive arrangements with other platforms or any other reasons, or the attractiveness of their content declines, and we are unable to provide users with entertaining and relevant content, our user base and user engagement may decline. If we were required to share a higher proportion of advertising and marketing revenues with content providers in order to enhance the quality of content delivered by us or increase the amount of content provided to us, our profitability could be materially and adversely affected. If we experience a decline in the number of users or the level of user engagement, advertising customers may not view our platform as attractive for their advertising expenditures and may reduce their spending with us, which would harm our business, results of operations and financial condition.

Our user metrics and other estimates are subject to inherent challenges in measuring our operating performance, which may harm our reputation.

We regularly review MAUs, DAUs, average time spent per DAU and other operating metrics to evaluate growth trends, measure our performance, and make strategic decisions. These metrics are calculated using internal company data, have not been validated by an independent third party, and may not be indicative of our future financial results. While these numbers are based on what we believe to be reasonable estimates for the applicable period of measurement, there are inherent challenges in measuring how our platform is used across a large population in China. For example, we may not be able to distinguish individual users who have multiple registered accounts.

Errors or inaccuracies in our metrics or data could result in incorrect business decisions and inefficiencies. For instance, if a significant understatement or overstatement of active users were to occur, we might expend resources to implement unnecessary business measures or fail to take required actions to remedy an unfavorable trend. If advertising customers or investors do not perceive our user or other operating metrics to accurately represent our user base, or if we discover inaccuracies in our user or other operating metrics, our reputation may be harmed.

If we fail to effectively manage our growth, our business, results of operations and financial condition could be harmed.

We expect we will continue to experience rapid growth in our business and operations, which will place significant demands on our management, operational and financial resources. We may encounter difficulties as we establish and expand our operations, product development, sales and marketing, and general and administrative capabilities. We face significant competition for talented employees from other high-growth companies, which include both publicly traded and privately held companies, and we may not be able to hire new employees quickly enough to meet our needs. To attract highly skilled personnel, we have had to offer, and believe we will need to continue to offer, competitive compensation packages. As we continue to grow, we are subject to the risks of over-hiring, over-compensating our employees and over-expanding our operating infrastructure, and to the challenges of integrating, developing and motivating a growing employee base. In addition, we may not be able to innovate or execute as quickly as a smaller and more efficient organization. If we fail to effectively manage our hiring needs and successfully integrate our new hires, our efficiency and ability to meet our forecasts and our employee morale, productivity and retention could suffer, and our business, results of operations and financial condition could be adversely affected.

Providing products and services to users may be costly and we expect our expenses to continue to increase in the future as we broaden our user base and increase user engagement, and develop and implement new content formats, features, products and services that require more infrastructure, such as literature, casual games and live-streaming. In addition, our costs and expenses, such as our labor-related expenses, product development expenses and sales and marketing expenses have grown rapidly as we have expanded our business. In particular, we have focused considerable resources on user acquisition through our loyalty programs. Historically, our costs have increased due to these factors and we expect to continue to incur increasing costs to support our anticipated future growth. We expect to continue to invest in our infrastructure to enable us to provide our products and services rapidly and reliably to users. Continued growth could also strain our ability to maintain reliable service levels for our users, content providers and advertising customers, develop and improve our operational, financial, legal and management controls, and enhance our reporting systems and procedures. Our expenses may grow faster than our revenues, and our expenses may be greater than we anticipate. Managing our growth will require significant expenditures and allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows, our business, results of operations and financial condition could be harmed.

Advertisements on our mobile applications may subject us to penalties and other administrative actions.

Under PRC advertising laws and regulations, we are obligated to monitor the advertising content shown on our mobile applications to ensure that such content is true, accurate and in full compliance with applicable laws and regulations. On April 24, 2015, the Standing Committee of the National People's Congress, or the SCNPC, issued the *Advertisement Law*, which was amended and took effect on October 26, 2018, to further strengthen the supervision and management of advertisement services. On July 4, 2016, SAIC issued the *Interim Measures for the Administration of Internet Advertising*, or the New Interim Measures, to further regulate Internet advertising

activities. Pursuant to these laws and regulations, any advertisement that contains false or misleading information to deceive or mislead consumers shall be deemed false advertising. Furthermore, the Advertisement Law explicitly stipulates detailed requirements for the content of several different kinds of advertisement, including advertisements for medical treatment, pharmaceuticals, medical instruments, health food, alcoholic drinks, education or training, products or services having an expected return on investment, real estate, pesticides, feed and feed additives, and some other agriculture-related advertisement. Also, according to the New Interim Measures, no advertisement of such special products or services which are subject to examination by an advertising examination authority shall be published unless it has passed such examination. In addition, an Internet advertisement shall be identifiable and clearly identified as an “advertisement” so that consumers will know that it is an advertisement. The New Interim Measures also provide that Internet advertisement publishers shall verify related supporting documents, check the content of the advertisement and be prohibited from publishing any advertisement with nonconforming content or without all the necessary certification documents. However, for the determination of the truth and accuracy of the advertisements, there are no implementing rules or official interpretations, and such a determination is at the sole discretion of the relevant local branch of the State Administration for Market Regulation, or the SAMR (successor of SAIC and the State Food and Drug Administration), which results in uncertainty in the application of these laws and regulations. In addition, advertising content deemed as obscene, defamatory, inappropriately satirical or otherwise inappropriate by a relevant government authority may also subject us to penalties. For instance, the Chinese government has temporarily suspended advertising services on a short video platform in China because advertising content shown on the platform was deemed to be offensive and disrespectful to a revolutionary figure.

We cannot assure you that all the advertisements shown on our mobile applications are true, accurate, appropriate and in full compliance with applicable laws and regulations. For example, advertisers on our mobile applications, or their agents, may use measures that are designed to evade our monitoring, such as providing inauthentic material that does not match the actual advertisement, or supplying advertising which is superficially compliant but nevertheless is linked to one or more webpages that feature noncompliant advertising content. In addition, our employees responsible for reviewing advertisements may not fully understand the relevant laws and regulations or may be inappropriately influenced by the advertisers. In each case, we may still be held responsible for noncompliant advertising content. We include clauses in most of our advertising contracts requiring that all advertising content provided by advertising customers must comply with relevant laws and regulations. Pursuant to the contracts between us and the relevant advertising agents or advertising customers, they are liable for all damages to us caused by their breach of such representations. However, there can be no assurance that we will be able to successfully enforce our contractual rights.

Violation of these laws and regulations may subject us to penalties, including fines, confiscation of our advertising income, orders to cease dissemination of the advertisements and orders to eliminate the effect of illegal advertisement. If an illegal advertisement featured on our mobile applications were to have excessive negative effects, our brand and reputation may be harmed, and PRC governmental authorities may pursue more severe penalties and administrative actions against us. PRC governmental authorities may even force us to terminate our advertising operation or revoke our licenses in circumstances involving serious violations. Such penalties may have a material and adverse effect on our business, results of operations and financial condition.

Increased government regulation of content platforms may subject us to penalties and other administrative actions.

Recently, PRC government authorities have strengthened their oversight of content platforms similar to our mobile applications. Other than the content that are considered to be violating PRC laws and regulations, such oversight has tend to pay more attention to content that is or may be deemed misleading, obscene, pornographic, detrimental, and/or contrary to social values and morals prevailing in China, which content may subject the platform’s operator to penalties and other administrative actions. For example, in April 2018, a platform that provides entertainment-oriented contents was ordered by the SART to permanently cease its operation for delivering content that were considered to be vulgar and “deviating from mainstream values.” In addition, in July 2018, PRC governmental and regulatory authorities responsible for “eradicating pornography and illegal publications” announced new coordinated efforts to regulate and control the nascent online short video sector, including citations against 19 online short video platforms which allegedly had disregarded previous and repeated warnings not to distribute content deemed by the authorities as obscene, misleading, pornographic, violent, infringing, sensationalist, deviant from socialist core values, harmful to younger viewers, or otherwise unlawful or detrimental. Of these 19 platforms, 15 had their

applications removed from app stores and new downloads blocked; among these 15 platforms, three also had their operations suspended by relevant authorities.

Government regulation of content and of content platforms generally may broaden in scope and oversee additional aspects of content platforms' operation, such as information security, user suitability management, anti-addiction, and sales and marketing, in addition to being strengthened and becoming stricter as to content and advertising. For example, on December 15, 2019, the CAOC promulgated the Provisions on Ecological Governance of Network Information Content, which became effective on March 1, 2020. The Provisions specify the information that is encouraged for, prohibited from or prevented and rejected from dissemination, to further regulate the network information and content. Any such new or broadened regulatory measures or oversight may cause us to incur higher compliance costs, revise our operational strategies, target user groups or promotional models, and thereby adversely affect our business and results of operations.

If we fail to detect click-through fraud of our platform, we could lose the confidence of advertising customers and our revenues could decline.

We are exposed to the risk of click-through fraud on our advertising services. Click-through fraud occurs when a person, automated script or computer program imitates a legitimate user clicking on an advertisement, for the purpose of generating a charge per click without having an actual interest in the target of the advertisement's link. If we fail to detect fraudulent clicks or otherwise are unable to prevent such fraudulent activity, the affected advertising customers may experience a reduced return on their investment in our mobile advertising services and lose confidence in the integrity of our services. If this happens, our reputation may be damaged and we may be unable to retain existing advertising customers and attract new advertising customers for our advertising services and our advertising revenue could decline.

If we fail to detect user misconduct on our platform, our business, results of operations and financial condition may be materially and adversely affected.

Our platform enables users to upload content, post comments, interact with others and engage in various other online activities. As the gatekeeper for our platform, our content management system is designed to ensure both the quality and appropriateness of information presented to users, which include content and comment postings. We undertake an efficient and thorough screening process that involves both algorithm-based screening and manual review. We have also implemented a complaint procedure that enables us to identify bad content with our users' help. However, such procedures may not prevent all illegal or inappropriate content or comments from being posted, and our staff may fail to review and screen such content or comments effectively. In response to allegations of illegal or inappropriate activities conducted through our platform or any negative media coverage about us, PRC government authorities may intervene and hold us liable and subject us to administrative penalties or other sanctions, such as requiring us to restrict or discontinue some of the features and services provided on our mobile application. As a result, our business may suffer and our user base, revenues and profitability may be materially and adversely affected, and the price of the ADSs may decline.

Additionally, we may be subject to fines or other disciplinary actions, including suspension or revocation of the licenses necessary to operate our platform, if we are deemed to have facilitated the appearance of inappropriate content placed by third parties on our platform, including user generated content. Although we require content providers on our platform to promise that they will not infringe upon the intellectual property rights of third parties, such content may nevertheless be unauthorized and infringe upon others' intellectual property, including copyrights, and we may not be able to detect and identify every instance of intellectual property infringement. See “—Non-compliance with law on the part of third parties with which we conduct business could disrupt our business and adversely affect results of our operation and financial condition” and “We may be subject to intellectual property infringement claims or other allegations by third parties for information or content displayed on, retrieved from or linked to our platform, or delivered to our users, which may materially and adversely affect our business, financial condition and prospects.” As a result, we may face claims for defamation, libel, negligence, copyright, patent or trademark infringement, other unlawful activities or other claims based on the nature and content of the information delivered on or otherwise accessed through our platform. Defending such actions could be costly and involve significant time and attention of our management and other resources, which would materially and adversely affect our business, results of operations and financial conditions.

Our ability to prevent the misuse of our user loyalty programs while ensuring their efficacy in user acquisition and engagement will have a material effect as to our business, results of operations and financial condition.

To incentivize word-of-mouth viral referrals and improve user engagement and loyalty, our mobile applications have game-like features allowing users to earn loyalty points while enjoying the content and earn cash credit in some cases by participating in fun tasks. Registered users of our *Qutoutiao* and *Midu Lite* mobile applications can earn loyalty points if they become active users, refer others who later register and become active users, or engage in various activities while logged in. Accumulated loyalty points, if exceeding certain threshold, can be withdrawn by the user in the form of cash by directly crediting the user's electronic wallet. We have the sole discretion in determining the withdraw threshold and the exchange rate between loyalty points and the monetary value available to be withdrawn. Our user loyalty programs have contributed significantly to the growth in our installed users and high user engagement. Although we believe consuming content, rather than earning loyalty points, is the main purpose for our registered users to use *Qutoutiao* and *Midu Lite*, we have nonetheless designed our loyalty programs to balance between their efficacy in user acquisition and engagement while preventing users from using our mobile applications merely for the loyalty points. Our inability to achieve such balance may make our user loyalty programs no longer becoming enticing to users, which may materially and adversely affect user growth and user engagement. Moreover, we cannot assure you that there will still be users who are only attracted to our mobile applications because of our user loyalty programs. We have mechanisms in place to prevent potential abuse of our user loyalty programs. For example, our system takes into account how fast the user scrolls down the page to determine whether the viewer has actually viewed the article and loyalty points are now provided on a per minute spent on viewing content basis. However, our system may not be able to detect all instances of abuse. Furthermore, although our loyalty programs are designed so that only a small amount of loyalty points is provided for taking any specific action with the aim to entice user referral and engagement, we cannot ensure you that there will not be users who will be able to hack our user loyalty programs to make earning loyalty points a highly lucrative endeavor. We have also focused on developing fraud detection technologies to combat fraudulent users and activities targeting our user loyalty programs and we cannot assure you that such system will be effective in identifying fraud. If we allow users to improperly earn loyalty points, our business, results of operations and financial condition may be materially and adversely affected. As clearly stated in our user agreement, we have the sole discretion in determining user misuse of our user loyalty programs, and we may freeze a user's account if we find such user misused our user loyalty programs. Certain users that have their accounts frozen have complained online. Such complaints could undermine the public perception and credibility of our platform, and our business, results of operations and financial condition could be materially and adversely affected.

Our results of operations may fluctuate from quarter to quarter, which makes them difficult to predict.

Our quarterly results of operations have fluctuated in the past and will continue to fluctuate in the future. As a result, our past quarterly results of operations are not necessarily indicators of future performance. Our results of operations in any given quarter can be influenced by numerous factors, many of which we are unable to predict or are outside of our control, including:

- our ability to grow our user base and user engagement;
- fluctuations in spending by our advertising customers, including as a result of seasonality or other factors;
- our ability to attract and retain advertising customers;
- the occurrence of planned or unplanned significant events, including events that may cause substantial share-based compensation or other charges;
- the development and introduction of new content formats, products or services or changes in features of existing content formats, products or services;
- the impact of competitors or competitive products and services;
- increases in our costs and expenses that we may incur to grow and expand our operations and to remain competitive;
- changes in the legal or regulatory environment or proceedings, including with respect to security, privacy or enforcement by government regulators, including fines, orders or consent decrees; and

- changes in Chinese or global business or macroeconomic conditions.

Given our limited operating history and the rapidly evolving market in which we compete, our historical results of operations may not be sufficiently informative for you in predicting our future results of operations. Our short operating history and our rapid growth make it difficult for us to identify recurring seasonal trends in our business. The advertising industry in China experiences seasonality. Historically, advertising spending and user activities on our platform tend to be the lowest in the first quarter of each calendar year due to long holidays around the Lunar New Year, during which users tend to spend more time with family and celebrations offline and less time online, including on our mobile applications. In addition, advertising customers, such as those in the e-commerce industry, may also reduce its advertising spending during the holidays around the Lunar New Year due to reduced consumer spending or reduced or suspended production and logistics activities by manufacturers or other service providers. We believe this seasonality affects our quarterly results especially our results of operations in the first quarter of each year.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of Internet businesses and companies, including limitations on our ability to own key assets such as our mobile applications.

The Chinese government heavily regulates the Internet industry, including foreign investment in the Chinese Internet industry, content on the Internet and license and permit requirements for service providers in the Internet industry. Since some of the laws, regulations and legal requirements with respect to the Internet are relatively new and evolving, their interpretation and enforcement involve significant uncertainties. In addition, the Chinese legal system is based on written statutes, such that prior court decisions can only be cited for reference and have little precedential value. As a result, in many cases it is difficult to determine what actions or omissions may result in liabilities. Issues, risks and uncertainties relating to China's government regulation of the Chinese Internet sector include the following:

- We operate our mobile applications in China through businesses controlled via contractual arrangements versus direct ownership due to restrictions on foreign investment in businesses providing value-added telecommunication services, including substantially all of our paid services and advertising services.
- Uncertainties relating to the regulation of the Internet business in China, including evolving licensing practices, give rise to the risk that some of our permits, licenses or operations may be subject to challenge, which may be disruptive to our business, subject us to sanctions or require us to increase capital, compromise the enforceability of relevant contractual arrangements, or have other adverse effects on us. The numerous and often vague restrictions on acceptable content in China subject us to potential civil and criminal liability, temporary blockage of our mobile applications or complete shut-down of our mobile applications. For example, the State Secrecy Bureau, which is directly responsible for the protection of state secrets of all Chinese government and Chinese Communist Party organizations, is authorized to block any website or mobile applications it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the distribution of online information. In addition, the Law on Preservation of State Secrets which became effective on October 1, 2010 provides that whenever an Internet service provider detects any leakage of state secrets in the distribution of online information, it should stop the distribution of such information and report to the authorities of state security and public security. As per request of the authorities of state security, public security or state secrecy, the Internet service provider should delete any content on its website that may lead to disclosure of state secrets. Failure to do so on a timely and adequate basis may subject the service provider to liability and certain penalties imposed by the State Security Bureau, Ministry of Public Security and/or MIIT or their respective local counterparts.
- On September 28, 2009, the General Administration of Press and Publication (the predecessor of GAPPFT), or the GAPP, and the National Office of Combating Pornography and Illegal Publications jointly published a circular expressly prohibiting foreign investors from participating in Internet game operating business via wholly owned, equity joint venture or cooperative joint venture investments in China, and from controlling and participating in such businesses directly or indirectly through contractual or technical support arrangements. On February 4, 2016, the GAPPFT and the MIIT jointly issued the *Rules for the Administration for Internet Publishing Services*, or the Internet Publishing Rules, which took effect in March 10, 2016 and prohibit wholly foreign-owned enterprises, Sino-foreign equity joint ventures

and Sino-foreign cooperative enterprises from engaging in the provision of web publishing services. Under such rules, an Internet publishing license is required for a provider of online publications. Uncertainty remains regarding the interpretation of relevant concepts, including “online publications.” Although we have not been required by the SART or other relevant authorities to obtain an Internet publishing license so far, we may face further scrutiny by such authorities, which may require us to apply for such license and/or subject us to penalties. In addition, project cooperation between an Internet publishing service provider and a wholly foreign-owned enterprise, Sino-foreign equity joint venture, or Sino-foreign cooperative enterprise within China or an overseas organization or individual involving Internet publishing services shall be subject to examination and approval by the SART in advance.

Due to the increasing popularity and use of the Internet and other online services, it is possible that a number of laws and regulations may be adopted with respect to the Internet or other online services covering issues such as user privacy, pricing, content, copyrights, distribution, antitrust and characteristics and quality of products and services. The adoption of additional laws or regulations may impede the growth of the Internet or other online services, which could, in turn, decrease the demand for our products and services and increase our cost of doing business. Moreover, the applicability to the Internet and other online services of existing laws in various jurisdictions governing issues such as property ownership, sales and other taxes, libel and personal privacy is uncertain and may take years to resolve. Any new legislation or regulation, the application of laws and regulations from jurisdictions where laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could significantly disrupt our operations or subject us to penalties.

The interpretation and application of existing PRC laws, regulations and policies, the stated positions of relevant PRC government authorities and possible new laws, regulations or policies have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, Internet businesses in China, including our business.

Non-compliance with law on the part of third parties with which we conduct business could disrupt our business and adversely affect results of our operation and financial condition.

Third parties with which we conduct business, such as content providers, advertising agents, advertising customers and merchandise suppliers, may be subject to regulatory penalties or punishments because of their regulatory compliance failures or may be infringing upon other parties’ legal rights, which may, directly or indirectly, disrupt our business. Although we conduct review of legal formalities and certifications before entering into contractual relationships with third parties, and take measures to reduce the risks that we may be exposed to in case of any non-compliance by third parties, we cannot be certain whether such third party has violated any regulatory requirements or infringed or will infringe any other parties’ legal rights. For example, content providers may submit copyrighted content that they have no right to distribute. While our content management system screens content for potential copyright infringements, we may not be able to identify all instances of copyright infringement. In the event we deliver content that violates the copyrights of a third party, we may be required to pay damages to compensate such third party. Even though we have the contractual right to seek indemnification from the relevant content provider for such payment, there can be no assurance that we will be able to enforce such right. As a result, our business, results of operations and financial condition could be materially and adversely affected. Similarly, advertising content of advertising customers may also not be in full compliance with applicable laws and regulations that may have an adverse effect as to our business, results of operations and financial condition. See “— Advertisements on our mobile applications may subject us to penalties and other administrative actions.”

We cannot rule out the possibility of incurring liabilities or suffering losses due to any non-compliance by third parties. We cannot assure you that we will be able to identify irregularities or non-compliance in the business practices of third parties we conduct business with, or that such irregularities or non-compliance will be corrected in a prompt and proper manner. Any legal liabilities and regulatory actions affecting third parties involved in our business may affect our business activities and reputation, and may in turn affect our business, results of operations and financial condition.

Privacy concerns relating to our products and services and the use of user information could damage our reputation, deter current and potential users and customers from using our mobile applications and negatively impact our business.

We collect personal data from our users in order to better understand our users and their needs and to help advertising customers target specific demographic groups. Through an automated process, we develop a social graph for each user based on such person's profile, behavior and social relationships. Concerns about the collection, use, disclosure or security of personal information or other privacy-related matters, even if unfounded, could damage our reputation, cause us to lose users and customers and adversely affect our business, results of operations and financial condition. While we strive to comply with applicable data protection laws and regulations, as well as our own posted privacy policies and other obligations we may have with respect to privacy and data protection, the failure or perceived failure to comply may result, and in some cases has resulted, in inquiries and other proceedings or actions against us by government agencies or others, as well as negative publicity and damage to our reputation and brand, each of which could cause us to lose users and customers, which could have an adverse effect on our business.

Any systems failure or compromise of our security that results in the unauthorized access to or release of our users' or customers' data could significantly limit the adoption of our products and services, as well as harm our reputation and brand and, therefore, our business. We expect to continue to expend significant resources to protect against security breaches. The risk that these types of events could seriously harm our business is likely to increase as we expand the number of products and services we offer and expand our user base.

New laws or regulations concerning data protection, or the interpretation and application of existing consumer and data protection laws or regulations, which is often uncertain and in flux, may be inconsistent with our practices. Complying with new laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business. For example, if privacy concerns or regulatory restrictions prevent us from selling demographically targeted advertising, we may become less attractive to advertising customers.

If we are unable to keep pace with rapid technological changes in the mobile Internet industries, our business may suffer.

The mobile content industry, and the Internet industry in general, are characterized by constant changes, including rapid technological evolution, continual shifts in customer demands, frequent introductions of new products and services and constant emergence of new industry standards and practices. Thus, our success will depend, in part, on our ability to respond to these changes in a cost-effective and timely manner. If we are unable to keep up with big data analysis, artificial intelligence and other technological developments, users may no longer be attracted to our platform. A decrease in the number of active users may reduce our monetization opportunities and have a material and adverse effect on our business, results of operations and financial condition.

Our technological capabilities and infrastructure underlying our platform are critical to our success. The industry we operate in is subject to rapid technological changes and is evolving quickly in terms of technology innovation. We need to anticipate the emergence of new technologies and assess their market acceptance. We also need to invest significant resources, including financial resources, in research and development to keep pace with technological advances in order to make our products and services competitive in the market. However, development activities are inherently uncertain, and we might encounter practical difficulties in commercializing our development results. Our significant expenditures on research and development may not generate corresponding benefits. Given the fast pace with which the technology has been and will continue to be developed, we may not be able to timely upgrade our technologies in an efficient and cost-effective manner, or at all. New technologies in programming or operations could render our technologies, our platform or products or services that we are developing or expect to develop in the future obsolete or unattractive, thereby limiting our ability to recover related product development costs, outsourcing costs and licensing fees, which could result in a decline in our revenues and market share.

If our security measures are breached, or if our products and services are subject to attacks that degrade or deny the ability of users to access our products and services, our products and services may be perceived as not being secure, users may curtail or stop using our products and services and our business, results of operations and financial condition may be harmed.

Our products and services involve the storage and transmission of users' information, and security breaches expose us to a risk of loss of this information, litigation and potential liability. We may experience cyber-attacks of varying

degrees, including attempts to hack into our user accounts or redirect our user traffic to other websites. Functions that facilitate interactivity with other mobile applications, such as WeChat, which among other things allows users to log into our platform using their WeChat identities, could increase the scope of access of hackers to user accounts. Our security measures may also be breached due to employee error, malfeasance or otherwise. Additionally, outside parties may attempt to fraudulently induce employees or users to disclose sensitive information in order to gain access to our data or our users' data or accounts, or may otherwise obtain access to such data or accounts. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation and a loss of confidence in the security of our products and services that could have an adverse effect on our business, results of operations and financial condition. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose users and we may be exposed to significant legal and financial risks, including legal claims and regulatory fines and penalties. Any of these actions could have a material and adverse effect on our business, results of operations and financial condition.

We rely on third-party online payment platforms as to certain aspects of our operations.

Our users withdraw cash credits from their accounts on *Qutoutiao* and *Midu Lite* through third-party online payment systems. Our users also can use third-party online payment systems to supplement their spending on *Qutoutiao* and *Midu Lite* with additional funds. In such online payment transactions, secured transmission of confidential information such as customers' personal information over public networks is essential to maintain consumer confidence.

We do not have control over the security measures of our third-party online payment platforms, and security breaches of the online payment systems that we use could expose us to litigation and possible liability for failing to secure confidential customer information and could, among other things, damage our reputation and the perceived security of all of the online payment systems that we use. If a well-publicized Internet or mobile network security breach were to occur, users concerned about the security of their online financial transactions may become reluctant to purchase our virtual items even if the publicized breach did not involve payment systems or methods used by us. In addition, there may be billing software errors that would damage customer confidence in these online payment systems. If any of the above were to occur and damage our reputation or the perceived security of the online payment systems we use, we lose active users, which may have an adverse effect on our business.

Furthermore, if any of the payment platforms we use decide to significantly increase the percentage they charge us for using their payment systems, our business, results of operations and financial condition may be materially and adversely affected.

Any change, disruption, discontinuity in the features and functions of major social networks could limit our ability to continue growing our user base, and our business may be materially and adversely affected.

We leverage social networks, such as WeChat and QQ, as part of our user acquisition and engagement effort. These social networks enable users to share content on our mobile applications or recommend our mobile applications to their friends, family and other social contacts to generate low-cost organic traffic and enhance user engagement for us. To the extent that we fail to leverage such social networks, our ability to attract or retain users may be harmed. If any of these social networks makes changes to its functions or support, or stops offering its functions or support to us, we may not be able to locate alternative social networks of similar scale to provide similar functions or support. Furthermore, we may fail to establish or maintain relationships with additional social network operators to support the growth of our business on economically viable terms, or at all. Any interruption to or discontinuation of our relationships with major social network operators may severely and negatively impact our ability to continue growing our user base, and any occurrence of the circumstances mentioned above may have a material adverse effect on our business, financial condition and results of operations.

Our business and growth could suffer if we are unable to hire and retain key personnel.

We depend on the continued contributions of our senior management and other key employees, many of whom are difficult to replace. The loss of the services of any of our executive officers or other key employees could harm our

business. Competition for qualified talent in China is intense. Our future success is dependent on our ability to attract a significant number of qualified employees and retain existing key employees. If we are unable to do so, our business and growth may be materially and adversely affected and the trading price of the ADSs could suffer. Our need to significantly increase the number of our qualified employees and retain key employees may cause us to materially increase compensation-related costs, including share-based compensation.

We are also dependent on the services of Mr. Eric Siliang Tan, our co-founder, chairman and chief executive officer. Although Mr. Tan spends significant time with us and is active in the management of our business, he does not devote his full time and attention to us. If Mr. Tan reduces his time with us in the future and become less involved with the management of our business, we may no longer benefit from his extensive industry experience and our business and growth may suffer.

Our co-founder, chairman and chief executive officer, Mr. Eric Siliang Tan, has control over us and our corporate matters. Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

We have a dual-class share structure which consists of Class A ordinary shares and Class B ordinary shares. In respect of matters requiring the votes of shareholders, holders of Class B ordinary shares are entitled to ten (10) votes per share, subject to certain conditions, while holders of Class A ordinary shares are entitled to one vote per share. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder to any person or entity which is not an affiliate of such holder, each of such Class B ordinary shares shall be converted into one Class A ordinary share in accordance with our amended and restated memorandum and articles of association.

Our co-founder, chairman and chief executive officer, Mr. Eric Siliang Tan, has control over us and our corporate matters. Mr. Tan beneficially owns 27,123,442 of our Class B ordinary shares through Innotech Group Holdings Ltd., a British Virgin Islands limited liability company which is ultimately controlled by him. As of the date of this annual report on Form 20-F, these Class B ordinary shares constituted approximately 36.4% of our total issued and outstanding share capital and 75.0% of the aggregate voting power of our total issued and outstanding share capital due to the disparate voting powers associated with our dual-class share structure. See “Item 6. Directors, Senior Management and Employees — C. Share Ownership.” As a result of the dual-class share structure and the concentration of ownership, Mr. Tan has considerable influence over matters such as decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentrated control will limit your ability to influence corporate matters and could also discourage others from pursuing any potential merger, takeover or other change of control transactions, which could have the effect of depriving the holders of our ordinary shares and the ADSs of the opportunity to sell their shares at a premium over the prevailing market price.

We are a “controlled company” under the rules of NASDAQ Global Select Market and, as a result, we rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

We are a “controlled company” as defined under the NASDAQ Stock Market Rules because Mr. Eric Siliang Tan holds more than 50% of the aggregate voting power of our company. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and will rely, on certain exemptions from corporate governance rules, including an exemption from the rule that a majority of our board of directors must be independent directors. As a result, you do not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

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

We have adopted an equity incentive plan that permits the grant of share options, restricted shares, restricted share units, dividend equivalents, share appreciation rights and share payments as equity-based awards, to our directors, officers, employees and consultants. The equity incentive plan replaced the 2017 equity incentive plan and 2018 equity incentive plan that we previously adopted in their entirety and assumed all awards granted under these two plans. The maximum aggregate number of ordinary shares that may be issued pursuant to all share options and other

awards under our equity incentive plan was initially 12,464,141 Class A ordinary shares. On March 5, 2019, the Company increased the aggregate number of Class A ordinary shares reserved for issuance pursuant to awards granted under the equity incentive plan by 3.5% of the total number of Class A ordinary shares and Class B ordinary shares outstanding as of December 31, 2018. On every January 1 thereafter for four years, the aggregate number of Class A ordinary shares reserved and available for issuance pursuant to awards granted under the equity incentive plan will be increased by 2.0% of the total number of Class A ordinary shares and Class B ordinary shares outstanding on December 31 of the preceding calendar year. As of the date of this annual report on Form 20-F, options to purchase 10,664,333 Class A ordinary shares had been granted and were outstanding under our equity incentive plan. We are required to account for options granted to our employees, directors and consultants. We are required to classify options granted to our employees, directors and consultants as equity awards and recognize share-based compensation expense based on the fair value of such share options, with the share-based compensation expense recognized over the period in which the recipient is required to provide service in exchange for the share option or other equity award.

On January 3, 2018, entities respectively controlled by our co-founders Mr. Eric Siliang Tan and Mr. Lei Li entered into share restriction deeds with us, pursuant to which a total of 15,937,500 ordinary shares beneficially owned by such co-founders became restricted shares. 12,187,500 of such restricted shares are beneficially owned by Mr. Eric Siliang Tan and were to be vested in a period over 34 months. 3,750,000 of such restricted shares are beneficially owned by Mr. Lei Li and were to be vested in a period over 24 months. These share restriction deeds were terminated, and all remaining restricted shares were vested, upon the completion of our initial public offering in September 2018. For accounting purposes, this transaction has been reflected retrospectively similar to a reverse stock split, with a grant of 15,937,500 restricted shares recognized in January 2018 at their then fair value of approximately RMB864.7 million (US\$128.1 million) and recognized as compensation expense over the vesting periods. For further information, see “Item 6. Directors, Senior Management and Employees — B. Compensation — Equity Incentive Plans — Share Restriction Deeds.” In 2017, 2018 and 2019, RMB3.4 million, RMB951.6 million and RMB272.0 million (US\$39.1 million) was recognized as share-based compensation expenses, respectively.

We believe the granting of share-based compensation is of significant importance to our ability to attract, retain and motivate our management team and talented employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase significantly, which may have an adverse effect on our results of operations and financial condition. See “Item 5. Operating and Financial Review and Prospects — A. Operating Results — Critical Accounting Policies — Share-based Compensation.”

Future investments in and acquisitions of complementary assets, technologies and businesses may fail and may result in equity or earnings dilution.

We may invest in or acquire assets, technologies and businesses that are complementary to our existing business. Our investments or acquisitions may not yield the results we expect. In addition, investments and acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, significant amortization expenses related to goodwill or intangible assets and exposure to potential unknown liabilities of the acquired business. Furthermore, if such goodwill or intangible assets become impaired, we may be required to record a significant charge to our results of operations. Such investments and acquisitions may also require our management team to devote a significant amount of attention. Moreover, the cost of identifying and consummating investments and acquisitions, and integrating the acquired businesses into ours, may be significant, and the integration of acquired businesses may be disruptive to our existing business operations. In addition, we may have to obtain approval from the relevant PRC governmental authorities for the investments and acquisitions and comply with any applicable PRC rules and regulations, which may be costly. In the event our investments and acquisitions are not successful, our results of operations and financial condition may be materially and adversely affected.

We may not be able to adequately protect our intellectual property, which could cause us to be less competitive.

We regard our intellectual property as critical to our success. Such intellectual property includes trademarks, domain names, copyrights, know-how and proprietary technologies. We currently rely on trademarks, copyrights, trade secret law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. See “Item 4. Information on the Company — B. Business Overview — Intellectual Property” and “Item 4. Information on the Company — C. Regulations — Regulations Related to Intellectual

Property Rights.” However, we cannot assure you that any of our intellectual property rights would not be challenged, invalidated or circumvented, or such intellectual property will be sufficient to provide us with competitive advantages. One of our competitors previously filed an objection when we applied for the trademark registration for “Qutoutiao” on the purported ground that “Qutoutiao” is similar to a trademark registered by such competitor. Although such objection was denied by the Trademark Office and we have successfully registered trademark for “Qutoutiao” in 2019, we have recently received a verdict in which the Trademark Office partially supported such competitor’s subsequent challenge against the validity of this registered trademark. We have brought an administrative proceeding against the Trademark Office to dispute the verdict. In addition, our application for the trademark of “Midu Novels” was denied by the Trademark Office on the ground that “Midu Novels” was similar to an existing registered trademark. We have purchased that existing trademark and prepared to appeal to a higher court.

We will use our best efforts to maintain, protect and enforce our intellectual property rights. However, there can be no assurance that we will always prevail and our trademarks and other intellectual property will be fully protected. In addition, other parties may misappropriate our intellectual property rights, which would cause us to suffer economic or reputational damages. Because of the rapid pace of technological change, nor can we assure you that all of our proprietary technologies and similar intellectual property can be patented in a timely or cost-effective manner, or at all. Furthermore, parts of our business rely on technologies developed or licensed by other parties, or co-developed with other parties, and we may not be able to obtain or continue to obtain licenses and technologies from these other parties on reasonable terms, or at all.

It is often difficult to register, maintain and enforce intellectual property rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality, invention assignment and non-compete agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Preventing any unauthorized use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. We can provide no assurance that we will prevail in such litigation. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. To the extent that our employees or consultants use intellectual property owned by others in their work for us, disputes may arise as to the rights in related know-how and inventions. Any failure in protecting or enforcing our intellectual property rights could materially and adversely affect our business, results of operations and financial condition.

We may be subject to intellectual property infringement claims or other allegations by third parties for information or content displayed on, retrieved from or linked to our platform, or delivered to our users, which may materially and adversely affect our business, financial condition and prospects.

We may be subject to intellectual property infringement claims or other allegations by third parties for products or services on our platform, which may materially and adversely affect our business, financial condition and prospects.

Companies in the Internet, technology and media industries are frequently involved in litigation based on allegations of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of other parties’ rights. The validity, enforceability and scope of protection of intellectual property rights in Internet-related industries, particularly in China, are uncertain and still evolving. As we face increasing competition and as litigation becomes more common in China in resolving commercial disputes, we face a higher risk of being the subject of intellectual property infringement claims.

We allow content providers to upload texts, images and videos on our platform. We have procedures designed to reduce the likelihood that content might be used without proper licenses or third-party consents. However, these procedures may not be effective in preventing the unauthorized posting of copyrighted content. We may face liability for copyright or trademark infringement, defamation, unfair competition, libel, negligence, and other claims based on the nature and content of the materials that are delivered, shared or otherwise accessed through our platform.

Defending intellectual property litigation is costly and can impose a significant burden on our management and employees, and there can be no assurances that favorable final outcomes will be obtained in all cases. Such claims, even if they do not result in liability, may harm our reputation. Any resulting liability or expenses, or changes required to our platform to reduce the risk of future liability, may materially and adversely affect our business, financial condition and prospects.

If we fail to implement and maintain an effective system of internal control, we may be unable to accurately or timely report our results of operations or prevent fraud, and investor confidence and the market price of the ADSs may be materially and adversely affected.

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the NASDAQ Global Select Market. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. Commencing with our fiscal year ended December 31, 2019, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting in our Form 20-F filing for that year, as required by Section 404 of the Sarbanes-Oxley Act.

Our management has concluded that, as of December 31, 2019, our existing disclosure controls and procedures and internal control over financial reporting were ineffective, due to one material weakness. In accordance with U.S. GAAP and financial reporting requirements set forth by the SEC, a “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our company’s annual or interim consolidated financial statements will not be prevented or detected on a timely basis. The material weakness, which was first identified in the course of preparing our consolidated financial statements for the year ended December 31, 2017, relates to the lack of sufficient financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP and SEC reporting requirements to formalize key controls over financial reporting and to prepare consolidated financial statements and related disclosures. To remedy our identified material weakness, we have undertaken and will continue to undertake steps to strengthen our internal control over financial reporting, including: (i) hiring more qualified resources including financial controller, equipped with relevant U.S. GAAP and SEC reporting experience and qualifications to strengthen the financial reporting function and to set up a financial and system control framework, (ii) implementing regular and continuous U.S. GAAP accounting and financial reporting training programs for our accounting and financial reporting personnel, (iii) establishing effective oversight and clarifying reporting requirements for non-recurring and complex transactions to ensure consolidated financial statements and related disclosures are accurate, complete and in compliance with U.S. GAAP and SEC reporting requirements, and (iv) enhancing an internal audit function as well as engaging an external consulting firm to help us assess our compliance readiness under rule 13a-15 of the Exchange Act and improve overall internal control. However, such measures have not been fully implemented and we concluded that the material weakness in our internal control over financial reporting had not been remediated as of December 31, 2019.

Once we cease to be an “emerging growth company” as the term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. In the future, our management may conclude that our internal control over financial reporting is still not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may not reach the same conclusion. In addition, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation.

Our internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

If we are unable to implement and maintain proper and effective internal control, we may not be able to produce timely and accurate financial statements. If that were to happen, the market price of the ADSs could decline and we

could be subject to sanctions or investigations by the NASDAQ Global Select Market, SEC or other regulatory authorities.

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

Under PRC tax laws and regulations, Shanghai Jifen Culture Communications Co., Ltd., or Shanghai Jifen, one of our consolidated VIEs, is qualified to enjoy certain preferential income tax benefits. The modified Enterprise Income Tax Law, effective on December 29, 2018, or the EIT Law, and its implementation rules generally impose a uniform income tax rate of 25% on all enterprises, but grant preferential treatment to “high and new technology enterprises strongly supported by the state”, or HNTEs, to enjoy a reduced enterprise tax rate of 15%. According to the relevant administrative measures, to qualify as a “HNTE”, Shanghai Jifen must meet certain financial and non-financial criteria and complete verification procedures with the administrative authorities. Continued qualification as a “HNTE” is subject to review by the relevant government authorities in China once every three years, and in practice certain local tax authorities also require annual evaluation of the qualification. In addition to the foregoing tax benefit, Shanghai Jifen also obtained the certificate of Qualified Software Enterprise, based on which Shanghai Jifen is now qualified to enjoy certain preferential enterprise income tax and value-added tax benefits, according to relevant rules including the Notice on Value-added Tax Policies for Software Products issued by the Ministry of Finance, or the MOF, and the State Administration of Taxation, or the SAT, on October 13, 2011, the Notice on Enterprise Income Tax Policies for Further Encouraging the Development of Software and Integrated Circuit Industries issued by the MOF and the SAT on April 20, 2012 and the Notice on relevant issues relating to preferential treatments for Enterprises in Software and Integrated Circuit Industries issued by the MOF, the SAT, the National Development and Reform Commission, or the NDRC, and the MIIT. In the event the preferential tax treatments for Shanghai Jifen are discontinued or are not verified by the local tax authorities, and the affected entity fails to obtain preferential tax treatments based on other qualifications such as Advanced Technology Service Enterprise, it will become subject to the standard tax rates and policies, including the PRC enterprise income tax rate of 25%. We cannot assure you that the tax authorities will not, in the future, discontinue any of our preferential tax treatments, potentially with retroactive effect.

User growth and engagement depend upon effective interoperation with operating systems, networks, devices and major mobile application distribution channels that we do not control.

We make our products and services available across a variety of mobile operating systems and through major mobile application distribution channels, namely app stores. We are dependent on the interoperability of our products and services with popular devices and mobile operating systems that we do not control, such as Android and iOS. We are also dependent on users’ ability to find and download our mobile applications through app stores operated by third parties, such as the Apple App Store and app stores operated by mobile phone manufacturers in China such as Huawei, Oppo, Vivo and Xiaomi.

Any changes in such operating systems, devices or mobile application distribution channels that degrade the functionality of our products and services or give preferential treatment to competitive products or services could adversely affect usage of our products and services. Further, if the number of platforms for which we develop our products increases, it will result in an increase in our costs and expenses. In order to deliver high-quality products and services, it is important that our products and services work well with a range of mobile operating systems and devices which we do not control. The various app stores also have their own rules and requirements that our mobile applications need to comply with for them to be included in the respective app stores. Such rules and requirements may change from time to time. There are no assurances that our mobile applications will be able to continue to meet these rules and requirements, which may result in their removal from the relevant app stores. Compliance with these rules and requirements may also prove to be costly or require change to the functionality of our mobile applications that may make them less desirable to users. We may not be successful in developing relationships with key participants in the mobile Internet industry or in developing products or services that operate effectively with these mobile operating systems, devices and mobile application distribution channels. In the event it is difficult for our users to access and use our products and services on their mobile devices, our user growth and user engagement could be harmed, and our business, results of operations and financial condition could be adversely affected.

Our operations depend on the performance of the Internet infrastructure and fixed telecommunications networks in China.

Almost all access to the Internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology, or the MIIT. Moreover, we primarily rely on a limited number of telecommunication service providers to provide us with data communications capacity through local telecommunications lines and Internet data centers to host our servers. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's Internet infrastructure or the fixed telecommunications networks provided by telecommunication service providers. Internet traffic in China has experienced significant growth during the past few years. Effective bandwidth and server storage at Internet data centers in large cities such as Shanghai are scarce. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our platform. We cannot assure you that the Internet infrastructure and the fixed telecommunications networks in China will be able to support the demands associated with the continued growth in Internet usage. If we are unable to increase our online content and service delivering capacity accordingly, we may not be able to continuously grow our traffic, and the adoption of our products and services may be hindered, which could adversely impact our business and our share price.

In addition, we have no control over the costs of the services provided by telecommunication service providers. Our information technology infrastructure cost increased as a result of we enriching our product offerings to include more engaging contents such as short videos, games and live-streaming. If the prices we pay for telecommunications and Internet services rise significantly, our business, results of operations and financial condition may be materially and adversely affected. Furthermore, if mobile Internet access fees or other charges to mobile Internet users increase, some users may be prevented from accessing the mobile Internet and thus cause the growth of mobile Internet users to decelerate. Such deceleration may adversely affect our ability to continue to expand our user base and increase our attractiveness to online customers.

Our business, results of operations and financial condition may be harmed by service disruptions, or by our failure to timely and effectively scale and adapt our existing technology and infrastructure.

We may experience service disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, hardware failure, capacity constraints due to an overwhelming number of people accessing our products and services simultaneously, computer viruses and denial of service, fraud and security attacks. Any disruption or failure in our infrastructure could hinder our ability to handle existing or increased traffic on our platform or cause us to lose content stored on our platform, which could significantly harm our business and our ability to retain existing users and attract new users.

As the number of our users increases and our users generate increasing volumes of user generated videos on our platform, and as we continue to diversify into new content formats, we may be required to expand and adapt our technology and infrastructure to continue to reliably store, analyze and deliver content. It may become increasingly difficult to maintain and improve the performance of our products and services, especially during peak usage times, as our products and services become more complex and our user traffic increases. In addition, because we lease our data center facilities, we cannot be assured that we will be able to expand our data center infrastructure to meet users' demand in a timely manner, or on favorable economic terms. If our users are unable to access any of our mobile applications or we are not able to make information available rapidly on any of our mobile applications, or at all, users may become frustrated and seek other channels for their light entertainment needs, and may not return to our mobile applications or use our mobile applications as often in the future, or at all. This would negatively impact our ability to attract users and maintain high level of user engagement as well as our ability to attract advertising customers.

Legal or administrative proceedings or allegations of impropriety against us or our management could have a material adverse impact on our reputation, results of operation and financial condition.

We and members of our management may be subject to allegations or lawsuits brought by our competitors, individuals, government and regulatory authorities or other persons in the future. Any such lawsuit or allegation, with or without merit, or any perceived unfair, unethical, fraudulent or inappropriate business practice by us or perceived wrong-doing by any key member of our management team could harm our reputation and cause our user base to decline and distract our management from day-to-day operations of our company. We cannot assure you that

we or key members of our management team will not be subject to lawsuits or allegations of a similar nature in the future. Where we can make a reasonable estimate of the liability relating to pending litigation and determine that an adverse liability resulting from such litigation is probable, we will record a related contingent liability. As additional information becomes available, we will assess the potential liability and revise estimates as appropriate. In 2017, 2018 and 2019, we did not record any contingent liabilities relating to pending litigation. However, Shanghai Jifen was named as the defendant in a lawsuit on January 20, 2020 on advertising dispute for breaching an agreement and the plaintiff sought a total payment of RMB103.2 million (US\$14.9 million). We believe we have meritorious defenses to the plaintiff's claim and intend to defend vigorously. However, there can be no assurance that we will prevail. For a detailed description of the case, please refer to "Item 8. Financial Information — A. Consolidated Statement and other Financial Information — Legal and Administrative Proceedings".

When we record or revise our estimates of contingent liabilities in the future, the amount of our estimates may be inaccurate due to the inherent uncertainties relating to litigation. In addition, the outcomes of actions we institute against third parties may not be successful or favorable to us. Litigation and allegations against us or any of our management members, irrespective of their veracity, may also generate negative publicity that significantly harms our reputation, which may materially and adversely affect our user base and our ability to attract content providers and advertising customers. In addition to the related cost, managing and defending litigation and related indemnity obligations can significantly divert our management and the board of directors' attention from operating our business. We may also need to pay damages or settle the litigation with a substantial amount of cash. All of these could have a material adverse impact on our reputation, results of operation and financial condition.

We may not have fully paid certain fees and surcharges in the past. As such, we may be subject to further scrutiny by the PRC tax authorities that may result in a finding which may subject us to additional taxes, fees and surcharges and fines or other penalties.

According to the Circular on Issues Relating to Cultural Undertaking Development Fee Policies and Administration of Levying and Collection Relating to Levying VAT in place of Business Tax, which was issued by the Ministry of Finance and the State Administration of Taxation, or the SAT, on March 28, 2016, or Circular 25, the provision of advertising services by advertising media agencies and outdoor advertisement business operators (including entities engaging in distribution, screening, promotion and exhibition of outdoor advertisements and other advertisements, as well as entities engaging in advertisement agency services) in China is subject to a cultural development fee. The fee was charged at an applicable rate of 3% of the net advertising revenues prior to June 30, 2019, which was reduced to 1.5% commencing on July 1, 2019, according to a preferential tax policy issued on June 12, 2019 by the government of Shanghai. The preferential policy is said to be in effect until December 31, 2024. The net advertising revenues refer to, as specified in Circular 25, the balance after deducting advertisement distribution fee paid to other advertising company or advertisement distributor, from the total tax inclusive price and out of pocket expenses obtained from provision of advertising and marketing services. Historically, we did not pay cultural development fee and surcharges for the part of our revenue that we did not consider as revenues from advertising services subject to Circular 25. Although we have not been challenged by the tax authorities so far, we may face further scrutiny by the PRC tax authorities that may result in a conclusion that subjects us to additional taxes, fees and surcharges and substantially increases our taxes owed, thereby materially and adversely affecting our results of operations. As a result of not making adequate contributions, we may also be subject to fines or other penalties imposed by the relevant authorities pursuant to applicable laws and regulations.

A severe or prolonged downturn in the Chinese or global economy could materially and adversely affect our business, results of operations and financial condition.

Any prolonged slowdown in the Chinese or global economy may have a negative impact on our business, results of operations and financial condition. In particular, general economic factors and conditions in China or worldwide, including the general interest rate environment and unemployment rates, may affect advertising customers' willingness to advertise or consumers' willingness to spend on entertainment. Economic conditions in China are sensitive to global economic conditions. The global financial markets have experienced significant disruptions since 2008 and the United States, Europe and other economies have experienced periods of recession. The recovery from the lows of 2008 and 2009 has been uneven and is facing new challenges, including the escalation of the European sovereign debt crisis from 2011 and the slowdown of the Chinese economy since 2012. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks

and financial authorities of some of the world's leading economies, including the United States and China. There have been concerns over unrest in North Korea, Ukraine, the Middle East and Africa, which have resulted in volatility in financial and other markets. There have also been concerns over the expected withdrawal of the United Kingdom from the European Union as well as concerns about the economic effect of the tensions in the relationship between the United States, China and neighboring Asian countries. If present Chinese and global economic uncertainties persist, we may have difficulty in attracting advertising customers or spending by consumers on entertainment. Additionally, continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

We have limited business insurance coverage.

Insurance companies in China currently do not offer as extensive an array of insurance products as are offered by insurance companies in more developed economies. We do not have any business liability or disruption insurance coverage for our operations. Any uninsured business disruptions may result in our incurring substantial costs and diversion of resources, which could have an adverse effect on our results of operations and financial condition.

Risks Relating to Our Corporate Structure

We rely on contractual arrangements with our consolidated VIEs and their respective shareholders to operate our business, which may not be as effective as direct ownership in providing operational control and otherwise materially and adversely affect our business.

We rely on contractual arrangements with our consolidated VIEs and their respective shareholders to operate our business. For a description of these contractual arrangements, see "Item 4. — Information on the Company — D. Organizational Structure — Contractual Arrangements among Our WFOEs, Our Consolidated VIEs and Their Respective Shareholders." The majority of our revenue is attributed to our consolidated VIEs and their subsidiaries. These contractual arrangements may not be as effective as direct ownership in providing us with control over our consolidated VIEs. If our consolidated VIEs or their respective shareholders fail to perform their respective obligations under these contractual arrangements, our recourse to the assets held by our consolidated VIEs is indirect and we may have to incur substantial costs and expend significant resources to enforce such arrangements in reliance on legal remedies under PRC law. These remedies may not always be effective, particularly in light of uncertainties in the PRC legal system. Furthermore, in connection with litigation, arbitration or other judicial or dispute resolution proceedings, assets under the name of any of record holder of equity interest in our consolidated VIEs, including such equity interest, may be put under court custody. As a consequence, we cannot be certain that the equity interest will be disposed pursuant to the contractual arrangement or ownership by the record holder of the equity interest.

All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the U.S. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing these contractual arrangements, it would be very difficult to exert effective control over our consolidated VIEs, and our ability to conduct our business and our results of operations and financial condition may be materially and adversely affected. See "— Risks Relating to Doing Business in China — There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations."

The arbitration provisions under these contractual arrangements have no effect on the rights of our shareholders to pursue claims against us under United States federal securities laws.

Furthermore, in connection with the share purchase agreement entered into with Shanghai Dongfang Newspaper Co., Ltd. and its subsidiaries, or collectively, The Paper, Shanghai Jifen has issued equity interests representing 1% of its enlarged share capital to Shanghai Xinpai Management Consulting Co., Ltd., or Shanghai Xinpai, an affiliate of The Paper, at a nominal price. However, Shanghai Xinpai is not a party to the contractual arrangements that are currently entered into among Shanghai Quyun Internet Technology Co., Ltd., or Shanghai Quyun, and Shanghai

Jifen and its shareholders. As such, despite the fact that we are still able to enjoy economic benefits and exercise effective control over Shanghai Jifen and its subsidiaries, in contrast to what we have been granted by other shareholders of Shanghai Jifen under the contractual arrangements, we are unable to purchase or have Shanghai Xinpai pledge such 1% equity interests in the same manner as agreed under existing contractual arrangements, nor have we been granted the authorization of voting rights over these 1% equity interests. We believe Shanghai Qyun, our wholly-owned PRC subsidiary, still controls and is the primary beneficiary of Shanghai Jifen as it continues to have a controlling financial interest in Shanghai Jifen pursuant to ASC 810-10-25-38A. See “Item 4. Information on the Company — D. Organizational Structure — Contractual Arrangements among Our WFOEs, Our Consolidated VIEs and Their Respective Shareholders — Supplemental Agreement to the Contractual Arrangements in Connection with The Paper.”

Any failure by our consolidated VIEs or their respective shareholders to perform their obligations under our contractual arrangements with them would materially and adversely affect our business.

We, through two of our subsidiaries and wholly foreign-owned enterprises in the PRC, have entered into a series of contractual arrangements with our consolidated VIEs and their respective shareholders. For a description of these contractual arrangements, see “Item 4. Information on the Company — D. Organizational Structure — Contractual Arrangements among Our WFOEs, Our VIEs and Their Respective Shareholders.” If our consolidated VIEs or their respective shareholders fail to perform their respective obligations under these contractual arrangements, we may incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective under PRC laws. For example, if the shareholders of our consolidated VIEs were to refuse to transfer their equity interests in the consolidated VIEs to us or our designee when we exercise the purchase option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal actions to compel them to perform their contractual obligations.

All the agreements under our contractual arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a VIE should be interpreted or enforced under PRC laws. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC laws, rulings by arbitrators are final and parties cannot appeal arbitration results in court unless such rulings are revoked or determined unenforceable by a competent court. If the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our consolidated VIEs and relevant rights and licenses held by such VIEs which we require in order to operate our business, and our ability to conduct our business may be negatively affected. See “— Risks Related to Doing Business in China — There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.”

The shareholders of our consolidated VIEs may have potential conflicts of interest with us, which may materially and adversely affect our business, results of operations and financial condition.

The interests of the shareholders of our consolidated VIEs in their capacities as such shareholders may differ from the interests of our company as a whole, as what is in the best interests of our consolidated VIEs, including matters such as whether to distribute dividends or to make other distributions to fund our offshore requirement, may not be in the best interests of our company. There can be no assurance that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or those conflicts of interest will be resolved in our favor. In addition, these shareholders may breach or cause our consolidated VIEs and their subsidiaries to breach or refuse to renew the existing contractual arrangements with us.

Currently, we do not have arrangements to address potential conflicts of interest the shareholders of our consolidated VIEs may encounter, on the one hand, and as a beneficial owner of our company, on the other hand. We, however, could, at all times, exercise our option under the exclusive option agreement to cause them to transfer all of their

equity ownership in our consolidated VIEs to a PRC entity or individual designated by us as permitted by the then applicable PRC laws. In addition, if such conflicts of interest arise, we could also, in the capacity of attorney-in-fact of the then existing shareholders of our consolidated VIEs as provided under the power of attorney agreements, directly appoint new directors of our consolidated VIEs. We rely on the shareholders of our consolidated VIEs to comply with PRC laws and regulations, which protect contracts and provide that directors and executive officers owe a duty of loyalty to our company and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains, and the laws of the Cayman Islands, which provide that directors have a duty of care and a duty of loyalty to act honestly in good faith with a view to our best interests. However, the legal frameworks of China and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of our consolidated VIEs, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

If the PRC government deems that the contractual arrangements in relation to our consolidated VIEs do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

The PRC government regulates telecommunications-related businesses through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership of PRC companies that engage in telecommunications-related businesses. Specifically, foreign investors are not allowed to own more than a 50% equity interest in any PRC company engaging in value-added telecommunications businesses. The primary foreign investor must also have experience and a good track record in providing value-added telecommunications services, or VATS, overseas.

Because we are an exempted company incorporated in the Cayman Islands, we are classified as a foreign enterprise under PRC laws and regulations, and our wholly foreign-owned enterprise in the PRC is a foreign-invested enterprise, or FIE. Accordingly, none of these subsidiaries are eligible to operate VATS business in China. We conduct our business in China through our consolidated VIEs and their affiliates. Our PRC subsidiaries, Shanghai Quyun and Shanghai Zhicao Information Technology Co., Ltd., or Shanghai Zhicao, have entered into a series of contractual arrangements with our consolidated VIEs and their respective shareholders, which enable us to (i) exercise effective control over the consolidated VIEs, (ii) receive substantially all of the economic benefits of the consolidated VIEs, and (iii) have an exclusive option to purchase all or part of the equity interests and assets in the consolidated VIEs when and to the extent permitted by PRC law. As a result of these contractual arrangements, we have control over and are the primary beneficiary of the consolidated VIEs and hence consolidate its financial results as our consolidated VIEs under U.S. GAAP. For a description of these contractual arrangements, see “Item 4. Information on the Company — D. Organizational Structure — Contractual Arrangements among Our WFOEs, Our Consolidated VIEs and Their Respective Shareholders.”

We believe that our corporate structure and contractual arrangements comply with the current applicable PRC laws and regulations. Our PRC legal counsel, King & Wood Mallesons, based on its understanding of the relevant laws and regulations, is of the opinion that each of the contracts among our wholly-owned PRC subsidiaries, Shanghai Quyun and Shanghai Zhicao, our consolidated VIEs and their respective shareholders is valid, binding and enforceable in accordance with its terms. However, as there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the M&A Rules, and the *Telecommunications Regulations* and the relevant regulatory measures concerning the telecommunications industry, there can be no assurance that the PRC government authorities, such as the MOFCOM or the MIIT, or other authorities that regulate Internet content providers and other participants in the telecommunications industry, would agree that our corporate structure or any of the above contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations.

If our corporate structure and contractual arrangements are deemed by the MIIT or the MOFCOM or other regulators having competent authority to be illegal, either in whole or in part, we may lose control of our

consolidated VIEs and have to modify such structure to comply with regulatory requirements. However, there can be no assurance that we can achieve this without material disruption to our business. Further, if our corporate structure and contractual arrangements are found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking our business and operating licenses;
- levying fines on us;
- confiscating any of our income that they deem to be obtained through illegal operations;
- shutting down our services;
- discontinuing or restricting our operations in China;
- imposing conditions or requirements with which we may not be able to comply;
- requiring us to change our corporate structure and contractual arrangements;
- restricting or prohibiting our use of the proceeds from overseas offering to finance our consolidated VIE's business and operations; and
- taking other regulatory or enforcement actions that could be harmful to our business.

Furthermore, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and contractual arrangements. See “— Substantial uncertainties exist with respect to whether the controlling of PRC onshore variable interest entities by foreign investors via contractual arrangements will be recognized as ‘foreign investment’ and how it may impact the viability of our current corporate structure and operations.” Occurrence of any of these events could materially and adversely affect our business, results of operations and financial condition. In addition, if the imposition of any of these penalties or requirement to restructure our corporate structure causes us to lose the rights to direct the activities of our consolidated VIEs or our right to receive its economic benefits, we would no longer be able to consolidate the financial results of such VIEs in our consolidated financial statements. However, we do not believe that such actions would result in the liquidation or dissolution of our company, our wholly-owned subsidiaries in China or our consolidated VIEs or their subsidiaries. See “Item 4. Information on the Company — D. Organizational Structure — Contractual Arrangements among Our WFOEs, Our Consolidated VIEs and Their Respective Shareholders.”

Contractual arrangements in relation to our consolidated VIEs may be subject to scrutiny by the PRC tax authorities and they may determine that our consolidated VIEs owe additional taxes, which could negatively affect our results of operations and financial condition and the value of your investment.

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The PRC enterprise income tax law requires every enterprise in China to submit its annual enterprise income tax return together with a report on transactions with its related parties to the relevant tax authorities. The tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm's length principles. We may face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our wholly-owned PRC subsidiaries, Shanghai Quyun and Shanghai Zhicao, our consolidated VIEs and their respective shareholders were not entered into on an arm's length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, regulations and rules, and adjust their income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by Shanghai Quyun, Shanghai Zhicao or our consolidated VIEs for PRC tax purposes, which could in turn increase their tax liabilities without reducing their tax expenses. In addition, if our wholly-owned PRC subsidiaries, Shanghai Quyun and Shanghai Zhicao, request the shareholders of our consolidated VIEs to transfer their equity interests in our consolidated VIEs at nominal or no value pursuant to these contractual arrangements, such transfer could be viewed as a gift and subject the relevant subsidiaries to PRC income tax. Furthermore, the PRC tax authorities may impose late payment fees and other penalties on our PRC subsidiaries, Shanghai Quyun and Shanghai Zhicao, and consolidated VIEs for adjusted but unpaid taxes according to applicable regulations. Our financial position could be materially and adversely affected if the tax liabilities of our PRC subsidiaries, Shanghai Quyun and Shanghai Zhicao, and consolidated VIEs increase, or if they are required to pay late payment fees and other penalties.

We may lose the ability to use and enjoy assets held by our consolidated VIEs that are material to the operation of our business if the entity goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

Our consolidated VIEs hold substantially all of our assets. Under the contractual arrangements, our consolidated VIEs may not and their respective shareholders may not cause it to, in any manner, sell, transfer, mortgage or dispose of its assets or its legal or beneficial interests in the business without our prior consent. However, in the event that the shareholders of our consolidated VIEs breach these contractual arrangements and voluntarily liquidate our consolidated VIEs, or our consolidated VIEs declare bankruptcy and all or part of their assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, results of operations and financial condition. If any of our consolidated VIEs undergoes a voluntary or involuntary liquidation proceeding, independent third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, results of operations and financial condition.

If the custodians or authorized users of our controlling non-tangible assets, including chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these assets, our business and operations may be materially and adversely affected.

Under PRC law, legal documents for corporate transactions, including agreements and contracts that our business relies on, are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with the relevant local branch of the SAMR. We generally execute legal documents by affixing chops or seals, rather than having the designated legal representatives sign the documents.

We have three major types of chops — corporate chops, contract chops and finance chops. We use corporate chops generally for documents to be submitted to government agencies, such as applications for changing business scope, directors or company name, and for legal letters. We use contract chops for executing leases and commercial contracts. We use finance chops generally for making and collecting payments, including issuing invoices. Use of corporate chops and contract chops must be approved by our legal department and administrative department, and use of finance chops must be approved by our finance department. The chops of our subsidiaries and consolidated VIEs and their subsidiaries are generally held by the relevant entities so that documents can be executed locally. Although we usually utilize chops to execute contracts, the registered legal representatives of our subsidiaries and consolidated VIEs and their subsidiaries have the apparent authority to enter into contracts on behalf of such entities without chops, unless such contracts set forth otherwise.

In order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to the designated key employees of our legal, administrative or finance departments. Our designated legal representatives generally do not have access to the chops. Although we have approval procedures in place and monitor our key employees, including the designated legal representatives of our subsidiaries and consolidated VIEs and their subsidiaries, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our key employees or designated legal representatives could abuse their authority, for example, by binding our subsidiaries and consolidated VIEs and their subsidiaries with contracts against our interests, as we would be obligated to honor these contracts if the other contracting party acts in good faith in reliance on the apparent authority of our chops or signatures of our legal representatives. If any designated legal representative obtains control of the chop in an effort to obtain control over the relevant entity, we would need to have a shareholder or board resolution to designate a new legal representative and to take legal action to seek the return of the chop, apply for a new chop with the relevant authorities, or otherwise seek legal remedies for the legal representative's misconduct. If any of the designated legal representatives obtains and misuses or misappropriates our chops and seals or other controlling intangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve while distracting management from our operations, and our business and operations may be materially and adversely affected.

Substantial uncertainties exist with respect to whether the controlling of PRC onshore variable interest entities by foreign investors via contractual arrangements will be recognized as “foreign investment” and how it may impact the viability of our current corporate structure and operations.

On March 15, 2019, the National People’s Congress of the PRC adopted the Foreign Investment Law, which came into force on January 1, 2020. The Foreign Investment Law defines the “foreign investment” as the investment activities in China conducted directly or indirectly by foreign investors in the following manners: (i) the foreign investor, by itself or together with other investors establishes a foreign invested enterprises in China; (ii) the foreign investor acquires shares, equities, asset tranches, or similar rights and interests of enterprises in China; (iii) the foreign investor, by itself or together with other investors, invests and establishes new projects in China; (iv) the foreign investor invests through other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council. The Foreign Investment Law keeps silent on how to define and regulate the VIEs, while adding a catch-all clause that “other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council” can fall into the concept of “foreign investment,” which leaves uncertainty as to whether the foreign investor’s controlling PRC onshore variable interest entities via contractual arrangements will be recognized as “foreign investment.” Pursuant to the Foreign Investment Law, PRC governmental authorities will regulate foreign investment by applying the principle of pre-entry national treatment together with a “negative list,” which will be promulgated by or promulgated with approval by the State Council. Foreign investors are prohibited from making any investments in the industries which are listed as “prohibited” in such negative list; and, after satisfying certain additional requirements and conditions as set forth in the “negative list,” are allowed to make investments in the industries which are listed as “restricted” in such negative list. For any foreign investor that fails to comply with the negative list, the competent authorities are entitled to ban its investment activities, require such investor to take measures to correct its non-compliance and impose other penalties.

It is uncertain whether any of the businesses that we currently operate or plan to operate in the future through our consolidated VIEs would be on the “negative list” as updated by the governmental authority from time to time and therefore be subject to any foreign investment restrictions or prohibitions. If any of the businesses that we operate were in the “restricted” category on the to-be-issued “negative list,” such determination would materially and adversely affect the value of the ADSs. We also face uncertainties as to whether the to-be-issued “negative list” would mandate further actions, such as MOFCOM market entry clearance, to be completed by companies with existing VIE structure and whether such clearance can be timely obtained, or at all. If we are not able to obtain any approval when required, our VIE structure may be regarded as invalid and illegal under the promulgated Foreign Investment Law, which may materially and adversely affect our business, results of operations and financial condition, for instance, we may not be able to (i) continue our business in China through our contractual arrangements with our consolidated affiliated entities, (ii) exert effective control over our consolidated affiliated entities, or (iii) consolidate the financial results of, and receive economic benefits from our consolidated affiliated entities under existing contractual arrangements.

In addition, our corporate governance practice may be materially impacted and our compliance costs could increase if we were considered as a FIE under the Foreign Investment Law. For instance, the Foreign Investment Law purports to impose stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Any company found to be non-compliant with these information reporting obligations could potentially be subject to fines and/or administrative liabilities, according to the Foreign Investment Law.

The PRC Foreign Investment Law leaves leeway for future laws, administrative regulations or provisions of the State Council to provide for contractual arrangements as a form of foreign investment. It is therefore uncertain whether our corporate structure will be seen as violating foreign investment rules as we are currently using the contractual arrangements to operate certain businesses in which foreign investors are currently prohibited from or restricted to investing. Furthermore, if future laws, administrative regulations or provisions of the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. If we fail to take appropriate and timely measures to comply with any of these or similar regulatory compliance requirements, our current corporate structure, corporate governance and business operations could be materially and adversely affected.

Risks Relating to Doing Business in China

Changes in the political and economic policies of the PRC government may materially and adversely affect our business, results of operations and financial condition and may result in our inability to sustain our growth and expansion strategies.

Substantially all of our operations are conducted in the PRC and substantially all of our revenue is sourced from the PRC. Accordingly, our business, results of operations and financial condition are affected to a significant extent by economic, political and legal developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, regulating financial services and institutions and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth in the past three decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. Our business, results of operations and financial condition could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the PRC government has implemented in the past certain measures to control the pace of economic growth. These measures may cause decreased economic activity, which in turn could lead to a reduction in demand for our services and consequently materially and adversely affect our business, results of operations and financial condition.

There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.

Substantially all of our operations are conducted in the PRC, and are governed by PRC laws, rules and regulations. Our PRC subsidiaries and consolidated VIEs and their subsidiaries are subject to laws, rules and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws, rules and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investment in China. However, China has not developed a fully integrated legal system, and recently enacted laws, rules and regulations may not sufficiently cover all aspects of economic activities in China or may be subject to significant degrees of interpretation by PRC regulatory agencies. In particular, because these laws, rules and regulations are relatively new, and because of the limited number of published decisions and the nonbinding nature of such decisions, and because the laws, rules and regulations often give the relevant regulator significant discretion in how to enforce them, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and can be inconsistent and unpredictable. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the occurrence of the violation.

Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business, results of operations and financial condition.

A PRC regulation establishes more complex procedures for acquisitions conducted by foreign investors that could make it more difficult for us to grow through acquisitions.

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State-Owned Assets Supervision and Administration Commission, or the SASAC, the State Administration of Taxation, the SAIC, the CSRC, and the State Administration of Foreign Exchange, or the SAFE, jointly adopted the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the M&A Rules, which came into effect on September 8, 2006 and were amended on June 22, 2009. The M&A Rules include, among other things, provisions that purport to require that an offshore special purpose vehicle that is controlled by PRC domestic companies or individuals and that has been formed for the purpose of an overseas listing of securities through acquisitions of PRC domestic companies or assets to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. However, substantial uncertainty remains regarding the scope and applicability of the M&A Rules to offshore special purpose vehicles.

These regulations also established additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex. For example, the M&A rules require that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. The approval from the MOFCOM shall be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. Mergers, acquisitions or contractual arrangements that allow one market player to take control of or to exert decisive impact on another market player must also be notified in advance to the SAMR when the threshold under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, or the Prior Notification Rules, issued by the State Council in August 2008 (as amended in September 2018) is triggered. In addition, the security review rules issued by the MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise "national defense and security" concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise "national security" concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the new regulations to complete such transactions could be time-consuming, and any required approval processes, including approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share. See "Item 4. Information on the Company — C. Regulations — Regulations Related to Mergers and Acquisitions and Overseas Listings."

PRC laws and regulations mandate complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to make acquisitions in China.

PRC laws and regulations, such as the M&A Rules, and other relevant rules, established additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from the MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to a merger control security review. In August 2011, the MOFCOM promulgated the *Rules on Implementation of Security Review System*, or MOFCOM Security Review Rules, effective from September 1, 2011, further provide that, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to a security review by the MOFCOM, the principle of substance over form should be applied and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements of offshore transaction. Factors that the MOFCOM considers in its review are whether (i) an important industry is involved, (ii) such transaction involves factors that have had or may have an impact on national economic security and (iii) such transaction will lead to a change in control of a domestic enterprise that holds a well-known PRC trademark or a time-honored PRC brand. If a business of any target company that we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company. Complying with the requirements of the relevant regulations to complete any such transaction could be time-consuming, and any required approval process, including approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business.

PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries or limit our PRC subsidiaries' ability to increase their registered capital or distribute profits.

The SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as "SAFE Circular 75" promulgated by the SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of the SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." Pursuant to SAFE Circular 37, "control" refers to the act through which a PRC resident obtains the right to carry out business operation of, to gain proceeds from or to make decisions on a special purpose vehicle by means of, among others, shareholding entrustment arrangement. SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as change of shareholders of the special purpose vehicle, increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by the SAFE and recently amended on December 30, 2019, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015.

Mr. Eric Siliang Tan and Mr. Lei Li have completed the SAFE registration pursuant to SAFE Circular 37 in 2017, with Innotech Group Holdings Ltd. and News Optimizer (BVI) Ltd. being separately registered as the respective "special purpose vehicle." After transferring all shares in Innotech Group Holdings Ltd. to the trust of which himself is also a beneficiary, Mr. Eric Siliang Tan, as well as all the other beneficiaries of the trust who are PRC residents are required to complete relevant registrations pursuant to SAFE Circular 37. We have notified substantial beneficial owners of our ordinary shares and the beneficiaries of the trust who we know are PRC residents of their filing obligation, including the obligation to make updates under SAFE Circular 37, and the beneficial owners have undertaken to complete relevant registrations as soon as such registration is practical with local SAFE. Nevertheless, we may not be continuously aware of the identities of all of our beneficial owners who are PRC residents. We do not have control over our beneficial owners and there can be no assurance that all of our PRC-resident beneficial owners will comply with SAFE Circular 37 and subsequent implementation rules, and there is no assurance that the registration under SAFE Circular 37 and any amendment will be completed in a timely manner, or will be completed at all. The failure of our beneficial owners who are PRC residents to register or amend their foreign exchange registrations in a timely manner pursuant to SAFE Circular 37 and subsequent implementation rules, or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 and subsequent implementation rules, may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to our company. These risks may materially and adversely affect our business, results of operations and financial condition.

Any failure to comply with PRC regulations regarding employee equity incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Pursuant to SAFE Circular 37, PRC residents who participate in equity incentive plans in overseas non-publicly-listed companies due to their position as director, senior management or employees of the PRC subsidiaries of the overseas companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. Our directors, executive officers and other employees who are PRC residents and who have been granted options may follow SAFE Circular 37 to apply for the foreign exchange registration before our company becomes an overseas listed company. As an overseas listed company, we and our directors, executive officers and other employees who are PRC residents and who have been granted options are subject to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals

Participating in Stock Incentive Plan of Overseas Publicly Listed Company, issued by SAFE in February 2012, according to which, employees, directors, supervisors and other management members participating in any equity incentive plans of an overseas publicly listed company who are PRC residents are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. We are making efforts to comply with these requirements, but there can be no assurance that they can successfully register with SAFE in full compliance with the rules. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit the ability to make payment under our equity incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our wholly-foreign owned enterprise in China and limit our wholly-foreign owned enterprise's ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional equity incentive plans for our directors and employees under PRC law.

We rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries to fund offshore cash and financing requirements. Any limitation on the ability of our PRC operating subsidiaries to make payments to us could materially and adversely affect our ability to conduct our business.

We are a holding company and rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries and on remittances from the consolidated VIEs for our offshore cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, fund inter-company loans, service any debt we may incur outside of China and pay our expenses. When our principal operating subsidiaries or the consolidated VIEs incur additional debt, the instruments governing the debt may restrict their ability to pay dividends or make other distributions or remittances to us. Furthermore, the laws, rules and regulations applicable to our PRC subsidiaries and certain other subsidiaries permit payments of dividends only out of their retained earnings, if any, determined in accordance with applicable accounting standards and regulations.

Under PRC laws, rules and regulations, each of our subsidiaries incorporated in China is required to set aside at least 10% of its net income each year to fund certain statutory reserves until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves, together with the registered capital, are not distributable as cash dividends. As a result of these laws, rules and regulations, our subsidiaries incorporated in China are restricted in their ability to transfer a portion of their respective net assets to their shareholders as dividends, loans or advances. Certain of our subsidiaries did not have any retained earnings available for distribution in the form of dividends as of December 31, 2019. In addition, registered share capital and capital reserve accounts are also restricted from withdrawal in the PRC, up to the amount of net assets held in each operating subsidiary.

Limitations on the ability of our consolidated VIEs to make remittance to the wholly-foreign owned enterprise and on the ability of our subsidiaries to pay dividends to us could limit our ability to access cash generated by the operations of those entities, including to make investments or acquisitions that could be beneficial to our businesses, pay dividends to our shareholders or otherwise fund and conduct our business.

We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and we may therefore be subject to PRC income tax on our global income.

Under the modified Enterprise Income Tax Law and its implementing rules, enterprises established under the laws of jurisdictions outside of China with “de facto management bodies” located in China may be considered PRC tax resident enterprises for tax purposes and may be subject to the PRC enterprise income tax at the rate of 25% on their global income. “De facto management body” refers to a managing body that exercises substantive and overall management and control over the production and business, personnel, accounting books and assets of an enterprise. The State Administration of Taxation issued the *Notice Regarding the Determination of Chinese-Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies*, or Circular 82, on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by foreign enterprises or individuals, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises. If we were to be

considered a PRC resident enterprise, we would be subject to PRC enterprise income tax at the rate of 25% on our global income. In such case, our profitability and cash flow may be materially reduced as a result of our global income being taxed under the Enterprise Income Tax Law. We believe that none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.”

Dividends payable to our foreign investors and gains on the sale of ADSs or our ordinary shares by our foreign investors may become subject to PRC tax.

Under the modified Enterprise Income Tax Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends payable to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within the PRC. Similarly, any gain realized on the transfer of ADSs or ordinary shares by such investors is also subject to PRC tax at a current rate of 10%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our ordinary shares, and any gain realized from the transfer of our ordinary shares or the ADSs, would be treated as income derived from sources within the PRC and would be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to individual investors who are non-PRC residents and any gain realized on the transfer of ADSs or ordinary shares by such investors may be subject to PRC tax at a current rate of 20%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions. If we or any of our subsidiaries established outside China are considered a PRC resident enterprise, it is unclear whether holders of ADSs or our ordinary shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. If dividends payable to our non-PRC investors, or gains from the transfer of ADSs or our ordinary shares by such investors, are deemed as income derived from sources within the PRC and thus are subject to PRC tax, the value of your investment in ADSs or our ordinary shares may decline significantly.

We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies.

On February 3, 2015, the State Administration of Taxation issued the *Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises*, or Bulletin 7, which partially replaced and supplemented previous rules under the *Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises*, or SAT Circular 698, issued by the State Administration of Taxation, on December 10, 2009. Pursuant to this Bulletin 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to Bulletin 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties located in China, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable assets; and the tax situation of such indirect transfer and applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties located in China or to equity investments in a PRC resident enterprise, which is not

related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payor fails to withhold any or sufficient tax, the transferor is required to declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. Bulletin 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange. On October 17, 2017, the State Administration of Taxation promulgated the *Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source*, or SAT Circular 37, which was amended and became effective on June 15, 2018, and SAT Circular 698 then was repealed with effect from December 1, 2017. SAT Circular 37, among other things, simplified procedures of withholding and payment of income tax levied on non-resident enterprises.

There is uncertainty as to the application of Bulletin 7. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions under Bulletin 7. For transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under Bulletin 7. As a result, we may be required to expend valuable resources to comply with Bulletin 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may materially and adversely affect our results of operations and financial condition.

We are subject to restrictions on currency exchange.

Substantially all of our revenue is denominated in Renminbi. The Renminbi is currently convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment and loans, including loans we may secure from our onshore subsidiaries or consolidated VIEs. Currently, certain of our PRC subsidiaries may purchase foreign currency for settlement of “current account transactions,” including payment of dividends to us, without the approval of the SAFE by complying with certain procedural requirements. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase foreign currencies in the future for current account transactions. Foreign exchange transactions under the capital account remain subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities. Since a significant amount of our future revenue and cash flow will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize cash generated in Renminbi to fund our business activities outside of the PRC or pay dividends in foreign currencies to our shareholders, and may limit our ability to obtain foreign currency through debt or equity financing for our onshore subsidiaries and consolidated VIEs.

PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from making loans to our PRC subsidiaries and our consolidated VIEs, or making additional capital contributions to our PRC subsidiaries.

We, as an offshore holding company, are permitted under PRC laws and regulations to provide funding to our PRC subsidiaries, which are treated as foreign-invested enterprises under PRC laws, through loans or capital contributions. However, loans by us to our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE and capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings or registrations through enterprise registration system with relevant governmental authorities in China.

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises, or Circular 19, effective on June 1, 2015, in replacement of the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, the Notice from the State Administration of Foreign Exchange on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses, or Circular 59, and the Circular on Further Clarification and

Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses, or Circular 45. According to Circular 19, the flow and use of the Renminbi capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that Renminbi capital may not be used for the issuance of Renminbi entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third party. Although Circular 19 allows Renminbi capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within the PRC, it also reiterates the principle that Renminbi converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether SAFE will permit such capital to be used for equity investments in the PRC in actual practice. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in Circular 19, but changes the prohibition against using Renminbi capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue Renminbi entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and Circular 16 could result in administrative penalties. Circular 19 and Circular 16 may significantly limit our ability to transfer any foreign currency we hold to our PRC subsidiaries, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC.

Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we are not likely to make such loans to our consolidated VIEs and their subsidiaries, each a PRC domestic company. Meanwhile, we are not likely to finance the activities of our consolidated VIEs and their subsidiaries by means of capital contributions given the restrictions on foreign investment in the businesses that are currently conducted by our consolidated VIEs and their subsidiaries.

In light of the various requirements imposed by PRC regulations on loans to, and direct investment in, PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans to our PRC subsidiaries or any consolidated VIEs or future capital contributions by us to our PRC subsidiaries. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiaries or consolidated VIEs and their subsidiaries when needed. If we fail to complete such registrations or obtain such approvals, our ability to use foreign currency and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Fluctuations in exchange rates could result in foreign currency exchange losses and could materially reduce the value of your investment.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the Renminbi has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

Substantially all of our revenue and costs are denominated in Renminbi. We are a holding company and we rely on dividends paid by our operating subsidiaries in China for our cash needs. Any significant fluctuation of Renminbi against the U.S. dollar may materially and adversely affect our results of operations and financial position reported in Renminbi when translated into U.S. dollars, and the value of, and any dividends payable in U.S. dollars. To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive. Conversely, if we decide to

convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount.

The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, our investors are deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit report included in our annual report filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, is required by the laws of the U.S. to undergo regular inspections by the PCAOB to assess its compliance with the laws of the U.S. and professional standards. Because our auditors are located in the People's Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. In a statement issued on December 9, 2019, the SEC reiterated concerns over the inability of the PCAOB to conduct inspections of the audit firm work papers with respect to U.S.-listed companies that have operations in China, and emphasized the importance of audit quality in emerging markets, such as China. On April 21, 2020, the SEC and the PCAOB issued a new joint statement, reminding the investors that in many emerging markets, including China, there is substantially greater risk that disclosures will be incomplete or misleading and, in the event of investor harm, substantially less access to recourse, in comparison to U.S. domestic companies, and stressing again the PCAOB's inability to inspect audit work papers in China and its potential harm to investors. However, it remains unclear what further actions the SEC and PCAOB will take to address the problem.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our consolidated financial statements.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China's, in June 2019, a bipartisan group of lawmakers introduced bills in both houses of the U.S. Congress, which if passed, would require the SEC to maintain a list of issuers for which PCAOB is not able to inspect or investigate an auditor report issued by a foreign public accounting firm. The proposed Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act prescribes increased disclosure requirements for these issuers and, beginning in 2025, the delisting from U.S. national securities exchanges such as the NASDAQ of issuers included on the SEC's list for three consecutive years. Enactment of this legislation or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of the ADSs could be adversely affected. It is unclear if this proposed legislation would be enacted.

If additional remedial measures are imposed on the "big four" PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging such firms' failure to meet specific criteria set by the SEC with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

Starting in 2011, the Chinese affiliates of the "big four" accounting firms, including our independent registered public accounting firm, were affected by a conflict between the United States and Chinese law. Specifically, for certain United States listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese accounting firms access to their audit work papers and related documents. The firms were, however, advised and directed that under Chinese law they could not respond directly to the United States regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the CSRC.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese accounting firms, including our independent registered public accounting firm. In January 2014, the administrative law judge reached an initial decision to impose penalties on the firms including a temporary suspension of their right to practice before the SEC. The accounting firms filed a petition for review of the initial decision. On February 6, 2015, before a review by the commissioners of the SEC had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the current proceeding against all four firms. Under the terms of the settlement, the underlying proceeding against the four China-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, United States listed companies and the market price of the ADSs may be adversely affected.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our consolidated financial statements, our consolidated financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of the ADSs from the NASDAQ Global Select Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of the ADSs in the United States.

Risks Relating to the ADSs

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

The trading prices of the ADSs have been, and are likely to continue to be, volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other listed companies based in China. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies' securities after their offerings, including technology companies and mobile content platform companies, may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of the ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Furthermore, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, which may have a material and adverse effect on the trading price of the ADSs.

In addition to the above factors, the price and trading volume of the ADSs may be highly volatile due to multiple factors, including the following:

- regulatory developments affecting us or our industry;
- announcements of studies and reports relating to the quality of our credit offerings or those of our competitors;
- changes in the economic performance or market valuations of other mobile content platform companies;

- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the markets for mobile content and targeted advertising and marketing services;
- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures, capital raisings or capital commitments;
- additions to or departures of our senior management;
- fluctuations of exchange rates between the Renminbi and the U.S. dollar;
- release or expiry of lock-up or other transfer restrictions on our outstanding shares or the ADSs; and
- sales or perceived potential sales of additional ordinary shares or ADSs.

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

The trading market for the ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades the ADSs or publishes inaccurate or unfavorable research about our business, the market price for the ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for the ADSs to decline.

Because we do not expect to pay cash dividends in the foreseeable future, you may not receive any return on your investment unless you sell your Class A ordinary shares or ADSs for a price greater than that which you paid for them.

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. See “Item 8. Financial Information — A. Consolidated Statements and Other Financial Information — Dividend Policy.” Therefore, you should not rely on an investment in the ADSs as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in the ADSs will likely depend entirely upon any future price appreciation of the ADSs. There is no guarantee that the ADSs will appreciate or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in ADSs and you may even lose your entire investment in ADSs.

Substantial future sales or perceived potential sales of ADSs in the public market could cause the price of the ADSs to decline.

Sales of the ADSs in the public market, or the perception that these sales could occur, could cause the market price of the ADSs to decline significantly. As of December 31, 2019, we had 39,645,820 Class A ordinary shares and 32,937,193 Class B ordinary shares outstanding. All ADSs representing our Class A ordinary shares sold in our initial public offering and follow-on public offering are freely transferable by persons other than our “affiliates” without restriction or additional registration under the U.S. Securities Act of 1933, as amended, or the Securities Act. All of the other Class A ordinary shares outstanding are available for sale subject to volume and other restrictions as applicable under Rule 144 and Rule 701 under the Securities Act. To the extent a large number of shares are converted to ADSs and sold into the market, the market price of the ADSs could decline significantly.

Certain holders of our ordinary shares have the right to cause us to register under the Securities Act the sale of their shares. Registration of these shares under the Securities Act would result in ADSs representing these shares

becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these ADSs in the public market could cause the price of the ADSs to decline significantly.

You, as holders of ADSs, may have fewer rights than holders of our ordinary shares and must act through the depositary to exercise those rights.

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying Class A ordinary shares in accordance with the provisions of the deposit agreement. Under our amended and restated memorandum and articles of association, the minimum notice period required to convene a general meeting will be seven calendar days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw your Class A ordinary shares to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send information to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but there can be no assurance that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the U.S. unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depositary will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings in the future and may experience dilution in your holdings.

You may not receive cash dividends if the depositary decides it is impractical to make them available to you.

The depositary will pay cash distributions on the ADSs only to the extent that we decide to distribute dividends on our Class A ordinary shares or other deposited securities, and we do not have any present plan to pay any cash dividends in the foreseeable future. See "Dividend Policy." To the extent that there is a distribution, the depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our Class A ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A ordinary shares your ADSs represent. However, the depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property to you.

We will continue to incur increased costs as a result of being a public company, which could lower our profits or make it more difficult to run our business.

As a public company, we have incurred significant legal, accounting and other expenses that we did not incur as a private company to ensure that we comply with the various requirements on corporate governance practices imposed by the Sarbanes-Oxley Act of 2002 as well as rules subsequently implemented by the SEC and the NASDAQ Global Select Market. For example, we have increased the number of independent directors and adopted policies regarding internal control and disclosure controls and procedures. We have also incurred additional costs associated with our public company reporting requirements. We expect that these rules and regulations will continue to cause us to incur elevated legal and financial compliance costs, devote substantial management effort to ensure compliance and make some corporate activities more time-consuming and costly. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company's securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

The dual-class structure of our ordinary shares may adversely affect the trading market for the ADSs.

S&P Dow Jones has announced changes to its eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500, to exclude companies with multiple classes of shares from being added to such indices. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual class structure of our ordinary shares may prevent the inclusion of the ADSs representing our Class A ordinary shares in such indices and may cause shareholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices could result in a less active trading market for the ADSs. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of the ADSs.

Our amended and restated memorandum and articles of association contain anti-takeover provisions that could discourage a third party from acquiring us, which could limit our shareholders' opportunity to sell their shares, including Class A ordinary shares represented by ADSs, at a premium.

Our amended and restated memorandum and articles of association contain provisions that limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of the ADSs may fall and the voting and other rights of the holders of our ordinary shares and the ADSs may be materially and adversely affected.

Certain judgments obtained against us may not be enforceable.

We are an exempted company incorporated under the laws of the Cayman Islands. Substantially all of our assets are located outside the United States. In addition, substantially all of our directors and executive officers and the experts named in this annual report reside outside the United States, and most of their assets are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against them in the United States, in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands, China or other relevant jurisdiction may render you unable to enforce a judgment against our assets or the assets of our directors and officers and/or their assets.

You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Law of the Cayman Islands (as amended) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands have a less developed body of securities laws than the United States. Some states in the United States, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records or to obtain copies of lists of shareholders of these companies. Our directors have discretion under the amended and restated memorandum and articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder resolution or to solicit proxies from other shareholders in connection with a proxy contest.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the U.S.

ADSs holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable outcomes to the plaintiff(s) in any such action.

The deposit agreement governing the ADSs representing our Class A ordinary shares provides that, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depository arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

If we or the depository opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with applicable U.S. state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the U.S. federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to the deposit agreement and the ADSs. Accordingly, ADS holders, including holders that acquired ADSs in a secondary transaction, are subject to these provisions of the deposit agreement to the extent permitted by applicable law. It is advisable that you consult legal counsel regarding the jury waiver provision before investing in the ADSs.

If you or any other holders or beneficial owners of ADSs bring a claim against us or the depository in connection with matters arising under the deposit agreement or the ADSs, including claims under U.S. federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us and/or the depository. If a lawsuit is brought against us and/or the depository under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have had, including results that could be less favorable to the plaintiff(s) in any such action.

Nevertheless, if this jury trial waiver provision is not enforced, to the extent a court action proceeds, it would proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depository of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempted from certain provisions applicable to U.S. domestic public companies.

Because we qualify as a foreign private issuer under the Exchange Act, we are exempted from certain provisions of the securities rules and regulations in the United States that are applicable to United States domestic issuers, including: (i) the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K; (ii) the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act; (iii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and (iv) the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the NASDAQ Global Select Market. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by United States domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

We are an emerging growth company and may take advantage of certain reduced reporting requirements.

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from various requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 of Sarbanes-Oxley Act of 2002 for so long as we are an emerging growth company. As a result, if we elect not to comply with such auditor attestation requirements, our investors may not have access to certain information they may deem important.

The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. However, we have elected to “opt out” of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

We may be or may become a passive foreign investment company, or PFIC, which could result in adverse United States tax consequences to United States investors.

Based on the past and projected composition of our income and assets, and the valuation of our assets, including goodwill, we do not believe we were a passive foreign investment company, or a PFIC, for our most recent taxable year, and we do not expect to become a PFIC in the current taxable year or the foreseeable future, although there can be no assurance in this regard.

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income, or
- at least 50% of the value (determined based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income, which include cash, such as cash raised in our initial public offering and follow-on public offering.

The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. Because we have

calculated the value of our goodwill by taking into account the market value of the ADSs, a decrease in the price of the ADSs may also result in our becoming a PFIC.

In addition, there is uncertainty as to the treatment of our corporate structure and ownership of our consolidated VIEs for United States federal income tax purposes. For United States federal income tax purposes, we consider ourselves to own the equity of our consolidated VIEs. If it is determined, contrary to our view, that we do not own the equity of our consolidated VIEs for United States federal income tax purposes (for instance, because the relevant PRC authorities do not respect these arrangements), we may be treated as a PFIC.

If we are a PFIC for any taxable year during which you hold the ADSs or Class A ordinary shares, our PFIC status could result in adverse United States federal income tax consequences to you if you are a United States Holder, as defined under “Item 10. Additional Information — E. Taxation — Certain United States Federal Income Tax Considerations.” For example, if we are or become a PFIC, you may become subject to increased tax liabilities under United States federal income tax laws and regulations, and will become subject to burdensome reporting requirements. See “Item 10. Additional Information — E. Taxation — Certain United States Federal Income Tax Considerations — Passive Foreign Investment Company.” There can be no assurance that we will not be a PFIC for the current or any future taxable year.

As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the NASDAQ Global Select Market corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the NASDAQ Global Select Market corporate governance listing standards.

We are a company incorporated in the Cayman Islands, and the ADSs are listed on the NASDAQ Global Select Market. The NASDAQ Global Select Market rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NASDAQ Global Select Market corporate governance listing standards.

For instance, we are not required to: (i) have a majority of the board be independent; (ii) have a compensation committee or a nominating and corporate governance committee consisting entirely of independent directors; or (iii) have regularly scheduled executive sessions with only independent directors each year.

We intend to rely on some of these exemptions. As a result, you may not be provided with the benefits of certain corporate governance requirements of the NASDAQ Global Select Market.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We launched our flagship mobile application, *Qutoutiao*, in June 2016, our mobile literature application, *Midu Novels*, in May 2018, and *Midu Lite*, which combines a loyalty program with the standard offerings from *Midu Novels*, in May 2019. We primarily operate our business through certain of our consolidated VIEs, Shanghai Jifen, Shanghai Big Rhinoceros Horn Information Technology Co., Ltd., or Big Rhinoceros Horn, and Anhui Zhangduan Internet Technology Co., Ltd., or Anhui Zhangduan, and their subsidiaries. To facilitate financing offshores, we incorporated Qtech Ltd. in July 2017. Through a series of transactions, Qtech Ltd. then became our ultimate holding company. On July 5, 2018, Qtech Ltd. was renamed to Qutoutiao Inc.

We currently conduct our business primarily through the following subsidiaries, consolidated VIEs and their subsidiaries:

- Shanghai Jifen, our consolidated VIE, primarily engages in the operation of our *Qutoutiao* mobile application;
- Big Rhinoceros Horn, our consolidated VIE, primarily engaged in the operation of our *Midu Novels* and *Midu Lite* mobile application;
- Anhui Zhangduan, our consolidated VIE, primarily engages in content management;

- Beijing Qukandian Internet Technology Co., Ltd., or Beijing Qukandian, primarily engages in content procurement; and
- Shanghai Dianguan Internet Technology Co., Ltd., or Shanghai Dianguan, our subsidiary in China acquired in February 2018, primarily provides advertising and marketing services.

On September 14, 2018, our ADSs commenced trading on NASDAQ Global Select Market under the symbol “QTT.” We issued and sold an aggregate of 13,800,000 ADSs (including 1,800,000 ADSs sold upon the full exercise of the underwriters’ option to purchase additional ADSs) in our initial public offering, representing 3,450,000 Class A ordinary shares, raising approximately US\$85.8 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us. On April 5, 2019, we completed a follow-on public offering of an aggregate of 10,000,000 ADSs, comprising 3,327,868 ADSs issued and sold by us and 6,672,132 ADSs sold by certain selling shareholders, representing an aggregate of 2,500,000 Class A ordinary shares. We raised approximately US\$31.0 million in net proceeds, after deducting underwriting discounts and commissions and the offering expenses payable by us. We did not receive any of the proceeds from the sale of ADSs by the selling shareholders.

Our principal executive offices are located at 11/F, Block 3, XingChuang Technology Center, Shen Jiang Road 5005, Pudong New Area, Shanghai, 200120, People’s Republic of China. Our telephone number at this address is +86-21-6858-3790. Our registered office in the Cayman Islands is located at the offices of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands. Our agent for service of process in the United States is Cogency Global Inc., located at 122 East 42nd Street, 18th Floor, New York, N.Y. 10168, United States.

B. Business Overview

Overview

We operate innovative and fast-growing mobile content platforms in China with a mission to bring fun and value to our users. Our eponymous flagship mobile application, *Qutoutiao*, meaning “fun headlines” in Chinese, applies artificial intelligence-based algorithms to deliver customized feeds of articles and short videos to users based on their unique profiles, interests and behaviors. *Qutoutiao* has attracted a large group of loyal users, many of whom are from lower-tier cities in China. They enjoy *Qutoutiao*’s fun and entertainment-oriented content as well as its social-based user loyalty program. Since its beginning as a news aggregator, *Qutoutiao* has evolved and developed significantly on the content side and now also has a rich offering in short video content, casual games and live-streaming. While the newer content categories have not been monetized meaningfully for the time being, they play an important role in completing the comprehensive content ecosystem *Qutoutiao* has been trying to build, and therefore have long-term strategic value and upscale our overall monetization capability. Midu, first launched in May 2018 as *Midu Novels* and with an alternative version *Midu Lite* launched one year later, pioneered provision of free online literature supported by advertising. It has grown tremendously and has led the free online literature industry since inception. We have also been developing standalone short video applications among the many other initiatives in motion since early 2019 to further diversify the range of products our users can enjoy and the ways in which we can bring value to our users. Our mobile applications have rapidly gained popularity since launch, reaching combined average MAUs of approximately 137.9 million, combined average DAUs of approximately 45.7 million and average daily time spent per DAU of approximately 59.4 minutes in the three months ended December 31, 2019.

We represent the new generation of technology-driven content platforms. Historically, users were accustomed to consuming content passively as the media dictated content curation with little or no personalization. However, as the volume and the diversity of content available on the Internet have grown exponentially, users are demanding content personalization which is only achievable through technology. We believe our technology brings relevant information and entertainment to users, stimulates their desire to read, and ultimately improves the knowledge exchange in society.

Since our inception, we have strategically targeted users from lower-tier cities in China because of the enormous long-term growth opportunities in this underserved market, given the significant underpenetration of mobile phones

as well as the significant under-usage of mobile applications. We believe that mobile users in lower-tier cities tend to have a slower pace of life and spend more time on the Internet given limited offline entertainment venues. Moreover, they enjoy rapidly growing disposable income and bear much lower financial burden due to lower housing prices and living expenses. These factors have given rise to a significant need for mobile entertainment while also creating high monetization potentials. Users from lower-tier cities tend to have different interests and preferences in comparison to users from tier-1 and tier-2 cities. *Qutoutiao*'s light entertainment-oriented and easily digestible content is designed to resonate with such users and provides us with a significant advantage to capture this underserved market.

We are a pioneer in the mobile content industry in operating an innovative user account system and gamified user loyalty program. Registered users can earn loyalty points by referring new users to register on *Qutoutiao*, by consuming content or by engaging in activities on *Qutoutiao*. Although loyalty points only translate into trivial monetary amounts, they foster users' loyalty and emotional connection to *Qutoutiao* as compared to other platforms. The loyalty program created a strong viral effect, which has enabled us to enjoy lower user acquisition costs in comparison to those of other acquisitions channels. The gamified loyalty point system not only helps us keep users more engaged and enhance user stickiness, but also enables us to track users' long-term behaviors and optimize content recommendation, as almost all of our DAUs are logged-on users.

Covering a broad range of topics, *Qutoutiao* is focused on humor, stories and other light entertainment content that delight and inspire. Our content is generally sourced from professional media under licensing arrangements or uploaded by more than one million freelancers registered on our platform.

We introduced a separate mobile application, *Midu Novels*, in May 2018 which offers users free literature online. We further introduced *Midu Lite* in May 2019, which includes a loyalty program in addition to the standard offerings of *Midu Novels*. They both feature an innovative free-to-read model that appeals to the online literature reading population, especially those who are keen to read but have a low willingness to pay, who account for the vast majority of online readers in China, and thus having been turned away by the paid-only model of the traditional online literature industry. Supported by advertising, we are able to offer our users a comprehensive selection of literature covering a wide range of genres for free. While *Midu Novels* have been very effective in targeting the existing reading population, *Midu Lite* has drawn in readers having little or no experience with online literature who subsequently develop a passion for reading. Therefore, the two applications together have achieved broader coverage of the market from a product perspective, and form the two strategic pillars with equal importance in our long-term vision for the online literature market.

We have successfully diversified our content offerings into casual games and live-streaming with promising take-up rates from our loyal users. We will keep improving the quality of content currently on offer and further expanding into more content categories, to create a comprehensive light entertainment content ecosystem. This not only enhances user engagement and retention, but also diversifies our monetization channels.

We currently generate revenues primarily by providing advertising and marketing services. New monetization channels such as casual games and live-streaming are still at their early stages, and will contribute a much more meaningful percentage of revenues over time. We have maintained a strong focus on R&D since our founding and materially enhanced our proprietary advertising platform's monetization efficiency. This has been achieved by enhanced algorithms and the conversion to an oCPC system.

Our net revenues have increased rapidly from RMB517.1 million in 2017 to RMB3,022.1 million in 2018, and further to RMB5,570.1 million (US\$800.1 million) in 2019. As we focused on growing our user base and enhancing our services, we have incurred net losses attributable to Qutoutiao Inc. of RMB94.8 million in 2017, RMB1,942.6 million in 2018 and RMB2,688.7 million (US\$386.2 million) in 2019. Non-GAAP net losses attributable to Qutoutiao Inc., which represented net losses attributable to Qutoutiao Inc. before share-based compensation expenses, were RMB91.4 million in 2017, RMB990.9 million in 2018 and RMB2,416.7 million (US\$347.1 million) in 2019.

Our Mobile Applications

We primarily deliver content through *Qutoutiao*, which is our flagship mobile application and means “fun headlines” in Chinese. *Qutoutiao* aggregates articles and videos uploaded from content providers and presents real-time customized feeds to users based on each user’s profile, behavior and social relationships.

Feeds are presented to users on both the main page of *Qutoutiao* and topic pages. Both the main page and topic pages are customized for each user using our content recommendation engine. Topic pages include, among others, videos, entertainment, humor, anecdote, relationship, family, health, food and pets. A user may also search content or follow specific content providers. Users may save their favorite content pages as well as indicate the content pages that they dislike.

We promote social interaction among users to engage them more closely with the content they have viewed as well as with each other. Users may post comments and engage in discussions with other users by responding to comments. A user can also share content through a variety of means, including emails, messaging applications or social networks.

We launched our mobile literature application, *Midu Novels*, in May 2018, which offers users free literature supported by advertising. Unlike the traditional paid-only model in the online literature industry which charges users fees for most content offered, users of *Midu Novels* can enjoy their favorite literature under an innovative free-to-read model. Our users have access to a comprehensive selection of literature covering a wide range of genres, including romance, fantasy, science fiction, history and other genres for free. We classify the content genres with multi-dimensional reading tags which our users can choose to follow. We are able to offer our users free literature as we primarily monetize through advertisements that our advertising customers place on *Midu Novels*. Our AI-powered content recommendation engine coupled with our strong data analytics capabilities also enable us to improve user experience and increase the time our users spend on *Midu Novels* by making personalized recommendation and delivering to them literature that caters to their interest.

We launched *Midu Lite* in May 2019, which combines a loyalty program with the standard offerings from *Midu Novels*. The differentiated product design has led to *Midu Lite* attracting an incremental reading population whose needs have not been well addressed by *Midu Novels* previously. As a result, we have observed minimal user overlap between the two versions.

We also previously offered *Quduopai*, which was a separate mobile application allowing users to create, upload and view videos. User-generated videos could be viewed by other users of *Quduopai* after being screened by our content management system for quality and appropriateness. We also selectively delivered popular videos from *Quduopai* through *Qutoutiao*, which enabled such videos to reach a broader audience and further enriches the content offerings on *Qutoutiao*. We ceased operation of *Quduopai* in 2019.

We have also been exploring opportunities in short videos, which we offer through both the *Qutoutiao* application and standalone short video applications. It is a large and attractive market and an important part of any content ecosystem. We believe our innovative approach to product design and development positions us well for moving into this market.

The table below sets forth key operating metrics relating to our mobile applications.

	For the Three Months Ended							
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
	(in millions, except for daily time spent data)							
Installed users as of the end of the period	99.4	139.1	227.7	334.8	437.1	550.8	670.7	793.6
Combined Average MAUs during the period	28.0	34.1	65.2	93.8	111.4	119.3	133.9	137.9
Combined Average DAUs during the period	11.3	12.6	21.3	30.9	37.5	38.7	42.1	45.7
Average daily time spent per DAU during the period (minutes)	32.5	47.0	55.9	63.1	62.1	60.0	61.3	59.4

We previously offered an online marketplace on *Qutoutiao* where users could purchase merchandise offered by third-party merchandise suppliers. This allowed us to enhance user stickiness and benefits users by enabling them to spend cash credits earned in their accounts, while also encouraged users to supplement their spending on our platform with additional funds and thus creating additional monetization opportunities for us. We selected competitively-priced merchandise that we expected would be of interest to our users based on users' purchasing power and preferences. Each merchandise supplier was responsible for shipping the merchandise directly to users. Popular offerings on our platform included consumer electronics, home appliances, cosmetics and accessories. We ceased operation of the online marketplace in 2019.

User Account Systems and Loyalty Programs

We offer a user loyalty program on *Qutoutiao* and *Midu Lite*. Registered users can earn loyalty points if they become active users, refer others who later register and become active users, or engage in various activities while logged in.

Accumulated loyalty points, if exceeding certain threshold, can be withdrawn by the user in the form of cash by directly crediting the user's electronic wallet. We have the sole discretion in determining the withdraw threshold and the exchange rate between loyalty points and the monetary value available to be withdrawn. Similar programs have long been in place for various industries such as airlines, hospitality and credit cards. They have proven to be effective in enhancing user loyalty and engagement all around the world. Our loyalty programs serve exactly the same purpose by strengthening users' connection to our products and services. Consuming content, rather than earning loyalty points, is the main purpose for our users, the same as in other industries such as airlines, hospitality and credit cards where earning loyalty points is a secondary consideration after the services-in-demand. However, there could occasionally be cases of abuse by a small number of users, and we have put in place mechanisms for detection and prevention. See "Item 3. Key Information — D. Risk Factors — Risks Relating to Our Industry and Business — Our ability to prevent the misuse of our user loyalty programs while ensuring their efficacy in user acquisition and engagement will have a material effect as to our business, results of operations and financial condition."

We used to offer a separate user account system and loyalty program for *Quduopai*. Users could earn cash credits that they could withdraw after the balance exceeded a minimum amount, which was determined at our sole discretion and adjusted by us from time to time. We terminated the user account system and loyalty program for *Quduopai* as we ceased its operation in 2019.

Referral-based Loyalty Points

Our registered users earn loyalty points when they invite others to download and register on our *Qutoutiao* or *Midu Lite* mobile application. After an invited user registers with us, the existing registered user is eligible to receive loyalty points or cash credits. We are thus able to leverage the embedded social relationships of each user and prompt our users to voluntarily invite their families and friends to become our registered users.

Engagement-based Loyalty Points

A user is eligible to receive loyalty points for engaging in various activities on our *Qutoutiao* or *Midu Lite* mobile application. Such activities include viewing and sharing content, providing valuable comments and encourage inactive users to continuously re-engage with *Qutoutiao* and *Midu Lite*. We also create fun tasks such as daily missions to tap into the competitive reward psyche of users.

Our Content

We strive to become the light entertainment content platform of choice for a growing base of users. We believe that light entertainment-oriented and easily digestible content resonates with mobile users, and we primarily deliver content that can be viewed by users during a short period of time. The articles on our platform generally contain both images and short texts and can be read within one minute; and a majority of the videos on our platform run less than two minutes. In the three months ended December 2019, the average daily time spent per DAU for our mobile applications was approximately 59.4 minutes. We aim to deliver quality and relevant content to users, and content sourcing, management and recommendation are among core focuses of our operations.

Content Sourcing

We source content from over 1,250 professional media outlets under a licensing arrangement and from more than one million freelancers registered on our platform. We operate an online content upload system for content providers to prepare and upload content. Fees paid to content providers relates to the amount of views associated with such content.

A content provider that is new to our online content upload system is required to go through a registration and approval process. Each content provider is required to sign an agreement electronically in the registration process. The agreement provides, among other things, that (i) we are authorized to deliver content submitted by the content provider free of charge; (ii) the content provider acknowledges that it will not deliver illegal or inappropriate content through our platform; and (iii) we have the right to screen, sort and monitor content, and we may remove any illegal or inappropriate content without notifying the content provider. We have the right to freeze an account for any violations of the rules, such as plagiarism or submission of inappropriate content.

After its registration with us, a content provider can prepare and upload content electronically through the online content upload system. The system also allows each content provider to track its performance on a real time basis, including information such as the number of views, comments, shares and saves for its content.

Our mobile literature applications, *Midu Novels* and *Midu Lite*, primarily source content from traditional PC-based online literature platforms which grant us permits to publish their literature content on our platforms for a fee. We have also built an in-house editor team that works with authors directly, which combines human experiences with data analytics in guiding and producing quality literary works. We curate quality literature content that caters to our users' interests based on our analysis of users' profiles and their reading histories. As of December 31, 2019, we offer more than 130,000 pieces of literature on *Midu Novels* and *Midu Lite*.

Content Management

As a gatekeeper for our platform, our content management system is designed to ensure both the quality and appropriateness of information presented to users, which include content and comment postings. Content may be declined for quality reasons, such as videos or pictures of low resolution or duplicative content. We also decline content and comment postings that appear to violate relevant laws and regulations or are otherwise inappropriate for our platform. We undertake an efficient and thorough screening process that involves both algorithm-based screening and manual review. We have also implemented a complaint procedure that enables us to identify inappropriate content utilizing our users' feedback.

- *Algorithm-based Screening.* We apply algorithms to screen texts as well as images and videos. Our system screens texts based on pre-set keywords, and we utilize artificial intelligence to identify inappropriate images and videos. The screening system automatically declines content that does not meet the standards of our platform and flags suspicious content for manual review by our content management team.

- *Manual Review.* Our content management team, which consisted of 776 employees as of December 31, 2019, is responsible for monitoring all information before delivery through our platform. The content management team reviews suspicious content identified in the algorithm-based screening process and makes the final decision as to whether to decline such content. Given the complexity and diversity of information submitted to our platform, our content management team also reviews all content that has not earlier been flagged up in the algorithm-based screening process.
- *Complaint Procedure.* A user may submit a complaint about a particular piece of content through our mobile applications. The user is prompted to identify the basis for the complaint, such as duplication to pre-existing content, violation of law, factual mistake, low quality or plagiarism. The user also needs to provide a written commentary to support the complaint. We remove the relevant content if we conclude that the complaint is valid. In addition, while the complaint is under review, we may also temporarily block the relevant content from being further delivered until we can investigate the complaint and reach a conclusion.

Content Recommendation

Our platform intelligently delivers personalized light entertainment content to users. The content recommendation process involves the following components.

- *Content Tagging.* Each piece of content is multi-tagged with references to the key topics it covers. Before submitting an article or video, the content provider may provide up to six tags. Such tags range from general topics such as “entertainment news” to specific topics such as the name of an actor. We utilize both algorithm-based screening and manual review to further refine such tags. Furthermore, our smart video tagging technology uses deep learning that further increases the accuracy of tags. Our technology also automatically selects and displays to users the most appropriate “cover images” for videos. We believe our technology greatly improves the quality and relevance of video content shown to our users, thereby enhancing user experience.
- *Interest and Social Graphs.* Through an automated process, we develop interests and social graphs for each user based on the user’s profile, behavior and social relationships. User profile data are provided by users when registering for an account on our mobile applications. In addition, we are also able to gain a fairly accurate picture of a user’s profile, including age, gender and location, based on the user’s behavior on our platform. The user’s behavior also provides us with a granular view of the topics and content characteristics that could be of interest to the user. In addition, the interest and social graphs take into account the user’s social relationships with other users and such other users’ interests and behaviors.
- *Recommendation.* Our content recommendation engine suggests content based on each user’s interest and social graphs, and continuously receives behavioral data inputs to update and refine its recommendations in real time to identify content that is most likely of interest to each user.

Monetization

We place advertisements on our main pages, topic pages as well as content pages. We believe that our differentiated user base represents an attractive demographic target for businesses.

When we first commenced our business, due to our limited operating history and human resources, we collaborated with various third-party advertising platforms to efficiently and rapidly fill advertisement space on our mobile applications. We later also engaged advertising agents to serve as our sales agents in selling our advertising and marketing solutions to other advertising agents and end advertisers. Thus, we historically generated a significant portion of our net revenues from a limited number of third-party advertising platforms. However, such concentration risk might cause significant fluctuations of our operational results in that any adverse change in our relationship with these advertising platforms, including our arrangements with them, or a decrease in the amount or quality of the advertisements placed by these platforms on our mobile applications might materially and adversely affect our results of operations.

As our business grew rapidly and substantially, it made perfect sense to start building our own distribution capabilities, i.e., an in-house advertising platform. The benefit of owning an in-house advertising platform is not

only enhanced monetization efficiency as we can improve advertising technology for better matching of supply and demand which results in higher average revenue per user (ARPU), it also allows our business to become independent and obtain long-term viability.

The opportunity came in February 2018 when an advertising agent which operated a programmatic advertising system became available for sale, and we successfully acquired this agent. Before the acquisition in February 2018, the Group engaged certain advertising customers through this third-party advertising agent. At the time of acquisition, it had built up a good technical base as it owned several intellectual properties, which were valuable assets for us to further develop our proprietary advertising platform related technology. By integrating this system with our internal resources and continuous R&D investments, we have developed it into a fully-fledged and technology driven advertising exchange capable of not only monetizing internet media traffic generated in-house but also that originating from third-party media platforms.

Currently, our programmatic advertising system utilizes a bidding system for advertising customers to bid for the targeted audience on mainly our platform. Our programmatic advertising system considers a wide range of parameters to determine which advertisement to show, including price bid, predicted click-through rate, predicted user conversion metrics and content relevance, to dynamically maximize our advertising customer's return on investment (ROI) as well as our revenue potential. Our advertising technology aims to maximize our revenue potential by rewarding the more relevant advertisement with a more prominent position, despite the potentially lower price bid of such advertisement. We actively monitor the advertisements placed to help ensure their relevance.

Customers for our programmatic advertising system are comprised of advertising agents and end advertisers. We have our own sales personnel who are responsible for supporting and monitoring the performance of advertising agents and to attract advertising customers to use our programmatic advertising system directly. We enter into standard agreements with advertising agents generally for a term of one year. Our advertising agents are responsible for identifying end advertisers, confirming payments and setting up accounts on our programmatic advertising system for advertising customers. We provide ongoing training to advertising agents to help them become familiarised with the functionalities and capabilities of our programmatic advertising system. These advertising agents are responsible for collecting and submitting the relevant documentation and licenses from advertising customers for our approval to open accounts on our programmatic advertising system, and are also liable for any infringement of third-party rights or violation of regulatory requirements caused by advertisements placed by their end advertisers.

Through collaboration with third-party merchandise suppliers, we previously offered an online marketplace on *Qutoutiao* in which users could access and purchase merchandise offered by third-party merchandise suppliers. We did not carry any inventory, and each merchandise supplier was responsible for shipping the merchandise directly to users. A user paid the purchase price for a merchandise to us. We deducted our commission related to the merchandise and remit the remainder to the relevant merchandise supplier. We ceased operation of the online marketplace in 2019.

Technology

We have focused on and will continue to invest in our technological infrastructure. Our business is supported by the following key technologies.

- **Interest and Social Graphing.** Through an automated process, we develop interest and social graphs for each user based on such person's profile, behavior and social relationships. We assess the user's desired content characteristics through technologies including natural language processing, image analysis, and content tagging. The interest and social graphs take into account the user's social relationships with other users and such other users' interests, including their behaviors. We continuously refine each user's graphs based on the user's behavior over time through artificial intelligence.
- **Content Recommendation Engine.** Our content recommendation engine recommends content based on user behavior, and continuously receives behavioral data inputs to update and refine its recommendations in real time to identify content that is most likely of interest to each user. Our content recommendation engine is capable of processing large quantities of data, and currently can handle several billion inputs per

day. In addition, new content is aggregated and recommended in real time from among millions of new content added, ensuring that our users will not miss content that may interest them when they next update their view in our mobile application.

- **Advertising.** Our advertising technology enables advertising customers to bid for audience and automatically deliver relevant, targeted promotional links to users. Our system rewards more relevant advertisements with more prominent positions, despite the potentially lower priced bids of such advertisements. Our audience segmentation technology helps ensure the relevance of advertisements shown to users by analyzing their interests through browsing activity, viewed content and commenting history. In addition, we have the ability to predict click-through rates for advertisements using logistic regression, gradient boosting decision tree and linear and nonlinear modeling algorithms. Enhanced precision of these click-through rate projections can help maximize the cost effectiveness of customers' advertising budgets. Our oCPC system further takes into consideration customers' overall return requirements by assessing their desired end results in the context of their budgets and the availabilities of relevant advertising inventories, providing a wholistic solution to their marketing needs rather than a simple product amid their marketing strategy.
- **Content Screening Technology.** Our text screening system screens information based on pre-set keywords. We utilize artificial intelligence to identify inappropriate or objectionable content from images, speeches and videos, significantly increasing efficiency over manual review. We also apply deep learning methods to analyze complex visual content. Through big data and continuous training, our system is able to monitor and identify objectionable visual content with a high degree of accuracy. The screening system automatically declines content that does not meet the standards of our platform and flags suspicious content for manual review by our content management team.
- **Fraud Detection.** Our fraud detection technology focuses on ensuring that our user loyalty programs are not abused by fraudulent users or activities. Our anti-fraud system employs self-encoding and deep learning methods such as sophisticated neural networks in analyzing users' behaviors as well as the locations of and the data from their devices to detect fraud. Our anti-fraud system assigns a fraud score to users based on the inputs it receives, with higher scores signifying a greater suspicion of fraudulent activity. We also utilize artificial intelligence methods including decision trees, random decision forests, naive Bayes classifier, Gaussian mixed model, and logistic regression to maximize the predictive accuracy of our anti-fraud system while minimizing the need for manual review.

Marketing and Promotion

We have historically expanded our user base primarily through word-of-mouth referrals by existing users, which is mainly driven by our user loyalty programs, light entertainment-oriented content and content recommendation technology. The loyalty programs create a strong viral effect, which we believe enables us to enjoy lower user acquisition cost compared to acquiring users through online advertising. For more information on our user loyalty programs, see “— User Account Systems and Loyalty Programs — Referral-based Loyalty Points.” We intend to continue to implement innovative and cost-effective marketing initiatives. We will also explore additional channels to grow our user base, such as through advertisements on mobile channels, and further enhance our brand awareness through offline channels.

Competition

The industry we operate in is highly competitive and rapidly changing due to the fast growing market and technological developments. Our ability to compete successfully depends on many factors, including the quality and relevance of our content, the robustness of our technology platform, user experience, brand recognition and reputation, the value of our services to advertising customers and our relationship with content providers.

We compete with other mobile content platform companies for user traffic. Our primary competitors include content aggregators such as Jinritoutiao (operated by Bytedance), Kuaibao (operated by Tencent) and Yidianzixun (an affiliate of Phoenix News). We believe we have differentiated ourselves from other content aggregators because of our focus on light entertainment content and users from lower-tier cities. To a lesser extent, we also compete with mobile news portals such as Tencent News, SINA News, Sohu News, NetEase News and Phoenix News. We believe

such mobile news portals tend to concentrate on current affairs such as political and economic news. As such, their content offerings tend to differ from ours. We also compete with other mobile literature applications, such as iReader, QQ Reading, Qimao Free Novels and Fanqie Novels, as well as mobile literature applications that have a business model similar to ours. To a much lesser extent, we compete with traditional PC-based online literature platforms. We believe we have differentiated ourselves from other online literature applications and platforms because we are able to offer high quality online literature for free with effective recommendation algorithms helping readers to discover books they enjoy, and we can efficiently monetize the traffic through our proprietary programmatic advertising system.

Intellectual Property

We regard our intellectual property as critical to our success. Such intellectual properties include trademarks, domain names, copyrights, know-how and proprietary technologies. We currently rely on trademarks, copyrights, trade secret law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. As of December 31, 2019, we had registered 359 trademarks in the PRC, including trademark for “*Qutoutiao*.” We were the registered holder of 271 domain names in the PRC, and had been granted 180 software copyrights and 22 artwork copyrights as of the same date.

Insurance

We provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees. We also purchased employer’s liability insurance and additional commercial health insurance to increase insurance coverage of our employees. In addition, we maintain directors and officers liability insurance for our directors and officers. We do not maintain property insurance policies covering our equipment and other property that are essential to our business operation to safeguard against risks and unexpected events. We do not maintain business interruption insurance or general third-party liability insurance, nor do we maintain product liability insurance or key-man insurance. We consider our insurance coverage to be sufficient for our business operations in China.

C. Regulations

This section sets forth a summary of the most significant rules and regulations that affect our business activities in China or the rights of our shareholders to receive dividends and other distributions from us.

Foreign Investment Law

On March 15, 2019, the National People’s Congress of the PRC adopted the Foreign Investment Law, which came into force on January 1, 2020. On December 26, 2019, the State Council issued the Implementation Rules of the Foreign Investment Law, which came into effect on January 1, 2020, to clarify and elaborate relevant provisions of the Foreign Investment Law. The Foreign Investment Law defines the “foreign investment” as the investment activities in China conducted directly or indirectly by foreign investors in the following manners: (i) the foreign investor, by itself or together with other investors establishes a foreign invested enterprises in China; (ii) the foreign investor acquires shares, equities, asset tranches, or similar rights and interests of enterprises in China; (iii) the foreign investor, by itself or together with other investors, invests and establishes new projects in China; (iv) the foreign investor invests through other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council. The Foreign Investment Law keeps silent on how to define and regulate the VIEs, while adding a catch-all clause that “other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council” can fall into the concept of “foreign investment,” which leaves uncertainty as to whether the foreign investor’s controlling PRC onshore variable interest entities via contractual arrangements will be recognized as “foreign investment.” Pursuant to the Foreign Investment Law, PRC governmental authorities will regulate foreign investment by applying the principle of pre-entry national treatment together with a “negative list,” which will be promulgated by or promulgated with approval by the State Council. Foreign investors are prohibited from making any investments in the industries which are listed as “prohibited” in such negative list; and, after satisfying certain additional requirements and conditions as set forth in the “negative list,” are allowed to make investments in the industries which are listed as “restricted” in such negative list. For any foreign investor that fails to comply with the negative list, the competent authorities are entitled to ban its investment activities, require such investor to take measures to correct its non-compliance and impose other penalties.

Regulations on Value-added Telecommunications Services

The Telecommunications Regulations of the PRC, or the Telecom Regulations, implemented on September 25, 2000 and amended on July 29, 2014 and February 6, 2016, are the primary PRC law governing telecommunication services and set out the general framework for the provision of both “basic telecommunication services” and “value-added telecommunication services” by domestic PRC companies. “value-added telecommunication services” is defined as telecommunications and information services provided through public networks, and, according to the Telecom Regulations, operators of value-added telecommunications services shall obtain operating licenses prior to commencing operations from the Ministry of Industry and Information Technology, or the MIIT, or its provincial level counterparts.

The *Catalogue of Telecommunications Business*, or the Catalogue, which was issued as an attachment to the Telecom Regulations and recently revised and promulgated on June 6, 2019, further identifies information services and online data processing and transaction processing services as value-added telecommunications services. We engage in business activities that are value-added telecommunications services as defined and described by the Telecom Regulations and the Catalogue.

On March 5, 2009, the MIIT issued the *Measures on the Administration of Telecommunications Business Operating Permits*, or the Telecom License Measures, which initially became effective on April 10, 2009 and was amended on July 3, 2017, effective on September 1, 2017, to supplement the Telecom Regulations. The Telecom License Measures provide that there are two types of telecommunications operating licenses, or the ICP Licenses for operators in China, one for basic telecommunications services and one for value-added telecommunications services. A distinction is also made to licenses for value-added telecommunications services as to whether a license is granted for “intra-provincial” or “trans-regional” (inter-provincial) activities. An appendix to each license granted will detail the permitted activities of the enterprise to which it was granted. An approved telecommunication services operator must conduct its business (whether basic or value-added) in accordance with the specifications recorded in its ICP License.

Our current and future business activities include providing information services and content to users through our mobile applications including *Qutoutiao*, *Midu Novels* and *Midu Lite* and providing online data processing and transaction processing services, all of which will be regarded as value-added telecommunications services under the Catalogue. Certain of our consolidated VIEs, Shanghai Jifen and Anhui Zhangduan, and certain subsidiaries of Shanghai Jifen, including Shanghai Tuile and Shanghai Xike, have been granted the ICP Licenses which authorize relevant companies’ provision of information services and online data processing and transaction processing services through the Internet. The ICP Licenses of Shanghai Jifen, Anhui Zhangduan, Shanghai Tuile and Shanghai Xike will remain effective until September 25, 2022, June 20, 2022, July 27, 2023 and November 30, 2023 respectively, and all of the licenses are also subject to annual inspection.

Regulations on Foreign Direct Investment in Value-Added Telecommunications Companies

Foreign direct investment in telecommunications companies in China is governed by the *Provisions on the Administration of Foreign-Invested Telecommunications Enterprises*, or the FITE Regulations, which were issued by the State Council on December 11, 2001, became effective on January 1, 2002 and recently amended and issued on February 6, 2016, and the *Catalogue of Industries for Guiding Foreign Investment*, or the Foreign Investment Catalogue, which was recently revised and promulgated by the National Development and Reform Commission, or the NDRC, and the MOFCOM, on June 28, 2017. On June 30, 2019, the NDRC and the MOFCOM jointly issued the special Administrative Measures (Negative List) for Foreign Investment Access (Edition 2019), or the 2019 Negative List, which has replaced the special administrative measures for foreign investment access (negative list for foreign investment access) specified in the Foreign Investment Catalogue. Under the aforementioned regulations, foreign invested telecommunications enterprises in the PRC, or FITEs, must be established as Sino-foreign equity joint ventures. The foreign party to a FITE engaging in value-added telecommunications services may hold up to 50% of the equity of the FITE, of which the geographical area it may conduct telecommunications services is provided by the MIIT in accordance with relevant provisions as mentioned above. In addition, the major foreign investor in a value-added telecommunications business in China must satisfy a number of stringent performance and operational experience requirements, including demonstrating a good track record and experience in operating a value-added telecommunications business. Moreover, approvals from the MIIT and the MOFCOM or their authorized local counterparts must be obtained prior to the operation of the FITE and the MIIT and the MOFCOM retain considerable discretion in granting such approvals.

On June 30, 2016, the MIIT issued an Announcement of the Ministry of Industry and Information Technology on Issues concerning the Provision of Telecommunication Services in Mainland China by Service Providers from Hong Kong and Macau, or the MIIT Announcement, which provides that investors from Hong Kong and Macau may hold no more than 50% of the equity in FITEs engaging in certain specified categories of value-added telecommunications services.

On July 13, 2006, the MIIT issued the Notice of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services, or the MIIT Notice, which reiterates certain provisions of the FITE Regulations. In addition to the provisions stated in FITE Regulations, the MIIT Notice further provide that a domestic company that holds a license for the provision of Internet information services, or an ICP license, is prohibited from leasing, transferring or selling the ICP license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to conduct value-added telecommunications businesses illegally in China. The MIIT Notice also requires each ICP license holder to have appropriate facilities for its approved business operations and to maintain such facilities in the regions covered by its license, and specifically, with regard to the domain names and trademarks, the MIIT Notice required that trademarks and domain names that are used in the provision of Internet content services must be owned by the ICP license holder or its shareholders. One of our consolidated VIEs, Shanghai Jifen, which holds the ICP license, owns our major domain names, and holds or has applied for registration in the PRC of trademarks related to our business and owns and maintains facilities that we believe are appropriate for our business operations.

In view of these restrictions on foreign direct investment in the value-added telecommunications sector, we established various domestic consolidated affiliated entities which are all subsidiaries to Shanghai Jifen, to engage in value-added telecommunications services. For a detailed discussion of our consolidated VIEs and their subsidiaries, please refer to “Item 4. Information on the Company — C. Organizational Structure”. Due to a lack of interpretative materials from the relevant PRC governmental authorities, there are uncertainties regarding whether PRC governmental authorities would consider our corporate structure and contractual arrangements to constitute foreign ownership of a value-added telecommunications business. For details, please refer to “Item 3 Key Information — D. Risk Factors — Risks Relating to Our Industry and Business — We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of Internet businesses and companies, including limitations on our ability to own key assets such as our mobile applications.” In order to comply with PRC regulatory requirements, we operate a portion of our business through our consolidated VIEs and their subsidiaries, with which we have contractual relationships but in which we do not have an actual ownership interest. If our current ownership structure is found to be in violation of current or future PRC laws, rules or regulations regarding the legality of foreign investment in the PRC Internet sector, we could be subject to severe penalties.

Regulations on the Provision of Internet Content

Regulation on Internet Information Services

The *Administrative Measures on Internet Information Services*, or the Internet Content Measures, which was promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, set out guidelines on the provision of Internet information services. The Internet Content Measures classifies Internet information services into commercial Internet information services and non-commercial Internet information services, and commercial Internet information services refer to services that provide information or services to Internet users with charge. A provider of commercial Internet information services must obtain an ICP License, and, prior to the application for such ICP License from the MIIT or its local branch at the provincial or municipal level, entities providing online information services regarding news, publishing, education, medicine, health, pharmaceuticals and medical equipment must procure the consent of the national authorities responsible for such areas. As a provider of commercial Internet information services, Shanghai Jifen and Anhui Zhangduan have been granted the ICP Licenses as mentioned above, which authorize relevant companies' provision of information services via the Internet.

In addition to the above, the ICP Measures further specifies a list of prohibited content. Internet information providers are prohibited from producing, copying, publishing or distributing information that is humiliating or defamatory to others or that infringes the legal rights of others. Internet information providers that violate such prohibition may face criminal charges or administrative sanctions. Internet information providers must monitor and control the information posted on their websites. If any prohibited content is found, they must remove the content immediately, keep a record of such content and report to the relevant authorities. On December 15, 2019, Cyberspace Administration of China, or the CAOC, promulgated the Provisions on Ecological Governance of Network Information Content, which became effective on March 1, 2020, to further regulate the network information and content.

Regulation on Internet News Dissemination

Pursuant to the *Provisions for the Administration of Internet News Information Services* promulgated by the Cyberspace Administration of China, or CAOC, which was issued on May 2, 2017 and became effective on June 1, 2017, an Internet news license shall be obtained from CAOC by the service provider for the provision of internet news information services to the public in a variety of ways, including offering platforms for such dissemination. "News information" as mentioned therein includes reports and comments relating to social and public affairs such as politics, economy, military affairs and foreign affairs, as well as relevant reports and comments on social emergencies. The service providers shall meet various qualifications and requirements as listed in such regulation, and further, to provide Internet-based news information services, the service providers are also required to complete formalities for ICP License or filing with the competent telecommunications authorities in accordance with the law. In practice, Internet news information service providers that are not state-owned, such as our company, are required to introduce a state-owned shareholder in order to apply for the Internet news license.

In addition to the above, such regulation also stipulates that no organization may establish Internet-based news information service agencies in the form of Sino-foreign joint ventures, Sino-foreign cooperative ventures or wholly foreign-owned enterprises. Any cooperation involving Internet-based news information services and between Internet-based news information service agencies and foreign-invested enterprises, or FIEs, shall be reported to the national CAOC for security assessment.

We are required to obtain an Internet news license from CAOC for the dissemination of news through our mobile application. On July 30, 2019, Shanghai Jifen Culture Communications Co., Ltd., or Shanghai Jifen, one of our consolidated VIEs, obtained an Internet News License from CAOC.

Regulation on Online Transmission of Audio-visual Programs

On December 20, 2007, the General Administration of Press and Publication, Radio, Film and Television, or GAPPRT, and MIIT jointly issued the *Administrative Provisions for the Internet Audio-Video Program Service*, or the Audio-visual Program Provisions, which came into effect on January 31, 2008 and was amended on August 28, 2015. The Audio-visual Program Provisions define "Internet audio-visual programs services" as the production, edition and integration of audio-video programs, the supply of audio-video programs to the public via the Internet,

and the provision of upload and audio-video programs transmission services to a third party. Entities engaging in Internet audio-visual programs services must obtain an internet audio-visual program transmission license, which will only be issued to state-owned or state-controlled entities. According to the *Categories of the Internet Audio-Video Program Services* modified by GAPPRFT on March 10, 2017, “aggregation of Internet audio-visual programs”, which means “editing and arranging the Internet audio-visual programs on the same website and providing searching and watching services to public users”, falls into the definition of the aforementioned “Internet audio-visual programs services.”

Although we have been taking measures to ensure compliance, we may not be able to fully comply with Audio-visual Program Provisions. See “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Industry and Business — Our inability to fully comply with Audio-visual Program Provisions may expose us to administrative sanctions, which would materially and adversely affect our business, results of operations and financial condition.”

Regulations on Internet Publishing

On February 4, 2016, the SAPPRFT and MIIT jointly issued the Internet Publishing Rules, which took effect on March 10, 2016. “Online publications” is defined, under the Internet Publishing Rules, as digital works that are edited, produced, or processed to be published and provided to the public through the Internet, including (a) original digital works, such as articles, pictures, maps, games, and comics; (b) digital works with content that is consistent with the type of content that, prior to the Internet age, typically was published in media such as books, newspapers, periodicals, audio-visual products, and electronic publications; (c) digital works in the form of online databases compiled by selecting, arranging, and compiling other types of digital works; and (d) other types of digital works identified by the SAPPRFT. Under the Internet Publishing Rules, Internet operators distributing such online publications through information network are required to obtain an Internet publishing license from SAPPRFT. Wholly foreign-owned enterprises, Sino-foreign equity joint ventures and Sino-foreign cooperative enterprises are prohibited from engaging in the provision of Internet publishing services. In addition, project cooperation between an Internet publishing service provider and a wholly foreign-owned enterprise, Sino-foreign equity joint venture, or Sino-foreign cooperative enterprise within China or an overseas organization or individual involving Internet publishing services shall be subject to examination and approval by the GAPPRFT in advance. A company that fails to comply with these rules may be ordered to close the website or pay fines or be subject to other penalties imposed by relevant authorities.

Uncertainty remains as to the interpretation of the Internet Publishing Rules which may require us to take further actions and/or subject us to penalties. See “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Industry and Business — We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of Internet businesses and companies, including limitations on our ability to own key assets such as our mobile applications.”

Regulations on Online Advertising Services

On April 24, 2015, the SCNPC enacted the *Advertising Law of the PRC*, which was recently amended and took effect on October 26, 2018, or the New Advertising Law, to increase the potential legal liability of providers of advertising services, and to include provisions intended to strengthen identification of false advertising and the power of regulatory authorities. On July 4, 2016, the SAIC issued the *Interim Measures of the Administration of Online Advertising*, or the SAIC Interim Measures, which took effect on September 1, 2016, to further regulate Internet advertising activities.

The New Advertising Law and the SAIC Interim Measures both provide that advertisements posted or published through the Internet may not affect users’ normal usage of a network, and advertisements published in the form of pop-up windows on the Internet must display a “close” sign prominently and ensure one-key closing of the pop-up windows. The SAIC Interim Measures provide that all online advertisements must be marked “Advertisement” so that viewers can easily identify them as such.

With regard to the content of the advertisement, according to the above laws and regulations, any advertisement that contains false or misleading information to deceive or mislead consumers shall be deemed false advertising. The New Advertisement Law explicitly stipulates detailed requirements for the content of several different kinds of

advertisement, including advertisements for medical treatment, pharmaceuticals, medical instruments, health food, alcoholic drinks, education or training, products or services having an expected return on investment, real estate, pesticides, feed and feed additives, and some other agriculture-related advertisement. Also, according to the SAIC Interim Measures, no advertisement of such special products or services which are subject to examination by an advertising examination authority shall be published unless it has passed such examination.

The New Advertising Law and SAIC Interim Measures require us to monitor the advertising content shown on our mobile applications to ensure that such content is true, accurate and in full compliance with applicable laws and regulations. However, we cannot assure you that all of the content contained in such advertisements is true and accurate as required by the advertising laws and regulations. For details, please see “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Industry and Business — Advertisements on our mobile applications may subject us to penalties and other administrative actions.”

Regulation on Mobile Internet Applications Information Services

On June 28, 2016, the CAOC issued the *Provisions on the Administration of Mobile Internet Applications Information Services*, or the APP Provisions, which became effective on August 1, 2016. Under the APP Provisions, mobile application providers and application store service providers are prohibited from engaging in any activity that may endanger national security, disturb the social order, or infringe the legal rights of third parties, and may not produce, copy, issue or disseminate through mobile applications any content prohibited by laws and regulations. The APP Provisions also require application providers to procure relevant approval to provide services through such applications, and shall strictly fulfill their responsibilities of information security management, including (i) verifying real identities with the registered users through mobile phone numbers; (ii) establishing and improving the verification and management mechanism for the information content, adopting proper sanctions and measures such as warning, limiting functions, suspending updates, and closing accounts for releasing illegal information content; (iii) keeping records and report to competent authorities; (iv) protecting and safeguarding users’ “rights to know and rights to choose” during installation or use; (v) protecting intellectual property rights concerned and (vi) keeping records of user log information for 60 days.

Regulation on Online Cultural Products

On February 17, 2011, the MOC issued the new *Provisional Regulations for the Administration of Online Culture*, or the New Online Culture Regulations, which took effect on April 1, 2011 and was recently amended on December 15, 2017, to replace the previous regulations which were issued by MOC on May 10, 2003. The New Online Culture Regulations apply to entities engaging in activities related to “Internet cultural products”, which include those cultural products that are produced specially for Internet use, such as online music and entertainment, online games, online plays, online performances, online works of art and Web animations, and those cultural products that, through technical means, produce or reproduce music, entertainment, games, plays and other art works for Internet dissemination.

Pursuant to the New Online Culture Regulations, commercial entities are required to apply to the relevant local branch of the MOC for an Online Culture Operating Permit if they engage in any of the following types of activities:

- the production, duplication, importation, release or broadcasting of Internet cultural products;
- the dissemination of online cultural products on the Internet or transmission thereof via Internet or mobile phone networks to users’ terminals such as computers, fixed-line or mobile phones, television sets, gaming consoles and Internet surfing service sites such as Internet cafés for the purpose of browsing, using or downloading such products; or
- the exhibition or holding of contests related to Internet cultural products.

The New Online Culture Regulations further classifies Internet cultural activities into commercial Internet cultural activities and non-commercial Internet cultural activities. Entities engaging in commercial Internet cultural activities must apply to the relevant authorities for a Network Cultural Business Permit, while non-commercial cultural entities are only required to report to related culture administration authorities within 60 days of the establishment of such entity.

The MOC issued the Notice of Adjusting the Scope of Network Cultural Business Permit and Further Regulating the Approval on May 14, 2019. Under such notice, the MOC will no longer accept new application for certain scopes including “game products (including issuance of virtual currencies in online games)” while the permits which have already been approved with such scope are still valid until expiration.

Certain of our consolidated VIEs, Shanghai Jifen and Anhui Zhangduan, as well as certain of Shanghai Jifen’s subsidiaries, i.e., Shanghai Tuile and Shanghai Xike, have obtained the Network Cultural Business Permits. The permits obtained by Shanghai Jifen and Shanghai Xike share the same business scope of operating music and entertainment products and animation products and will remain effective until November 7, 2022 and March 13, 2021, respectively, while the permit held by Anhui Zhangduan covers operating game products (including issuance of virtual currencies in online games), plays and shows, and will expire on May 21, 2020. Shanghai Tuile holds a Network Cultural Business Permit with a business scope of operating music and entertainment products, game products (including issuance of virtual currencies in online games) and animation products and such permit will expire on May 31, 2021.

Regulation on Information Security and Censorship

The SCNPC enacted the *Decisions on the Maintenance of Internet Security* on December 28, 2000, which was amended in August 27, 2009. Such decision makes it unlawful to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak State secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. The Ministry of Public Security has promulgated measures as below that prohibit the use of the Internet in ways which, among other things, result in a leakage of State secrets or distribution of socially destabilizing content. The Ministry of Public Security has supervision and inspection rights in this regard. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its websites.

On December 16, 1997, the Ministry of Public Security issued the *Administration Measures on the Security Protection of Computer Information Network with International Connections* which prohibits using the Internet to leak state secrets or to spread socially destabilizing materials. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its websites. Pursuant to the *Ninth Amendment to the Criminal Law* issued by the SCNPC on August 29, 2015 and becoming effective on November 1, 2015, any ICP provider that fails to fulfill the obligations related to Internet information security administration as required by applicable laws and refuses to rectify upon orders, will be subject to criminal liability for (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client’s information; (iii) any serious loss of evidence of criminal activities; or (iv) other severe situations, and any individual or entity that (i) sells or provides personal information to others unlawfully, or (ii) steals or illegally obtains any personal information, will be subject to criminal liability in severe situations.

On November 7, 2016, the SCNPC promulgated the *PRC Cybersecurity Law*, which took effect on June 1, 2017. The PRC Cybersecurity Law applies to the construction, operation, maintenance, and use of networks as well as the supervision and administration of Internet security in the PRC. The PRC Cybersecurity Law defines “networks” as systems that are composed of computers or other information terminals and relevant facilities used for the purpose of collecting, storing, transmitting, exchanging, and processing information in accordance with certain rules and procedures. “Network operators,” who are broadly defined as owners and administrator of networks and network service providers, shall meet their cyber security obligations and shall take technical measures and other necessary measures to protect the safety and stability of their networks. Under the Cybersecurity Law, network operators are subject to various security protection-related obligations, including:

- complying with security protection obligations in accordance with tiered requirements with respect to maintenance of the security of Internet systems, which include formulating internal security management rules and developing manuals, appointing personnel who will be responsible for Internet security, adopting technical measures to prevent computer viruses and activities that threaten Internet security, adopting technical measures to monitor and record status of network operations, holding Internet security training events, retaining user logs for at least six months, and adopting measures such as data classification, key data backup, and encryption for the purpose of securing networks from interference, vandalism, or unauthorized visits, and preventing network data from leakage, theft, or tampering;

- verifying users' identities before signing agreements or providing services such as network access, domain name registration, landline telephone or mobile phone access, information publishing, or real-time communication services;
- clearly indicating the purposes, methods and scope of the information collection, the use of information collection, and obtain the consent of those from whom the information is collected when collecting or using personal information;
- strictly preserving the privacy of user information they collect, and establish and maintain systems to protect user privacy; and
- strengthening management of information published by users. When the network operators discover information prohibited by laws and regulations from publication or dissemination, they shall immediately stop dissemination of that information, including taking measures such as deleting the information, preventing the information from spreading, saving relevant records, and reporting to the relevant governmental agencies

On May 2, 2017, the CAOC issued the *Measures for Security Review of Cyber Products and Services (for Trial Implementation)*, or the Cybersecurity Review Measures, which came into effect on June 1, 2017. Under the Cybersecurity Review Measures, the following cyber products and services will be subject to cybersecurity review:

- important cyber products and services purchased by networks, and information systems related to national security; and
- the purchase of cyber products and services by operators of critical information infrastructure in key industries and fields, such as public communications and information services, energy, transportation, water resources, finance, public service, and electronic administration, and other critical information infrastructure, that may affect national security.

The CAOC is responsible for organizing and implementing cybersecurity reviews, while the competent departments in key industries such as finance, telecommunications, energy, and transport are responsible for organizing and implementing security review of cyber products and services in their respective industries and fields.

To comply with the above PRC laws and regulations, we have adopted internal procedures to monitor content displayed on our website and application. However, due to the large amount of user uploaded content, we may not be able to identify all the content that may violate relevant laws and regulations. See “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Industry and Business — The Chinese government may prevent us from distributing content that it believes is inappropriate and we may be subject to penalties for such content or we may have to interrupt or stop the operation of our platform.”

Regulation on Privacy Protection

On December 28, 2012, the SCNPC enacted the *Decision to Enhance the Protection of Network Information*, or the Information Protection Decision, to enhance the protection of User Personal Information in electronic form. The Information Protection Decision provides that Internet services providers must expressly inform their users of the purpose, manner and scope of the Internet services providers' collection and use of User Personal Information, publish the Internet services providers' standards for their collection and use of User Personal Information, and collect and use User Personal Information only with the consent of the users and only within the scope of such consent. The Information Protection Decision also mandates that Internet services providers and their employees must keep strictly confidential User Personal Information that they collect, and that Internet services providers must take such technical and other measures as are necessary to safeguard the information against disclosure.

On July 16, 2013, the MIIT issued the *Order for the Protection of Telecommunication and Internet User Personal Information*, or the Order. Most of the requirements under the Order that are relevant to Internet services providers are consistent with the requirements already established under the MIIT provisions discussed above, except that under the Order the requirements are often more strict and have a wider scope. If an Internet services provider wishes to collect or use personal information, it may do so only if such collection is necessary for the services it provides. Further, it must disclose to its users the purpose, method and scope of any such collection or use, and must obtain consent from the users whose information is being collected or used. Internet services providers are also

required to establish and publish their protocols relating to personal information collection or use, keep any collected information strictly confidential, and take technological and other measures to maintain the security of such information. Internet services providers are also required to cease any collection or use of the user personal information, and de-register the relevant user account, when a given user stops using the relevant Internet service. Internet services providers are further prohibited from divulging, distorting or destroying any such personal information, or selling or providing such information unlawfully to other parties. The Order states, in broad terms, that violators may face warnings, fines, and disclosure to the public and, in the most severe cases, criminal liability.

On January 5, 2015, the SAIC promulgated the *Measures on Punishment for Infringement of Consumer Rights*, pursuant to which business operators collecting and using personal information of consumers must comply with the principles of legitimacy, propriety and necessity, specify the purpose, method and scope of collection and use of the information, and obtain the consent of the consumers whose personal information is to be collected. Business operators may not: (i) collect or use personal information of consumers without their consent; (ii) unlawfully divulge, sell or provide personal information of consumers to others; (iii) send commercial information to consumers without their consent or request, or when a consumer has explicitly declined to receive such information.

Regulations Related to Intellectual Property Rights

Trademark

On August 23, 1982, the SCNPC promulgated the *Trademark Law of the PRC*, or the Trademark Law, which was amended in 1993, 2001, 2013 and 2019. The *Implementation Regulation for the Trademark Law* promulgated by the State Council came into effect on September 15, 2002 and was further amended on April 29, 2014.

Under the Trademark Law and the implementing regulation, the Trademark Office of the State Administration for Market Regulation, or the Trademark Office, is responsible for the registration and administration of trademarks. The Trademark Office handles trademark registrations. As with patents, China has adopted a “first-to-file” principle for trademark registration. If two or more applicants apply for registration of identical or similar trademarks for the same or similar commodities, the application that was filed first will receive preliminary approval and will be publicly announced. Registered trademarks are valid for ten years from the date the registration is approved. A registrant may apply to renew a registration within twelve months before the expiration date of the registration. If the registrant fails to apply in a timely manner, a grace period of six additional months may be granted. If the registrant fails to apply before the grace period expires, the registered trademark shall be deregistered. Renewed registrations are valid for ten years.

In addition to the above, the SAIC has established a Trademark Review and Adjudication Board for resolving trademark disputes. According to the Trademark Law, within three months since the date of the announcement of a preliminarily validated trademark, if a titleholder is of the view that such trademark in application is identical or similar to its registered trademark for the same type of commodities or similar commodities which violates relevant provisions of the Trademark Law, such titleholder may raise an objection to the Trademark Office within the aforesaid period. In such event, the Trademark Office shall consider the facts and grounds submitted by both the dissenting party and the party being challenged and shall decide on whether the registration is allowed within 12 months upon the expiration of the announcement after investigation and verification, and notify the dissenting party and the person challenged in writing.

As of December 31, 2019, we had registered 359 trademarks in the PRC, including the trademark for “Qutoutiao,” and filed 1,031 trademark applications in the PRC.

Copyrights

On September 7, 1990, The National People’s Congress promulgated the *Copyright Law*, which took effect on June 1, 1991 and was amended in 2001 and in 2010. The amended Copyright Law extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center.

In order to further implement the *Computer Software Protection Regulations*, promulgated by the State Council on December 20, 2001 and amended on January 30, 2013, the National Copyright Administration, or the NCA, issued the *Computer Software Copyright Registration Procedures* on February 20, 2002, which specify detailed procedures

and requirements with respect to the registration of software copyrights. The China Copyright Protection Center shall grant registration certificates to the Computer Software Copyrights applicants which meet the requirements of both the Software Copyright Registration Procedures and the Computer Software Protection Regulations.

As of December 31, 2019, we had been granted 180 software copyrights and 22 artwork copyrights in the PRC.

Domain Names

The MIIT promulgated the *Measures on Administration of Internet Domain Names*, or the Domain Name Measures, on August 24, 2017, which took effect on November 1, 2017 and replaced the *Administrative Measures on China Internet Domain Name* promulgated by MIIT on November 5, 2004. According to the Domain Name Measures, the MIIT is in charge of the administration of PRC Internet domain names. The domain name registration follows a first-to-file principle. Applicants for registration of domain names shall provide the true, accurate and complete information of their identifications to domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

As of December 31, 2019, we were the registered holder of 271 domain names in the PRC.

Regulations on Foreign Exchange

Under the *Foreign Currency Administration Rules of the PRC* promulgated on January 29, 1996 and most recently amended on August 5, 2008 and various regulations issued by the State Administration of Foreign Exchange, or the SAFE, and other relevant PRC government authorities, Renminbi is convertible into other currencies for current account items, such as trade-related receipts and payments and payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office. Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may not repatriate foreign currency payments received from abroad or retain the same abroad. FIEs may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaged in settlement and sale of foreign exchange pursuant to relevant SAFE rules and regulations. For foreign exchange proceeds under the capital accounts, approval from the SAFE is generally required for the retention or sale of such proceeds to a financial institution engaged in settlement and sale of foreign exchange.

Pursuant to the *Circular of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment*, or the SAFE Circular 59 promulgated by SAFE on November 19, 2012, which became effective on December 17, 2012 and was further amended on May 4, 2015, October 10, 2018 and December 30, 2019, approval is not required for opening a foreign exchange account and depositing foreign exchange into the accounts relating to the direct investments. SAFE Circular 59 also simplified foreign exchange-related registration required for the foreign investors to acquire the equity interests of PRC companies and further improve the administration on foreign exchange settlement for FIEs.

On February 13, 2015, the SAFE promulgated the *Circular on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment*, or the SAFE Circular 13, effective from June 1, 2015, which was recently amended on December 30, 2019. The SAFE Circular 13 cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. In addition, SAFE Circular 13 simplifies the procedure of foreign exchange-related registration, under which investors shall register with banks for direct domestic investment and direct overseas investment.

Regulations on Dividend Distribution

The principal laws and regulations regulating the dividend distribution of dividends by FIEs in the PRC include the *Company Law of the PRC*, as recently amended in 2018 and Foreign Investment Law promulgated by SCNPC on March 15, 2019 and recently came into effect on January 1, 2020 and its implementation regulations that took effect on the same day.

Under the current regulatory regime in the PRC, FIEs in the PRC may pay dividends only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as statutory reserve funds at least 10% of its after-tax profit, until the cumulative amount of such reserve funds reaches 50% of its registered capital unless laws regarding foreign investment provide otherwise. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

As of December 31, 2019, our wholly foreign-owned subsidiaries, Shanghai Quyun and Shanghai Zhicao, had not made any profits and would not be able to pay dividends to our offshore entities until they generate accumulated profits and meet the requirements for statutory reserve funds.

Regulations on Taxation

Enterprise Income Tax

On March 16, 2007, the SCNPC promulgated the *Law of the PRC on Enterprise Income Tax* which was recently amended on December 29, 2018, and on December 6, 2007, the State Council enacted the *Regulations for the Implementation of the Law on Enterprise Income Tax* (collectively, the “EIT Law”), which was recently amended on April 23, 2019. Under the EIT Law, both resident enterprises and non-resident enterprises are subject to tax in the PRC. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but are actually or in effect controlled from within the PRC. Non-resident enterprises are defined as enterprises that are organized under the laws of foreign countries and whose actual management is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applied. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, enterprise income tax is set at the rate of 10% with respect to their income sourced from inside the PRC.

Value-added Tax

The *Provisional Regulations of the PRC on Value-added Tax*, or the VAT Regulations, were promulgated by the State Council on December 13, 1993 and were most recently amended on November 19, 2017. The *Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax* (Revised in 2011) were promulgated by the Ministry of Finance on December 25, 1993 which was recently amended on October 28, 2011 (collectively with the VAT Regulations, the “VAT Law”). According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax. For taxpayers selling or importing goods other than those specifically listed in the VAT Law, the value-added tax rate is 17%.

On November 16, 2011, the Ministry of Finance, or the MOF, and the State Administration of Taxation, or the SAT, promulgated the *Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax*, to lay out main content of the pilot scheme for the reform of levying value-added tax in place of business tax. Further on March 23, 2016, the MOF and the SAT jointly promulgated the *Notice on Fully Promoting the Pilot Plan for Replacing Business Tax by Value-Added Tax*, which became effective on May 1, 2016 and was most recently amended on March 20, 2019. Pursuant to the above mentioned notices, VAT is generally imposed in lieu of business tax in the modern service industries, including the VATS, on a nationwide basis. VAT of a rate of 6% applies to revenue derived from the provision of some modern services. Unlike business tax, a taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the modern services provided.

On November 19, 2017, the State Council promulgated the Decision of State Council on Abolition of the Provisional Regulations of the PRC on Business Tax and Revision of the Provisional Regulations of the PRC on Value-added Tax, which took effective on the same date, to formally abolish the Provisional Regulations of the People’s Republic of China on Business Tax and amend the VAT Regulations accordingly.

As of December 31, 2019, our PRC subsidiaries, consolidated VIEs and their subsidiaries were generally subject to the VAT rates of 6%.

Withholding Tax

The EIT Law provides that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties, or the SAT Circular 81, issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

Regulations on Employment

Labor Law and Labor Contract Law

The Labor Law, which was promulgated on July 5, 1994 and most recently amended on December 29, 2018, and the *Labor Contract Law of the PRC*, or the Labor Contract Law, which took effect on January 1, 2008 and was amended on December 28, 2012, are primarily regulating rights and obligations of employer and employee relationships, including the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between employers and the employees. Employers are prohibited from forcing employees to work above certain time limit and employers shall pay employees for overtime work in accordance to national regulations. In addition, employee wages shall be no lower than local standards on minimum wages and shall be paid to employees timely. Violations of the Labor Contract Law and the Labor Law may result in the imposition of fines and other administrative and criminal liability in the case of serious violations.

Regulations on Social Insurance and Housing Fund

Under the *Social Insurance Law of the PRC* that was promulgated by the SCNPC on October 28, 2010, came into force as of July 1, 2011 and recently amended on December 29, 2018 and the Interim Regulations on the Collection and Payment of Social Insurance Premiums that was promulgated by the State Council on and came into force as of January 22, 1999 and was recently amended on March 24, 2019, employers are required to pay basic endowment insurance, unemployment insurance, basic medical insurance, employment injury insurance, maternity insurance and other social insurance for its employees at specified percentages of the salaries of the employees, up to a maximum amount specified by the local government regulations from time to time. Where an employer fails to fully pay social insurance premiums, relevant social insurance collection agency shall order it to make up for any shortfall within a prescribed time limit, and may impose a late payment fee at the rate of 0.05% per day of the outstanding amount from the due date. If such employer still fails to make up for the shortfalls within the prescribed time limit, the relevant administrative authorities shall impose a fine of 1 to 3 times the outstanding amount upon such employer.

In accordance with the *Regulations on the Management of Housing Fund* which was promulgated by the State Council in 1999 and amended in 2002 and 2019, employers must register at the designated administrative centers and open bank accounts for depositing employees' housing funds. Employer and employee are also required to pay and deposit housing funds, with an amount no less than 5% of the monthly average salary of the employee in the preceding year in full and on time.

Regulations on Employee Share Incentive Plans

Pursuant to the Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company, or SAFE Circular 7, which was issued by the SAFE on February 15, 2012, employees, directors, supervisors, and other senior management participating in any share incentive plan of an overseas publicly-listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic agency as regulated in SAFE Circular 7.

In addition, the SAT has issued certain circulars concerning employee stock options and restricted shares, including the *Circular on Issues Concerning the Individual Income Tax on Share-option Incentives*, or the Circular 461, which was promulgated and took effective on August 24, 2009. Under Circular 461 and other relevant laws and regulations, employees working in the PRC who exercise stock options or are granted restricted shares will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company are required to file documents related to employee stock options and restricted shares with relevant tax authorities and to withhold individual income taxes of employees who exercise their stock option or purchase restricted shares. If the employees fail to pay or the PRC subsidiaries fail to withhold income tax in accordance with relevant laws and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC governmental authorities.

Regulations Related to Mergers and Acquisitions and Overseas Listings

M&A Rules

On August 8, 2006, six PRC governmental and regulatory agencies, including MOFCOM and the China Securities Regulatory Commission, or the CSRC, promulgated the *Rules on Acquisition of Domestic Enterprises by Foreign Investors*, or the M&A Rules, governing the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and was revised on June 22, 2009. The M&A Rules, among other things, requires that offshore special purpose vehicles that are controlled by PRC companies or individuals and that have been formed for overseas listing purposes through acquisitions of PRC domestic interest held by such PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

In our case, the CSRC approval was considered not required in the context of our initial public offering because (i) our wholly-owned PRC subsidiaries, Shanghai Quyun and Shanghai Zhicao, were incorporated as foreign-invested enterprises by means of foreign direct investments rather than by merger with or acquisition of any PRC domestic companies as defined under the M&A Rules, and (ii) there is no statutory provision that clearly classifies the contractual arrangement among our WFOEs and our consolidated VIEs and their respective shareholders as transactions regulated by the M&A Rules. However, there can be no assurance that the relevant PRC government agencies, including the CSRC, would reach the same conclusion. See “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Industry and Business — A PRC regulation establishes more complex procedures for acquisitions conducted by foreign investors that could make it more difficult for us to grow through acquisitions.”

SAFE Circular 37

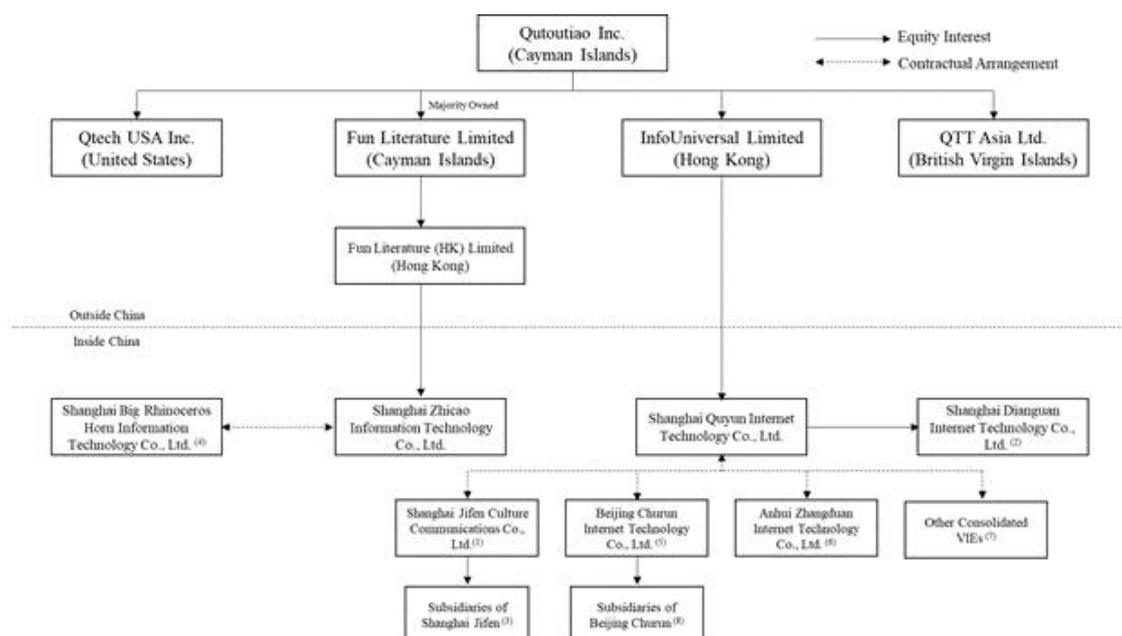
Under the Circular of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles, or the SAFE Circular 37, issued by the SAFE and effective on July 4, 2014, PRC residents are required to register with the local SAFE branch prior to the establishment or control of an offshore special purpose vehicle, or the SPV, which is defined as offshore enterprises directly established or indirectly controlled by PRC residents for offshore equity financing of the enterprise assets or interests they hold in China. An amendment to registration or subsequent filing with the local SAFE branch by such PRC resident is also required if there is any change in basic information of the offshore company or any material change with respect to the capital of the offshore company. At the same time, the SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment regarding the procedures for SAFE registration under the SAFE Circular 37, which became effective on July 4, 2014 as an attachment of Circular 37.

Under the relevant rules, failure to comply with the registration procedures set forth in the SAFE Circular 37 may result in bans on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliates, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

Mr. Eric Siliang Tan and Mr. Lei Li have completed the SAFE registration pursuant to SAFE Circular 37 in 2017, with Innotech Group Holdings Ltd. and News Optimizer (BVI) Ltd. being separately registered as the respective “special purpose vehicle.” After transferring all shares in Innotech Group Holdings Ltd. to the trust of which himself is also a beneficiary, Mr. Eric Siliang Tan, as well as all the other beneficiaries of the trust who are PRC residents are required to complete relevant registrations pursuant to SAFE Circular 37. We have notified substantial beneficial owners of our ordinary shares and the beneficiaries of the trust who we know are PRC residents of their filing obligation, including the obligation to make updates under SAFE Circular 37, and the beneficial owners have undertaken to complete relevant registrations as soon as such registration is practical with local SAFE. Nevertheless, we may not be aware of the identities of all of our beneficial owners who are PRC residents, and we do not have control over our beneficial owners and there can be no assurance that all of our PRC-resident beneficial owners will comply with SAFE Circular 37 and subsequent implementation rules, and there is no assurance that the registration under SAFE Circular 37 and any amendment will be completed in a timely manner, or will be completed at all. See “Item. 3 Key Information — D. Risk Factors — Risks Relating to Our Industry and Business — PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries or limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits.”

D. Organizational Structure

The following diagram illustrates our corporate structure with our principal subsidiaries, consolidated VIEs and their subsidiaries as of the date of this annual report. Except as otherwise specified, equity interests depicted in this diagram are held as to 100%. The relationships between Shanghai Qiyun, Shanghai Zhicao, our consolidated VIEs and their respective shareholders as illustrated in this diagram are governed by contractual arrangements and do not constitute equity ownership.



(1) Mr. Eric Siliang Tan, Mr. Lei Li, Tianjin Shanshi Technology L.P., Shanghai Xihu Cultural Transmission Co., Ltd. and Shanghai Xinpai Management Consulting Co., Ltd., an affiliate of The Paper, hold 44.55%, 14.85%, 19.80%, 19.80% and 1% equity interest in Shanghai Jifen, respectively.

Both Tianjin Shanshi Technology L.P. and Shanghai Xihu Cultural Transmission Co., Ltd. are controlled by Mr. Eric Siliang Tan.

(2) We acquired Shanghai Dianguan in February 2018.

- (3) Include Beijing Qukandian, Shanghai Xike, Shanghai Tuile Information Technology Service Co., Ltd., Tianjin Quwen Internet Technology Co., Ltd, Shanghai Heitu Internet Technology Co., Ltd. and Shanghai Zheyun Internet Technology Co., Ltd.
- (4) Ms. Min Gao and Ms. Wanting Xu held 60% and 40% equity interest in Big Rhinoceros Horn, respectively.
- (5) Mr. Zhongliang Pan and Mr. Zhenxiong Guo held 60% and 40% equity interest in Beijing Churun, respectively.
- (6) Ms. Wanting Xu and Ms. Min Gao held 60% and 40% equity interest in Anhui Zhangduan, respectively.
- (7) Mainly include Shanghai DragonS Information Technology Co., Ltd., or DragonS Information, and Hubei Rapid Information Technology Co., Ltd., or Rapid Information. Mr. Biao Liu and Mr. Zhongyuan Zhang held 60% and 40% equity interest in DragonS Information, respectively. Ms. Linhong Wang and Ms. Jun Sun held 60% and 40% equity interest in Rapid Information, respectively.
- (8) Mainly include Beijing Supreme Pole International Sports Promotion Co., Ltd.

Contractual Arrangements among Our WFOEs, Consolidated VIEs and Their Respective Shareholders

PRC laws and regulations place certain restrictions on foreign investment in and ownership of internet-based businesses. Accordingly, we conduct our operations mainly through Shanghai Jifen, Big Rhinoceros Horn and Anhui Zhangduan and their subsidiaries. We effectively control Shanghai Jifen, Big Rhinoceros Horn, Anhui Zhangduan, Beijing Churun, DragonS Information and Rapid Information, or our consolidated VIEs, through a series of contractual arrangements with our consolidated VIEs, their respective shareholders and Shanghai Quyun or Shanghai Zhicao, as applicable, as described in more detail below, which collectively enables us to:

- exercise effective control over our consolidated VIEs and their subsidiaries;
- receive substantially all the economic benefits of our consolidated VIEs; and
- have an exclusive option to purchase all or part of the equity interests and assets of our consolidated VIEs when and to the extent permitted by PRC law.

As a result of these contractual arrangements, we are the primary beneficiary of our consolidated VIEs and their subsidiaries. We have consolidated their financial results in our consolidated financial statements in accordance with U.S. GAAP. In the opinion of King & Wood Mallesons, our PRC legal counsel:

- the ownership structures of Shanghai Quyun and Shanghai Zhicao, or our WFOEs, and our consolidated VIE in China, do not violate any applicable PRC law, regulation, or rule currently in effect; and
- the contractual arrangements among our WFOEs, our consolidated VIEs and their respective shareholders governed by PRC laws are valid, binding and enforceable in accordance with their terms and applicable PRC laws, rules, and regulations currently in effect, and will not violate any applicable PRC law, regulation, or rule currently in effect.

However, we have been further advised by our PRC legal counsel, King & Wood Mallesons, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, rules and regulations. In particular, in January 2015, the MOFCOM published a discussion draft of the proposed Foreign Investment Law, or the 2015 Draft, for public review and comments. The 2015 Draft was replaced by the draft *Foreign Investment Law (2018)*, which was published by the SCNPC in December 2018 and further amended in January 2019. The new Foreign Investment Law was approved by the National People’s Congress on March 15, 2019 and came into effect recently on January 1, 2020. Among other things, the 2015 Draft expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company is considered a foreign-invested enterprise, or an FIE. Under the 2015 Draft, VIEs would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors, and be subject to restrictions on foreign investments. However, the relevant terms with regard to the VIE structure in the 2015 Draft have been removed in their entirety in the newly effective Foreign Investment Law and there are significant uncertainties as to how the control status of our consolidated VIEs would be determined under the Foreign Investment Law, and furthermore, whether any of the businesses that we currently operate or plan to operate in the future through any of our consolidated VIEs would be subject to any foreign investment restrictions or prohibitions under the “negative list” then effective.

Accordingly, the PRC regulatory authorities may in the future take a view that is contrary to the opinion of our PRC legal counsel. We have been further advised by our PRC legal counsel that if the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC government restrictions on foreign investment in the aforesaid business we engage in, we could be subject to severe penalties including being prohibited from continuing operations. See “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Corporate Structure.”

All the agreements under our contractual arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in China. For additional information, see “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Corporate Structure — Any failure by our consolidated VIEs or their respective shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.” Such arbitration provisions have no effect on the rights of our shareholders to pursue claims against us under United States federal securities laws.

The following is a summary of the currently effective contractual arrangements by and among our WFOEs, our consolidated VIEs and their subsidiaries, and their respective shareholders.

Agreements that Provide Us with Effective Control over Our Consolidated VIEs and Their Subsidiaries

Equity Interest Pledge Agreements. Pursuant to the equity interest pledge agreements, each shareholder of our consolidated VIEs has pledged all of such shareholder’s equity interest in such consolidated VIE as a security interest to respectively guarantee such consolidated VIE and its shareholders’ performance of their obligations under the relevant contractual arrangement, which include the voting rights proxy agreement, loan agreement, exclusive technology and consulting service agreement and exclusive option agreement. If our consolidated VIEs or any of their respective shareholders breaches their contractual obligations under these agreements, our WFOEs, as pledgee, will be entitled to certain rights regarding the pledged equity interests. In the event of such breaches, our WFOEs’ rights include being paid in priority with the equity interest of the relevant consolidated VIE based on the monetary valuation that such equity interest is converted into or from the proceeds from auction or sale of the equity interest. Each of the shareholders of our consolidated VIEs agrees that, during the term of the equity interest pledge agreements, such shareholder shall not transfer the equity interest, place or permit the existence of any security interest or other encumbrance on the equity interest or any portion thereof, without the prior written consent of the relevant consolidated VIE, except for the performance of the relevant contractual agreement. Our WFOEs are entitled to receive dividends distributed on the equity interest of the relevant consolidated VIEs, and the shareholders of such consolidated VIE may receive dividends distributed on the equity interest only with prior written consent of Shanghai Quyun or Shanghai Zhicao, as applicable. The equity interest pledge agreements remain effective until all obligations under the relevant contractual agreements have been fully performed and all secured indebtedness have been fully paid.

Voting Rights Proxy Agreements. Pursuant to the voting rights proxy agreements, each shareholder of our consolidated VIEs has irrevocably authorized Shanghai Quyun or Shanghai Zhicao, as applicable, to exercise the following rights relating to all equity interests held by such shareholder in the relevant consolidated VIE during the term of the voting rights proxy agreement: to act on behalf of such shareholder as its exclusive agent and attorney with respect to all matters concerning its shareholding in the relevant consolidated VIE, including without limitation: (1) proposing and attending shareholders’ meetings of the relevant consolidated VIE; (2) exercising all the shareholder’s voting rights such shareholder is entitled to under the laws of China and the relevant consolidated VIE’s articles of association, including but not limited to designate and appoint on behalf of such shareholder the directors and other senior management members of the relevant consolidated VIE. Under most of the voting rights proxy agreements, during the period that each of our WFOEs and our consolidated VIEs remains in operation, the voting rights proxy agreements shall be irrevocable and continuously effective.

Spousal Consent Letters. Pursuant to the spousal consent letters, each spouse unconditionally and irrevocably waives any rights or entitlements whatsoever to such shares and assets that may be granted to him or her pursuant to applicable laws and undertakes not to make any assertion of rights to such shares and assets. Each spouse agrees and undertakes that he or she will take all necessary actions to ensure the proper performance of the contractual arrangements, and will be bound by the contractual arrangements in case he or she obtains any equity of our consolidated VIEs due to any reason.

Agreements that Allow Us to Receive Economic Benefits from our Consolidated VIEs and Their Subsidiaries

Exclusive Technology and Consulting Service Agreements. Under the exclusive technology and consulting service agreements, our consolidated VIEs appoint Shanghai Quyun or Shanghai Zhicao, as applicable, as their exclusive services provider to provide our consolidated VIEs with comprehensive technical support, business support and relevant consulting services during the term of the exclusive technology and consulting service agreements. In return, our WFOEs are entitled to receive a monthly service fee from the relevant consolidated VIEs at an amount to be determined at the sole discretion of our WFOEs. Our WFOEs shall have exclusive and proprietary ownership, rights and interests in any and all intellectual properties arising out of or created during the performance of the exclusive technology and consulting service agreements. Under most of the exclusive technology and consulting service agreements, unless terminated in accordance with the provisions of the exclusive technology and consulting service agreements or in accordance with written decision of our WFOEs, the terms of the exclusive technology and consulting agreements are indefinite.

Agreements that Provide Us with the Option to Purchase the Equity Interest in our Consolidated VIEs

Loan Agreement. Our WFOEs have entered into loan agreements with each shareholder of the relevant consolidated VIEs. Pursuant to the loan agreements, our WFOEs have granted an interest-free loan to each shareholder of the relevant consolidated VIEs, the amount of which are to be separately agreed to between our WFOEs and the relevant consolidated VIEs in writing, which may only be used by such shareholder for the purpose of capital contribution to such consolidated VIE as to its business development. Our WFOEs also have agreed to provide the relevant consolidated VIEs with unconditional financial support pursuant to the loan agreement. The shareholders of our consolidated VIEs pledge all of its share equity in the relevant consolidated VIE as security for the outstanding loans. Unless otherwise agreed by all the parties of the loan agreement, the term of the loan is the earlier of ten years, the end of our WFOEs' operation or the end of the relevant consolidated VIEs' operation. Our WFOEs also have the right to accelerate the date of maturity of such loans at their sole discretion. Upon maturity, our WFOEs or their designated third party may purchase the equity interests in the relevant consolidated VIEs held by the shareholders of such consolidated VIE at a price equal to the lowest allowable amount for a similar transaction pursuant to relevant PRC laws, rules and regulations instead of cash repayment. The loan agreements also prohibit the shareholders of our consolidated VIEs from entering into any transactions that could materially affect the assets, liabilities, interests or operations of such consolidated VIE or its subsidiaries without prior written consent from the relevant WFOE.

Exclusive Option Agreements. Pursuant to the exclusive option agreements, each of our consolidated VIEs' shareholders has irrevocably granted the relevant WFOE an unconditional and exclusive right to purchase, or designate one or more persons agreed by the board of directors of the relevant WFOE to purchase the equity interests in such consolidated VIE then held by its shareholders once or at multiple times at any time in part or in whole at the relevant WFOE's sole and absolute discretion to the extent permitted by PRC laws. The purchase price of the optioned interests shall be the minimum price permitted under PRC laws when the relevant WFOE exercises equity interest purchase option. The shareholders of our consolidated VIEs have agreed the consideration received from the exercise of such equity interest purchase option shall be used to settle the outstanding loans under the loan agreements as described above and/or transferred back to the relevant WFOE as permitted under relevant PRC laws. Under most of the exclusive option agreements, our consolidated VIEs and their respective shareholders have agreed that, without the relevant WFOE's prior written consent, such consolidated VIE shall not, among others, in any manner supplement, change or amend its articles of association; increase or decrease its registered capital, change its structure of registered capital in other manners; sell, transfer, mortgage or dispose of in any other manner any legal or beneficial interest in the equity interests in such consolidated VIE held by such shareholders, or allow the encumbrance thereon; entry into, inherit, or tolerant any existence of any loan or other debtor-creditor relationship with any third party; enter into any material contract outside the ordinary course of business; merge with any other persons or make any investments exceeding US\$2 million; or distribute dividends. The exclusive option agreements shall remain effective until all the equity interest held by the shareholders in such consolidated VIE has been transferred to our WFOEs or the person designated by our WFOEs.

Supplemental Agreement to the Contractual Arrangements in Connection with The Paper

In August 2018, Shanghai Quyun and Shanghai Jifen and its shareholders entered into a supplemental agreement as to the contractual arrangements as described above, pursuant to which Shanghai Jifen issued equity interests representing 1% of its enlarged share capital to Shanghai Xinpai, an affiliate of The Paper, in September 2019. As Shanghai Xinpai is not a party to the existing contractual arrangements, it is not bound by such arrangements nor

does it have any obligation to perform or assume any liability under the contractual arrangements. In contrast to what we have been granted by other shareholders of Shanghai Jifen under the contractual arrangements, the voting rights over these 1% equity interests are held by Shanghai Xinpai itself and we have not been granted the authorization of the voting rights over such 1% equity interests. Accordingly, we are not able to request Shanghai Xinpai to sell or pledge such 1% equity interests in the way agreed under existing contractual arrangements.

Despite the above, The Paper will not absorb the losses allocation, if any, from Shanghai Jifen. Unless otherwise instructed and approved by the competent governmental authority, The Paper may not transfer its equity interests in Shanghai Jifen to any third party. Based on the foregoing, we believe Shanghai Qyun, our wholly-owned PRC subsidiary, still controls and is the primary beneficiary of Shanghai Jifen as it continues to have a controlling financial interest in Shanghai Jifen pursuant to ASC 810-10-25-38A.

E. Facilities

Our corporate headquarters are located in Shanghai, China, where we leased approximately 10,818 square meters of office space as of December 31, 2019. We also maintained other leased offices in Beijing, Wuhu City in Anhui Province, Guangzhou in Guangdong Province and Tianjin totaling approximately 12,373 square meters. We believe that we will be able to obtain adequate facilities, principally by lease, to accommodate our future expansion plans.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information — D. Risk Factors” or in other parts of this annual report.

A. Operating Results

Overview

We operate innovative and fast-growing mobile content platforms in China with a mission to bring fun and value to our users. Our eponymous flagship mobile application, *Qutoutiao*, meaning “fun headlines” in Chinese, applies artificial intelligence-based algorithms to deliver customized feeds of articles and short videos to users based on their unique profiles, interests and behaviors. *Qutoutiao* has attracted a large group of loyal users, many of whom are from lower-tier cities in China. They enjoy *Qutoutiao*’s fun and entertainment-oriented content as well as its social-based user loyalty program. Midu, first launched in May 2018 as *Midu Novels* and with an alternative version *Midu Lite* launched one year later, pioneered provision of free online literature supported by advertising. It has grown tremendously and has led the free online literature industry since inception. Our mobile applications have rapidly gained popularity since launch, reaching combined average MAUs of approximately 137.9 million, combined average DAUs of approximately 45.7 million and average daily time spent per DAU of approximately 59.4 minutes in the three months ended December 31, 2019.

Our rapidly increasing and engaged user base has provided us with strong monetization potentials. We currently generate revenue primarily by providing advertising and marketing services. We place advertisements on the main pages, topic pages as well as content pages of our mobile applications. When we first commenced our business, we collaborated with various third-party advertising platforms to place advertisements on our mobile applications and derived a large percentage of our revenues from a limited number of customers. To reduce the concentration risk and to build our in-house advertising platform which was becoming necessary in order to support the rapid growth of our business, we acquired an advertising agent in February 2018 that operated a programmatic advertising system. Upon full integration with our internal resources and with continuous R&D investments, we have developed it into a

technology driven system that has powered our advertising solutions while reducing the use of third-party advertising platforms.

We also sell advertising and marketing solutions to advertising agents or advertising customers directly. Our differentiated user base represents an attractive demographic target for businesses. We launched our new integrated and customized marketing solution services to our customers in 2019 to enhance our monetization ability.

We also generate revenue by providing agent and platform service between the advertising customers and third-party advertising platforms. We are increasing the variety of content formats offered by our mobile applications to capture additional monetization opportunities. The new content formats include paid content such as memberships to our online literature platforms, casual games, live-streaming, animations and comics.

Our net revenues have increased rapidly from RMB517.1 million in 2017 to RMB3,022.1 million in 2018, and further to RMB5,570.1 million (US\$800.1 million) in 2019. As we focused on growing our user base and enhancing our services, we have incurred net losses attributable to Qutoutiao Inc. of RMB94.8 million in 2017, RMB1,942.6 million in 2018 and RMB2,688.7 million (US\$386.2 million) in 2019. Non-GAAP net losses attributable to Qutoutiao Inc., which represented net losses attributable to Qutoutiao Inc. before share-based compensation expenses, were RMB91.4 million in 2017, RMB990.9 million in 2018, and RMB2,416.7 million (US\$347.1 million) in 2019.

Key Factors Affecting Our Results of Operations

We believe the most significant drivers for our revenues are user engagement and our ability to monetize. On the other hand, we believe the most significant drivers behind our costs and expenses are those related to our user acquisition and engagement efforts, and to a lesser extent R&D and content procurement.

User Base and Level of Engagement

Our fast growing and engaged user base has contributed to our ability to attract advertising customers to our advertising and marketing services and the significant growth in our revenue. Combined average MAUs of our mobile applications increased from approximately 24.3 million in the three months ended December 31, 2017 to approximately 93.8 million in the three months ended December 31, 2018 and further to approximately 137.9 million in the three months ended December 31, 2019. Combined average DAUs of our mobile applications increased from approximately 9.5 million in the three months ended December 31, 2017 to approximately 30.9 million in the three months ended December 31, 2018 and further to approximately 45.7 million in the three months ended December 31, 2019. A continued increase in the number of DAUs and the amount of time they spend on our platform will lead to increase in the number of advertisements served and potential clicks and impressions from users. User engagement in turn will depend on the quality and attractiveness of content on our platform and our continued ability to fine tune our understanding of users to deliver content that is most likely to interest them. Our ability to maintain high user engagement will also be affected by our planned introduction of new content formats, users' reception to them and the growth in the volume of such content. Users' engagement with these new content formats will not only help drive demand for our advertising and marketing services but also create further monetization opportunities.

Our Ability to Monetize

Our current financial condition and results of operations depend substantially on the demand for our advertising and marketing solutions. Demand for our advertising and marketing solutions will be affected by the size of our user base and their continued engagement. Such demand will also be dependent on our ability to enhance the efficacy of our advertising and marketing solutions through technology and an even deeper understanding of our user base. We have been operating our proprietary programmatic advertising system and directly selling our advertising and marketing solutions since February 2018.

Our expanding user base, which has been attracting an increasing number of advertising agents and advertising customers, has provided a solid basis for us to achieve a high monetization capability. To endeavor towards such a goal, we have taken concrete steps, such as improving the efficiency of our platform, to drive advertising

conversion, which involves algorithm improvement driven by data collection and analytics and conversion to an oCPC system over the course of 2019. We have been forming partnerships with advertising customers from an expanding range of industries and offering an increasing variety of formats such as brand advertising in order to provide more comprehensive solutions for our customers. We have also managed to diversify our revenue streams by generating income from non-advertising activities such as live-streaming and membership fees, thanks to the diversification of content formats available from our mobile applications.

Cost of User Acquisition and Engagement

We offer loyalty programs on *Qutoutiao* and *Midu Lite*. The cost of users' loyalty points associated with our user loyalty programs is recognized as sales and marketing expenses. A majority of such cost of users' loyalty points is currently associated with engagement-based loyalty points to promote user engagement and retention, with the remainder related to referral-based loyalty points to acquire new users. We design our user loyalty programs to ensure the cost of the loyalty points provided is appropriate in relation to the overall economics of our business model. Our ability to operate loyalty programs effectively will have an effect on our results of operations. We also engage a variety of other online and offline marketing channels to acquire users and promote brand awareness in combination with our user loyalty programs. These efforts may also affect our overall user acquisition and engagement costs in the future.

Content Procurement

We encourage our content providers to actively contribute quality content that will resonate with our users by implementing a system in which fees paid to them are related to the number of views of the content they contribute. These fees are accounted for as part of our cost of revenues. Our ability to balance our content procurement cost while ensuring content providers continue to contribute content that is attractive to users will affect our results of operations going forward. We will also need to manage the relevant content cost while taking into account its revenue potential to ensure value are realized. Furthermore, as additional content formats are introduced, we have entered into different content procurement arrangements with content providers, affecting our content procurement cost structure.

Seasonality

We generate most of our revenues from providing advertising and marketing services. The advertising industry in China experiences seasonality. Historically, advertising spending and user activities on our platform tend to be the lowest in the first quarter of each calendar year due to long holidays around the Lunar New Year, during which users tend to spend more time with family and celebrations offline and less time online, including on our mobile applications. In addition, advertising customers, such as those in the e-commerce industry, may also reduce its advertising spending during the holidays around the Lunar New Year due to reduced consumer spending or reduced or suspended production and logistics activities by manufacturers or other service providers. We believe this seasonality affects our quarterly results especially our results of operations in the first quarter of each year. For example, our net revenues in the first quarter may be lower than those of other quarters, and may experience a slower rate of growth or even decline from the last quarter in the prior year. On the other hand, our cost of revenues and operating expenses as a percentage of our net revenues may be higher in the first quarter as compared to other quarters, which may lead to lower profit margin.

Uncertainty of the Coronavirus (COVID-19) Outbreak

The COVID-19 outbreak, which was reported to surface in Wuhan, China in December 2019 and spread throughout China and worldwide, has impacted and may continue to impact our results of operations. The outbreak of COVID-19 across the globe has put pressure on the overall advertising market in the near-term, as advertising budget in general could be constrained. However, we believe our focus on performance-based advertising could position us better than those offering traditional brand-based or impression-based advertising, as advertising customers would value the measurability of return on investment in performance-based advertising, especially in weak market.

Our results for 2020 could be adversely affected due to the extension of Lunar New Year holiday and imposition of travel restrictions and self-isolation policies by local and national government of China. We currently expect a growth in our revenues in the first quarter of 2020 on a year-over-year basis, and the outbreak has not had a material impact on our financial results for the first quarter of 2020. However, the outbreak has slowed down and may continue to negatively affect our growth speed. Our future results may continue to be impacted if the COVID-19 outbreak persists or intensifies. Our business operations may be disrupted if any of our employees is suspected of being infected with COVID-19 and our offices need to be shut down for disinfection. We may be short on workforce if a large number of our employees are diagnosed with COVID-19 or are required to be self-isolated. Our advertising and marketing revenues may decline or our services may be suspended if any of our advertising customers or suppliers is affected by COVID-19. We have been closely monitoring the impact of COVID-19 on macro economy and advertising market in general, as well as the extent to which COVID-19 impacts our business, results of operations and financial condition. At this point, the exact impact on our results is uncertain and difficult to predict and will depend on future developments, including the duration, severity and reach of the COVID-19 outbreak, and actions taken to contain the outbreak or treat its impacts. For additional details, see “Item 3. Key Information—D. Risk Factors—Any catastrophe, including natural catastrophes and outbreaks of health pandemics and other extraordinary events, could disrupt our business operation. In particular, the coronavirus outbreak in China and worldwide could have a material adverse effect on our business, results of operations and financial condition, as well as the trading price of the ADSs.”

Key Operating Metrics

We regularly review a number of key operating metrics to evaluate our business and measure our performance. The table below sets forth key operating metrics relating to our mobile applications.

	For the Three Months Ended							
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
	2018				2019			
	(in millions, except for daily time spent data)							
Installed users as of the end of the period	99.4	139.1	227.7	334.8	437.1	550.8	670.7	793.6
Combined Average MAUs during the period	28.0	34.1	65.2	93.8	111.4	119.3	133.9	137.9
Combined Average DAUs during the period	11.3	12.6	21.3	30.9	37.5	38.7	42.1	45.7
Average daily time spent per DAU during the period (minutes)	32.5	47.0	55.9	63.1	62.1	60.0	61.3	59.4

We view installed users as a measure of the size of our user base, and we view combined average MAUs and combined average DAUs as measures of the size of active user base and user engagement. Installed users, combined average MAUs and combined average DAUs rapidly increased during the periods presented. Increases in these measures were mainly driven by our user loyalty programs, light entertainment-oriented content and content recommendation technology.

We monitor average daily time spent per DAU to measure the level of user engagement on our platform. Average daily time spent per DAU for our mobile applications increased from approximately 32 minutes in the three months ended December 31, 2017 to approximately 63 minutes in the three months ended December 31, 2018 and remained relatively stable at approximately 59.4 minutes in the three months ended December 31, 2019, which was driven by our continuous efforts in enriching our product and content offerings to include more engaging contents, such as short videos, games and live-streaming.

Key Components of Our Results of Operations

Revenues

We generate most of our revenues from advertising and marketing services. The following table sets forth a breakdown of our revenues, both in absolute amount and as a percentage of our net revenues, for the years indicated.

	Year Ended December 31,						
	2017		2018		2019		
	RMB	%	RMB	%	US\$	%	
	(in thousands, except for percentages)						
Revenues:							
Advertising and marketing revenues	512,883	99.2	2,814,258	93.1	5,415,321	777,862	97.2
Other revenue	4,170	0.8	207,888	6.9	154,760	22,230	2.8
Net revenues	517,053	100.0	3,022,146	100.0	5,570,081	800,092	100.0

(1) Revenues from transactions with related parties are set forth below for the periods indicated:

	Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
	(in thousands)			
Advertising and marketing revenues	—	17,447	473,216	67,973
Other revenue	—	29,597	—	—

We charge our advertising and marketing services mainly on an optimized cost-per-click, or oCPC, basis, and in certain circumstances, on an optimized cost-per-thousand-impressions, or oCPM, basis.

After acquiring an advertising agent in February 2018 that operated a programmatic advertising system and developing it into our proprietary technology driven advertising platform through internal integration and continuous R&D investment, we managed to considerably reduce our reliance on third-party advertising platforms such as Baidu. Prior to our acquisition of this advertising agent in February 2018, we engaged this advertising agent to serve as our sales agent in selling our advertising and marketing solutions to other second-tier advertising agents and end advertisers. These second-tier advertising agents and end advertisers were and still are our customers as they have chosen our mobile applications to place their advertisement, and our performance obligation has been to provide the underlying advertising display services to them. We recognize advertising and marketing revenues from our proprietary advertising platform on a gross basis as clicks are delivered on an oCPC basis. We also engage certain other advertising agents in selling our advertising and marketing solutions to our advertising customers.

In addition, we collaborate with various third-party advertising platforms to place advertisements on our platform. Under our arrangements with these advertising platforms, these advertising platforms are our customers and our performance obligation is to provide traffic to these advertising platforms. As such, we recognize advertising and marketing revenues based on the net amount as impressions or clicks are delivered on an oCPC or oCPM basis. We started reducing the utilization of third-party advertising platforms in 2017 and we expect such collaboration to continue to decrease in the future as we further increase direct sales of our advertising and marketing solutions.

Other revenue includes revenues from providing agent and platform service between the advertising customers and third-party advertising platforms by facilitating the advertising customers to select third-party advertising platforms to display their advertisements. We recognize revenues from the advertising customers based on the net amount equal to certain agreed percentage of the gross revenue earned by the third-party advertising platforms when impressions or clicks are successfully delivered.

Other revenue also includes revenues from live-streaming and casual games. We started to offer live-streaming content in January 2019. Users can access our mobile applications and view the live-streaming content for free. We generate revenues when users purchase and send in-show virtual items to broadcasters, and when users become members by paying membership fees. Game related revenues are mostly generated from the consumption of virtual items by game players through our platform and from the placement of advertising. We generally offer mobile games developed by third-party game developers non-exclusively, and we share payments from users or advertisers with such game developers.

Revenue from the sale of merchandise by suppliers through the marketplace on *Qutoutiao* was also included in other revenue prior to the termination of its operation in 2019. A user paid the purchase price for a merchandise to us. We deducted our commission related to the merchandise and remitted the remainder to the relevant merchandise supplier.

Cost of Revenues

Cost of revenues consists primarily of (i) bandwidth and server costs, (ii) costs incurred to vendors and suppliers for advertising and marketing services, (iii) content procurement costs paid to third-party professional media companies and freelancers, (iv) direct cost related to in-house content, rental cost, depreciation, salary and welfare for cost personnel and other miscellaneous costs, (v) costs incurred for mobile gaming and live streaming content, and (vi) cultural development fee and surcharges. The Group is subject to a cultural development fee on the provision of advertising services in the PRC. The applicable tax rate prior to June 30, 2019 was 3% of the net advertising revenues, and was changed to 1.5% effective July 1, 2019.

(1) Cost of revenues from transactions with related parties are set forth below for the years indicated:

	Year Ended December 31,						
	2017		2018		2019		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Cost of revenues-related party	484	0.1	6,020	0.2	42,412	6,092	0.8

Operating Expenses

The following table sets forth our operating expenses, both in absolute amount and as a percentage of our net revenues, for the years indicated.

	Year Ended December 31,						
	2017		2018		2019		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Operating expenses(1):							
Research and development expenses	15,317	3.0	270,108	8.9	926,232	133,045	16.6
Sales and marketing expenses	494,724	95.7	3,250,038	107.5	5,489,708	788,547	98.6
General and administrative expenses	25,947	5.0	980,725	32.5	267,033	38,357	4.8
Total operating expenses	535,988	103.7	4,500,871	148.9	6,682,973	959,949	120.0

(1) Operating expenses from transactions with related parties are set forth below for the years indicated:

	Year Ended December 31,					
	2017		2018		2019	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Research and development-related party	220	0.0	—	—	—	—
Sales and marketing-related party	950	0.2	23,671	0.8	3,284	472
General and administrative-related party	15,134	2.9	—	—	—	—

Research and Development Expenses. Our research and development expenses consist primarily of salaries and benefits for our research and development personnel, including share-based compensation, rental expenses, IT service fees and depreciation of office premise and servers utilized by our research and development personnel.

Sales and Marketing Expenses. Our sales and marketing expenses consist primarily of user engagement expenses, user acquisition expenses and other sales and marketing expenses.

User engagement expenses consist of the costs of engagement-based loyalty points associated with our user loyalty programs to promote user engagement and retention for our *Qutoutiao* mobile application and *Midu Lite* mobile application. Cost of users' loyalty points is comprised of amount of loyalty points redeemed by users during a specific period and the change in estimated liabilities as to accumulated unredeemed loyalty points during such period. Pursuant to our user agreements, we can adjust at any time the minimum amount of loyalty points that must be earned before users can redeem their loyalty points. As such, change to such threshold in any specific period will affect the amount of sales and marketing expenses recorded during such period. For additional information on the accounting policy of our loyalty programs, see “— Critical Accounting Policies, Judgments and Estimates — User Loyalty Programs.”

User acquisition expenses consist of the costs of both word-of-mouth referrals and third-party marketing.

Other sales and marketing expenses represent advertising and marketing expenses through third-party online and offline channels to promote brand recognition, short mobile messaging expenses and salaries and benefits for our sales and marketing personnel, including share-based compensation.

General and Administrative Expenses. Our general and administrative expenses consist primarily of salaries and benefits for our general and administrative personnel, including share-based compensation, office expense and professional service fees.

Share-based Compensation

The following table sets forth the effect of share-based compensation expenses on our operating cost and expenses line items, both in an absolute amount and as a percentage of our revenues, for the years presented.

	Year Ended December 31,						
	2017		2018		2019		
	RMB	%	RMB	%	US\$	%	
	(in thousands, except for percentages)						
Cost of revenues	942	0.2	5,711	0.2	6,190	889	0.1
Research and development expenses	1,317	0.3	29,623	1.0	138,792	19,936	2.5
Sales and marketing expenses	939	0.2	9,538	0.3	45,041	6,470	0.8
General and administrative expenses	181	0.0	906,754	30.0	81,955	11,772	1.5
Total	3,379	0.7	951,626	31.5	271,978	39,067	4.9

See “— Critical Accounting Policies — Share-based Compensation” for a description of what we account for the compensation cost from share-based payment transactions.

Taxation

Cayman Islands

We are an exempted company incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to tax based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. In addition, upon payment of dividends by us to our shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

Our subsidiary incorporated in Hong Kong is subject to Hong Kong profit tax at the rate of 8.25% for profit of up to HK\$2.0 million and 16.5% for the remainder of taxable income. Hong Kong does not impose a withholding tax on dividends.

China

Generally, our subsidiaries and consolidated VIEs and their subsidiaries in China are subject to enterprise income tax on their taxable income in China at a rate of 25%. The enterprise income tax is calculated based on the entity’s global income as determined under PRC tax laws and accounting standards.

Our revenues are subject to value-added tax at a rate of approximately 6%. The provision of advertising services in China is subject to a cultural development fee. The fee was charged at an applicable rate of 3% of the net advertising revenues prior to June 30, 2019, which was reduced to 1.5% commencing on July 1, 2019, according to a preferential tax policy issued on June 12, 2019 by the government of Shanghai. The preferential policy is said to be in effect until December 31, 2024.

Any dividends paid by our wholly foreign-owned subsidiaries in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and receives approval from the relevant tax authority, in which case the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%.

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a “resident enterprise” under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%.

Critical Accounting Policies, Judgments and Estimates

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

We prepare our consolidated financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this annual report. When reviewing our consolidated financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Consolidation of Variable Interest Entities

Foreign ownership in companies providing Internet-content is subject to certain restrictions under PRC laws and regulations. To comply with the PRC laws and regulations, we, through our wholly-owned subsidiaries, Shanghai Qyun and Shanghai Zhicao, as the case may be, entered into a set of contractual arrangements with our consolidated VIEs and their respective shareholders. Such contractual arrangements allow us to:

- exercise effective control over our consolidated VIEs and their subsidiaries;
- receive substantially all of the economic benefits of our consolidated VIEs; and
- have an exclusive option to purchase all or part of the equity interests and assets of our consolidated VIEs when and to the extent permitted by PRC law.

Our consolidated financial statements include the financial statements of our company, our subsidiaries, our consolidated VIEs and their subsidiaries for which we are the primary beneficiary. All transactions and balances among our company, our subsidiaries, our consolidated VIEs and their subsidiaries have been eliminated upon consolidation.

A subsidiary is an entity in which we, directly or indirectly, control more than one half of the voting powers; or has the power to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meeting of directors; or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A consolidated VIE is an entity in which we, or our subsidiaries, through contractual agreements, bears the risks of, and enjoys the rewards normally associated with ownership of the entity. In determining whether we or our subsidiaries are the primary beneficiary, we consider whether it has the power to direct activities that are significant to the consolidated VIE's economic performance, and also our obligation to absorb losses of the consolidated VIE that could potentially be significant to the consolidated VIE or the right to receive benefits from the consolidated VIE that could potentially be significant to the consolidated VIE. We hold all the variable interests of the consolidated VIE and its subsidiaries, and has been deemed to be the primary beneficiary of the consolidated VIE.

In accordance with the contractual agreements among our WFOEs, our consolidated VIEs and the respective shareholders of our consolidated VIEs, we have the power to direct activities of our consolidated VIEs, and can have assets transferred out of our consolidated VIEs. Therefore, we consider that there is no asset in our consolidated VIEs that can be used only to settle obligations of our consolidated VIEs, except for registered capital as of December 31, 2017, 2018 and 2019. As our consolidated VIEs were incorporated as limited liability company under the PRC Company Law, the creditors do not have recourse to the general credit of our company for all the liabilities of our consolidated VIEs.

As we are conducting our businesses in the PRC primarily through our consolidated VIEs and their subsidiaries, we will, if needed, provide such support on a discretion basis in the future, which could expose us to a loss.

There is no VIE where we have variable interest but is not the primary beneficiary.

We believe that the contractual arrangements among our WFOEs, our consolidated VIEs and the respective shareholders of our consolidated VIEs are in compliance with PRC law and are legally enforceable. However, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements and if the shareholders of our consolidated VIEs were to reduce their interest in us, their interests may diverge from ours and that may potentially increase the risk that they would seek to act contrary to the contractual terms.

Our ability to control our consolidated VIEs also depends on the voting rights proxy, the effect of the share pledge under the Equity Interest Pledge Agreement and our company, through our WFOEs, has to vote on all matters requiring shareholder approval in our consolidated VIEs. As noted above, we believe this voting rights proxy agreement is legally enforceable but may not be as effective as direct equity ownership.

Revenue Recognition

We have adopted the new revenue standard, ASC 606, by applying the full retrospective method. Revenues are recognized when or as the control of a good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of goods and services may be transferred over time or at a point in time. Control of goods and services is transferred over time if our performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as we perform; or
- does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

If the control of goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains the control of goods and services.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict our performance in satisfying the performance obligation:

- direct measurements of the value transferred by us to the customer; or
- our efforts or inputs to the satisfaction of the performance obligation.

Our main services are the provision of online advertising and marketing services. We derive revenues from performing specific actions, i.e., oCPM or oCPC basis, or related advertising and marketing services. Revenue is recognized on an oCPM or oCPC basis as impressions or clicks are delivered. We also provide other services and recognizes revenue when the service is rendered, or when related advertising and marketing services are performed.

Whether revenue should be reported on a gross or net basis is determined by an assessment of whether we are acting as the principal or an agent in the transaction. In determining whether we act as the principal or an agent, we follow the accounting guidance for principal-agent considerations. Such determination involves judgment and is based on evaluation of the terms of each arrangement.

Advertising and Marketing Services

a. Advertising and marketing services provided to advertising customers

Before February 2018, we engaged certain advertising customers through a third-party advertising agent. In the arrangement with such advertising agent, it served as our sales agent in selling our advertising and marketing solutions to other second-tier advertising agents. The end advertisers are our customers as they specifically selected *Qutoutiao* to place their advertisement and our performance obligation is to provide the underlying advertising

display services to them. The advertising agent earns a commission of 2% of the advertising and marketing revenues in the arrangement in return for providing bidding system for placement on *Qutoutiao*, which we recognize as cost of revenues. We control the advertising services as a principal and recognize advertising and marketing revenues on a gross basis as impressions or clicks are delivered.

We receive refundable advance payments from advertising customers through this advertising agent and reconcile the advertising and marketing revenue with this advertising agent. If the advance payment deposited in us is not ultimately used for the advertisement on *Qutoutiao*, we refund the advance payment back to advertising customers through this advertising agent.

In February 2018, we acquired 100% equity interests of this advertising agent. Since the acquisition, we have effectively been providing advertising and marketing services to these advertising customers directly and continue to recognize revenue on a gross basis as impressions or clicks are delivered.

Besides this arrangement, we also provide advertising and marketing services to advertising customers directly and recognize revenue on a gross basis as impressions or clicks are delivered.

Starting from 2019, the placement of the advertising customers' advertisements is not restricted to be only on *Qutoutiao*'s application. When advertisements cannot be placed on *Qutoutiao* due to capacity limit or bidding, we have the discretion to choose a media platform for advertisement placement. We determined that we are the principal to the advertising customer when we (1) are the primary obligor ultimately responsible for delivering advertising and marketing services to the advertising customers, (2) have the discretion in pricing and (3) take certain risks of loss due to the different settlement methods between the media platform and advertising customers. Hence, we recognize the revenue on a gross basis.

In May 2019, we also started a new advertising and marketing service by providing integrated marketing solution to our customers based on their customized needs. The services include but are not limited to designing and executing a systematic marketing plan online and offline, coming up with best solutions for online promotion of the customers' mobile application by selecting appropriate advertisement platforms, designing the advertisement clips, monitoring advertisement effects and organize offline marketing campaigns. We pay the vendors or suppliers when costs are incurred and advertisements are displayed while we charge the service fees to the customers based on specified achievements, i.e., gross merchandise volume, or GMV—revenue is recognized based on the number of first effective purchases, or optimized cost per action, or oCPA, basis—revenue is recognized based on the number of registered new users. We are the principal ultimately responsible for delivering the integrated marketing services to the customers in the arrangement. We have the discretion in pricing and take certain risks of loss as the results cannot be guaranteed while costs are incurred. We recognize the integrated marketing services revenue at gross based on GMV or oCPA basis and recognizes incurred expenses to vendors or suppliers as cost of revenue.

b. Advertising and marketing services provided to advertising platforms

We provide advertising and marketing services to other third-party advertising platforms. In the arrangement with these advertising platforms, these advertising platforms are our customers and our performance obligation is to provide traffic service to these advertising platforms. Therefore, we recognize revenue based on the net amount as impressions or clicks are delivered.

Other Services

a. Agent and platform service

After the acquisition of the advertising agent in February 2018, we also provide agent and platform service by facilitating the advertising customers to select third-party advertising platforms to display their advertisements. We recognize revenue from the advertising customers based on the net amount equal to certain agreed percentage of the gross revenue earned by the third-party advertising platforms when impressions or clicks are successfully delivered.

b. Live streaming

In January 2019, we started operating our own live streaming platform. We generate revenue from sale of virtual items in the platform. Users can access the platforms and view the live streaming content showed by the performers for free. We share a portion of the sales proceeds of virtual items as revenue sharing fee with performers and talent agencies in accordance with their revenue sharing arrangements.

We evaluate and determine that we are the principal and view the users to be our customers. We report live streaming revenues on a gross basis. Accordingly, the amounts paid to users to purchase virtual items are recorded as revenues and revenue sharing fee paid to performers and talent agencies are recorded as cost of revenues. Where we are the principal, we control the virtual items before they are transferred to users. Our control is evidenced by our sole ability to monetize the virtual items before they are transferred to users, and is further supported by us being primarily responsible to users and having a level of discretion in establishing pricing.

We design, create and offer various virtual items for sale to users with pre-determined selling price. Users can purchase and present virtual items to performers to show support for their favorite performers and virtual items are consumed and used upon purchase. Accordingly, live streaming revenue is recognized immediately when virtual items are used. We do not have further obligations to the user after the virtual items are consumed immediately.

We may also enter into contracts that include various combinations of virtual items and privileges, such as priority to speak or special symbols, which are generally capable of being distinct and accounted for as separate performance obligations, such as the VIP member program. Judgments are required as follow: (1) determining whether those virtual items and privilege are considered distinct performance obligations that should be accounted for separately versus together, (2) determining the standalone selling price for each distinct performance obligation, and (3) allocation of the arrangement consideration to the separate accounting of each distinct performance obligation based on their relative standalone selling prices. In instances where standalone selling price is not directly observable as we do not sell the virtual item or privilege separately, we determine the standalone selling price based on pricing strategies, market factors and strategic objectives. We recognize revenue for each of the distinct performance obligations identified in accordance with the applicable revenue recognition method relevant for that obligation. For consumable virtual items, revenue is recognized immediately when the virtual item is used. For durable virtual items, revenue is recognized over the estimated user relationship periods. For the year ended December 31, 2019, the VIP membership program was not material.

c. Casual games

We generate revenues from offering virtual items in casual games developed by third parties to game players. Users play games on our various mobile applications free of charge and are charged for purchases of consumable virtual items, which can be utilized in the casual games to enhance their game-playing experience.

Pursuant to contracts signed between the respective game developers and us, although game developers own the copyrights and other intellectual property of the games, in general we control the games and take the main responsibilities to operate the games, maintain a functioning gaming environment for the players, set the pricing of virtual items, collect the in-game purchase payment from the players and share the revenue based on a pre-agreed scheme to the game developers. The users make the purchases in the games operated and managed by us and we provide the game services to the users. Accordingly, we are the principal in the arrangements. The revenues derived from these casual games are recorded on a gross basis and the amount paid to game developers are recorded as cost of revenue.

Casual games revenue is recognized immediately when the consumable virtual item is purchased and used. We do not have further obligations to the user after the virtual items are consumed immediately.

In addition, we sell the advertisement spots placed in the casual games to the advertisers and gets paid based on views or clicks. The advertisement price is negotiated and determined by us with a shared fee to be paid to the game developer. Similar to the advertising and marketing service provided to advertising customers described above, we are the principal in the arrangement and revenue is recognized on a gross basis as clicks or impressions are delivered with fees paid to game developers as cost of revenue.

d. Online marketplace service

We used to operate an online marketplace in which users could access merchandise offered by third-party merchandise suppliers. The suppliers were our customers as these suppliers were the primary obligor to provide goods and delivery service to the users and our performance obligation was to provide matching service for the suppliers. We acted as an agent in this transaction and recognized revenue when the matching service was completed. We ceased operation of the online marketplace in 2019.

User Loyalty Programs

We offer loyalty programs for registered users of our mobile applications *Qutoutiao* and *Midu Lite* to enhance user engagement and loyalty and incentivize word-of-mouth referrals. Through the programs, we give users loyalty points and in certain cases cash credits for taking specific actions. Such actions primarily include referring new users to register on *Qutoutiao* or *Midu Lite* or through the viewing or sharing of content, providing valuable comments and encouraging inactive users to continue to use *Qutoutiao* or *Midu Lite*. The cost of users' loyalty points is recognized as sales and marketing expenses in the consolidated statements of operations and comprehensive loss.

On *Qutoutiao* and *Midu Lite*, registered users can redeem earned loyalty points, which are in a form of cash credits reflecting the same amount of cash value, upon redemption. We offer our users the flexibility to choose a number of options to redeem loyalty points. The redemption options include (i) online cash out, when the cash credits balance exceeding a certain cash out threshold or at a lower cash out threshold if users logged onto *Qutoutiao* for a certain number of consecutive days and (ii) purchasing merchandise through the marketplace on *Qutoutiao*, which we ceased to operate in 2019. On *Midu Lite*, the loyalty program is operated in a similar manner as *Qutoutiao*.

We used to offer user loyalty program on *Quduopai*. Users could earn cash credits, reflecting the same amount of cash value, that they might cash out when the cash credits balance exceeded a certain threshold. Before April 9, 2018, users on *Quduopai* could also earn loyalty points, which could only be exchanged into coupons issued to us by a third-party that can then be used to purchase products or service on that third-party's group buying website. We did not recognize any expenses or liability for those loyalty points earned on *Quduopai* since we did not bear any additional cost to settle these loyalty points awarded to users before April 9, 2018. Starting from April 9, 2018, users on *Quduopai* who were not content providers could earn and redeem earned loyalty points, which was in a form of cash credits reflecting the same amount of cash value, upon request. Users could cash out the loyalty points when the cash credits balance exceeded a certain cash out threshold. All the outstanding loyalty points granted to users on *Quduopai* were converted to cash credits upon the enacting of the revised loyalty program in April 2018. In November 2018, as a result of changes to our business strategies, we announced the change of the loyalty program on *Quduopai*, and reversed the unused rewards under the original loyalty program amounted to RMB11.6 million in the consolidated statements of comprehensive loss. As of December 31, 2019, *Quduopai*'s loyalty program was no longer in place as we ceased its operation and the ending balance had been reduced to nil.

Our experience indicates that a certain portion of loyalty points is never redeemed by our registered users, which refers to as a "breakage." The liability accrued for the loyalty point is reduced by the estimated breakage that is expected to occur. We estimate breakage based upon analysis of relevant loyalty point history and redemption pattern as well as considering the expiration period of the loyalty points under our user agreements. When assessing breakage, each user's account is categorized into certain pools based on different ranges of outstanding loyalty points, and then further grouped into certain sub-groups on the basis of inactive days on our platform. The past loyalty point redemption pattern in those sub-groups was used to estimate the respective breakage for the outstanding loyalty points in each sub-group at each period end. For the years ended December 31, 2017, 2018 and 2019, total costs related to the users' loyalty points granted (before estimated breakage) amounted to RMB527.8 million, RMB2,207.8 million and RMB2,708.2 million (US\$389.0 million), respectively, and total loyalty points redeemed amounted to RMB245.0 million, RMB1,973.5 million and RMB2,514.8 million (US\$361.2 million), respectively. The increase in total costs related to the users' loyalty points granted and total loyalty points redeemed from 2017 to 2019 was primarily due to the growth of our user base and increase in the time spent by our users on our mobile applications. We also reversed the earned but unredeemed loyalty points of the users inactive for the period specified in accordance with our rewards clearance policies, which amounted to non-cash adjustments of nil, RMB196.3 million and RMB 293.5 million (US\$42.2 million) for the years ended December 31, 2017, 2018 and 2019, respectively, and recorded as a reduction of sales and marketing expense. As of December 31, 2017, 2018 and 2019, the total estimated breakage not accrued approximated to RMB113.7 million, RMB59.1 million and RMB36.5 million (US\$5.2 million), respectively. For the years ended December 31, 2017, 2018 and 2019, loyalty points consumed by purchasing the virtual items in live-streaming and casual games amounted to nil, nil and RMB18.0 million (US\$2.6 million), respectively. The consumption was recorded as a reduction of revenue.

Once the amount of accumulated unredeemed loyalty points for an individual user exceeds the cash out threshold or the continuous log-on criteria is reached, we reclassify the balance as registered users' loyalty payable in consolidated balance sheet as a monetary liability and reverses the amount of breakage originally assumed. The registered users' loyalty payable is derecognized only if (1) we pay the user and is relieved of its obligation for the liability by paying the users, including delivery of cash or (2) we are legally released from the liability.

The actual cost to settle the estimated liability may differ from the estimated liability recorded. As of December 31, 2018 and 2019, users' reward recorded as registered users' loyalty payable were RMB256.7 million and RMB134.1 million (US\$19.3 million), respectively, and estimated users' rewards recorded as accrued liabilities related to users' loyalty programs were RMB44.1 million and RMB89.2 million (US\$12.8 million), respectively.

Share-based Compensation

Share-based compensation costs are measured at the grant date. The share-based compensation expenses have been categorized as either cost of revenue, general and administrative expenses, selling and marketing expenses or research and development expenses, depending on the job functions of the grantees.

Option granted to employees

For the options granted to employees, the compensation expense is recognized using the straight-line method over the requisite service period. Forfeitures are estimated at the time of grant, with such estimate updated periodically and with actual forfeitures recognized currently to the extent they differ from the estimate. In determining the fair value of our share options, the binomial option pricing model has been applied.

Option granted to non-employee

For share-based awards granted to non-employees, we account for the related share-based compensation expenses in accordance with ASC 505-50, Equity-Based Payments to Non-Employees. Under the provision of ASC 505-50, our options issued to non-employees are measured based on fair value of the options which are determined by using the binomial option pricing model. These options are measured as of the earlier of the date at which either: (1) commitment for performance by the non-employee has been reached; or (2) the non-employee's performance is complete. Subsequent to the completion of the performance, the share-based award is assessed in accordance with ASC 815 to determine whether the award meets the definition of a derivative.

We also granted options under our share incentive plans to the employees of other companies controlled by one of our co-founders. Such companies have provided administrative services to us, and we pay a fee charged at market rate for the services received, so no compensation expense is recognized for these grants. The fair value of these options is recognized as dividends to the co-founder in full at grant date.

The binomial option pricing model is used to determine the fair value of the share options granted to employees and non-employees. The fair values of share options granted during the years ended December 31, 2017, 2018 and 2019 were estimated using the following assumptions:

	2017	2018	2019
Expected volatility ⁽¹⁾	51.61% ~ 52.41%	50.71% ~ 51.25%	49.92% ~ 50.65%
Risk-free interest rate ⁽²⁾	3.28% ~ 3.62%	2.83% ~ 3.15%	1.80% ~ 2.52%
Exercise multiple	2.8	2.8	2.8
Expected dividend yield ⁽³⁾	0.00%	0.00%	0.00%
Contractual term	10	10	10
Expected forfeiture rate (post-vesting)	0.00%	0.00% ~ 20.00%	0.00% ~ 20.00%
Fair value of the common share on the date of option grant (RMB)	8.44 ~ 23.98	122.52 ~ 153.23	94.96 ~ 310.64

(1) Expected volatility is estimated based on the average of historical volatilities of the comparable companies in the same industry as at the valuation dates.

- (2) The risk-free interest rate of periods within the contractual life of the share option is based on the market yield of the Chinese sovereign bond/U.S. government bond with a maturity life equal to the expected life to expiration.
- (3) We have no history or expectation of paying dividends on our ordinary shares.

Prior to the listing of our ADSs on the NASDAQ Global Select Market, determining the fair value of the share options required us to make complex and subjective judgments, assumptions and estimates, which involved inherent uncertainty. Had we used different assumptions and estimates, the resulting fair value of the share options and the resulting share-based compensation expenses could have been different.

The following table sets forth the fair value of options and ordinary shares estimated at the dates of option grants indicated below with the assistance from an independent valuation firm prior to our initial public offering:

Date of Options Grant	Options/ Restricted Shares Granted	Exercise Price	Fair Value of Option/ Restricted Shares	Fair Value of Ordinary Shares	Discount for Lack of Marketability	Discount Rate	Type of Valuations
March 31, 2017	187,837	US\$0.0001	US\$1.2241	US\$1.2242	20.0%	32.0%	Retrospective
June 30, 2017	636,277	US\$0.0001	US\$2.1158	US\$2.1159	17.0%	32.0%	Retrospective
September 30, 2017	1,052,377	US\$0.0001	US\$3.5987	US\$3.5988	16.0%	31.0%	Retrospective
January 3, 2018	15,937,500	—	US\$8.0401	US\$8.0401	14.0%	28.0%	Contemporaneous
February 28, 2018	2,004,725	US\$0.0001	US\$19.3517	US\$19.3518	13.5%	23.0%	Contemporaneous
March 31, 2018	137,685	US\$0.0001	US\$20.3320	US\$20.3321	13.0%	23.0%	Contemporaneous
June 30, 2018	750,610	US\$0.0001	US\$23.1428	US\$23.1429	8.0%	22.1%	Contemporaneous

On January 3, 2018, 15,937,500 ordinary shares beneficially owned by certain of our co-founders became restricted shares and were to be vested over periods from 24 months to 34 months starting from January 2018. This transaction has been reflected retrospectively similar to a reverse stock split, with a grant of the 15,937,500 restricted shares recognized in January 2018 at their fair value. All the remaining restricted shares were fully vested upon completion of our initial public offering in September 2018 and the associated and unrecognized share-based compensation expenses of RMB649.7 million were recorded. The total amount of share-based compensation expenses recorded related to these restricted shares granted were RMB864.7 million for the year ended December 31, 2018.

Prior to the listing of our ADSs on the NASDAQ Global Select Market, valuations of our ordinary shares were determined in accordance with the guidelines outlined in the American Institute of Certified Public Accountants' Practice Aid, Valuation of Privately-Held Company Equity Securities Issued as Compensation, and with the assistance of an independent appraisal firm from time to time. The assumptions we use in the valuation model are based on future expectations combined with management judgment, with inputs of numerous objective and subjective factors, to determine the fair value of our ordinary shares, including the following factors:

- our operating and financial performance;
- current business conditions and projections;
- our stage of development;
- the prices, rights, preferences and privileges of our convertible preferred shares relative to our ordinary shares;
- the likelihood of occurrence of liquidity event or redemption event;
- any adjustment necessary to recognize a lack of marketability for our ordinary shares; and
- the market performance of industry peers.

In order to determine the fair value of our ordinary shares underlying each share-based award grant, we first determined our business enterprise value, or BEV, and then allocated the BEV to each element of our capital structure (convertible preferred shares and ordinary shares) using a hybrid method comprising the probability-

weighted expected return method and the option pricing method. In our case, three scenarios were assumed, namely: (i) the liquidation scenario, in which the option pricing method was adopted to allocate the value between convertible preferred shares and ordinary shares, and (ii) the redemption scenario, in which the option pricing method was adopted to allocate the value between convertible preferred shares and ordinary shares, and (iii) the mandatory conversion scenario, in which equity value was allocated to convertible preferred shares and ordinary shares on an as-if converted basis. Increasing probability was assigned to the mandatory conversion scenario during 2017 and 2018 in light of preparations for our initial public offering.

In determining the fair value of our BEV, we applied the income approach/discounted cash flow, or DCF, analysis based on our projected cash flow using management's best estimate as of the valuation date. The determination of the fair value of our ordinary shares requires complex and subjective judgments to be made regarding our projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of valuation.

Results of Operations

The following tables set forth a summary of our consolidated results of operations for the years presented, in absolute amount and as a percentage of our revenues. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The operating results in any year are not necessarily indicative of the results that may be expected for any future period.

	Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
(in thousands, except for percentages, share and per share data)				
Revenues(1):				
Advertising and marketing revenues	512,883	2,814,258	5,415,321	777,862
Other revenue	4,170	207,888	154,760	22,230
Net revenues	517,053	3,022,146	5,570,081	800,092
Cost of revenues(2)	(76,481)	(503,613)	(1,640,632)	(235,662)
Gross profit	440,572	2,518,533	3,929,449	564,430
Operating expenses(2):				
Research and development expenses	(15,317)	(270,108)	(926,232)	(133,045)
Sales and marketing expenses	(494,724)	(3,250,038)	(5,489,708)	(788,547)
General and administrative expenses	(25,947)	(980,725)	(267,033)	(38,357)
Total operating expenses	(535,988)	(4,500,871)	(6,682,973)	(959,949)
Other operating income	—	725	30,292	4,351
Loss from operations(3)	(95,416)	(1,981,613)	(2,723,232)	(391,168)
Interest income	674	27,087	48,440	6,958
Interest expense	—	—	(26,878)	(3,861)
Foreign exchange related gains, net	—	4,134	1,869	268
Investment income	—	4,215	6,327	909
Other income/(expenses), net	(17)	(69)	9,049	1,300
Loss before income taxes	(94,760)	(1,946,247)	(2,684,425)	(385,594)
Income tax benefit/(expense)	—	401	(4,843)	(695)
Net loss	(94,760)	(1,945,846)	(2,689,268)	(386,289)
Net loss attributable to non-controlling interests	—	3,275	587	84
Net loss attributable to Qutoutiao Inc.	(94,760)	(1,942,572)	(2,688,681)	(386,205)
Accretion to convertible redeemable preferred shares redemption value	(6,012)	(101,807)	—	—
Accretion to redemption value of convertible redeemable preferred shares interests of a subsidiary	—	(978)	(20,548)	(2,951)
Gains on repurchase of convertible redeemable preferred shares	—	18,332	—	—
Deemed dividend to preferred shareholders	—	(1,917)	—	—
Net loss attributable to Qutoutiao Inc.'s ordinary shareholders	(100,772)	(2,028,941)	(2,709,229)	(389,156)
Net loss	(94,760)	(1,945,846)	(2,689,268)	(386,289)
Other comprehensive income/(loss)				
Foreign currency translation adjustment, net of nil tax	25	(16,454)	(1,505)	(216)
Total comprehensive loss	(94,735)	(1,962,300)	(2,690,773)	(386,505)
Comprehensive loss attributable to non-controlling interests	—	3,275	587	84
Comprehensive loss attributable to Qutoutiao Inc.	(94,735)	(1,959,025)	(2,690,186)	(386,421)
Net loss per share attributable to Qutoutiao Inc.'s ordinary shareholders(4)				
— Basic and diluted	(3.95)	(52.69)	(39.41)	(5.66)
Weighted average number of ordinary shares used in per share calculation:(4)(5)				
— Basic and diluted	25,542,031	38,507,184	68,749,981	68,749,981

(1) Revenues from transactions with related parties are set forth below for the periods indicated:

	Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
	(in thousands)			
Advertising and marketing revenue	—	17,447	473,216	67,973
Other revenue	—	29,597	—	—

- (2) Cost of revenues and operating expenses from transactions with related parties are set forth below for the periods indicated:

	Year Ended December 31,					
	2017		2018		2019	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Cost of revenues	484	0.1	6,020	0.2	42,412	6,092
Research and development expenses	220	0.0	—	—	—	—
Sales and marketing expenses	950	0.2	23,671	0.8	3,284	472
General and administrative expenses	15,134	2.9	—	—	—	—

- (3) We recognized share-based compensation expenses of RMB3.4 million, RMB951.6 million and RMB272.0 million (US\$39.1 million) in 2017, 2018 and 2019, respectively. Share-based compensation expenses in 2018 included RMB864.7 million that relates to certain ordinary shares beneficially owned by certain of our co-founders that became restricted pursuant to share restriction deeds entered into by them in January 2018 and fully vested upon completion of our initial public offering in September 2018.
- (4) The net loss per share for the years ended December 31, 2017 and 2018 has been revised to correct for an immaterial error related to the calculations of basic loss per share due to a failure to include the contingently issuable shares related to options exercisable for a minimal exercise price of RMB0.0007 in the denominator of basic loss per share once there were no further vesting conditions or contingencies associated with them. Accordingly, the basic and diluted net loss per share was revised from RMB4.19 to RMB3.95 and RMB57.97 to RMB52.69 for the years ended December 31, 2017 and 2018. The weighted average number of ordinary shares used in the computation of basic and diluted net loss per share was revised from 24,062,500 to 25,542,031 and 35,000,472 to 38,507,184 for the years ended December 31, 2017 and 2018.
- (5) The number of ordinary shares used in the per share calculation does not include the ordinary shares held by our equity incentive trusts, which, although legally issued and outstanding, are accounted for as treasury shares and as a result, are not deemed as outstanding from an accounting perspective. See “Item 6. Directors, Senior Management and Employees—B. Compensation—Equity Incentive Trusts.”

Comparison of Year Ended December 31, 2019 and Year Ended December 31, 2018

Revenues. Our net revenues increased from RMB3,022.1 million in 2018 to RMB5,570.1 million (US\$800.1 million) in 2019 primarily due to an increase in our advertising and marketing revenues from RMB2,814.3 million in 2018 to RMB5,415.3 million (US\$777.9 million) in 2019 and a decrease in our other revenue from RMB207.9 million in 2018 to RMB154.8 million (US\$22.2 million) in 2019. Increase in our advertising and marketing revenues was primarily due to increases in our user base and time spent by our users on our mobile applications, our enhanced ability to monetize user traffic and our business expansion in advertising, and, to a lesser extent, launch of our new integrated and customized marketing solution services to our customers in May 2019. Decrease in our other revenue was primarily due to the decrease of revenues from agent services, partially offset by the increase of revenues from live-streaming, and, to a lesser extent, revenues from games and Midu’s membership service.

Cost of Revenues. Our cost of revenues increased from RMB503.6 million in 2018 to MB1,640.6 million (US\$235.7 million) in 2019 primarily due to the continued growth of our business. Share-based compensation expenses recognized in cost of revenues increased from RMB5.7 million in 2018 to RMB6.2 million (US\$0.9 million) in 2019. Cost of revenues as a percentage of our net revenues increased from 16.7% in 2018 to 29.5% in 2019 primarily due to (i) increased advertising and marketing services costs retained by the third-party advertising agents,

and costs paid to suppliers or vendors for the tailored marketing services, (ii) increased content procurement costs in the year ended December 31, 2019 as compared to the year ended December 31, 2018, (iii) increased salaries and benefits paid which were associated with an increase in the number of employees responsible for content review and management in 2019 and (iv) increased bandwidth costs due to increase in our MAUs and DAUs as well as our emphasis on short videos which consume more bandwidth than articles.

Gross Profit. Our gross profit increased from RMB2,518.5 million in 2018 to RMB3,929.4 million (US\$564.4 million) in 2019. Gross margin decreased from 83.3% in 2018 to 70.5% in 2019 primarily due to the increase of information technology infrastructure cost as a result of us enriching our product offerings to include more engaging contents such as short videos, casual games and live-streaming.

Operating Expenses. Our total operating expenses increased from RMB4,500.9 million in 2018 to RMB6,683.0 million (US\$959.9 million) in 2019.

- Research and development expenses. Our research and development expenses increased from RMB270.1 million in 2018 to RMB926.2 million (US\$133.0 million) in 2019. The increase was primarily due to an increase in our researcher headcount as part of our continued research and development efforts to enhance our technological capability, more specifically, our AI-based content recommendation technology. Share-based compensation expenses recognized in research and development expenses increased from RMB29.6 million in 2018 to RMB138.8 million (US\$19.9 million) in 2019. Research and development expenses as a percentage of our net revenues increased from 8.9% in 2018 to 16.6% in 2019.
- Sales and marketing expenses. Our sales and marketing expenses increased from RMB3,250.0 million in 2018 to RMB5,489.7 million (US\$788.5 million) in 2019. The increase was primarily due to increase in user engagement expenses, user acquisition expenses and other sales and marketing expenses.

User engagement expenses increased from RMB1,482.5 million in 2018 to RMB2,137.8 million (US\$307.1 million) in 2019, primarily due to our enlarged user base. User engagement expenses as a percentage of net revenues decreased from 49.1% in 2018 to 38.4% in 2019, primarily due to our continued efforts in optimizing our user engagement expenses and the absence of such expenses for certain of our mobile applications.

User acquisition expenses increased significantly from RMB1,637.3 million in 2018 to RMB2,932.4 million (US\$421.2 million) in 2019, which was primarily driven by our continued strategic investments in enlarging user base.

Other sales and marketing expenses increased significantly from RMB130.2 million in 2018 to RMB419.5 million (US\$60.2 million) in 2019, primarily due to (i) an increase in brand campaigns and promotions as we continued to strengthen our brand recognition and (ii) an increase in share-based compensation expenses from RMB9.5 million in 2018 to RMB45.0 million (US\$6.5 million) in 2019.

The result of the foregoing contributed to a decrease in sales and marketing expenses as a percentage of our net revenues from 107.5% in 2018 to 98.6% in 2019.

- General and administrative expenses. Our general and administrative expenses decreased from RMB980.7 million in 2018 to RMB267.0 million (US\$38.4 million) in 2019. This decrease was primarily due to a decrease in share-based compensation expenses recognized from RMB906.8 million in 2018 to RMB82.0 million (US\$11.8 million) in 2019, as we incurred significant share-based compensation expense in 2018 related to certain ordinary shares beneficially owned by certain co-founders that became restricted pursuant to share restriction deeds entered into in January 2018 and fully vested upon completion of our initial public offering in September 2018. This also contributed to a decrease in general and administrative expenses as a percentage of our net revenues from 32.5% in 2018 to 4.8% in 2019. Excluding share-based compensation expenses, general and administrative expenses were RMB185.1 million (US\$26.6 million) in 2019, representing an increase of 150.2% year-over-year, mainly due to an increase in personnel related expenses as our business continued to grow at a faster pace than the overall Chinese advertising industry.

Other operating income. Our other operating income increased significantly from RMB0.7 million in 2018 to RMB30.3 million (US\$4.4 million) in 2019, primarily due to the increase in our tax deduction as a result of a new

tax regulation effective on April 1, 2019. As this is a special VAT super deduction related to amounts generated from our operations, the deduction is included as other operating income.

Interest income. Our interest income increased from RMB27.1 million in 2018 to RMB48.4 million (US\$7.0 million) in 2019 due to an increase in our fixed deposit.

Interest expense. Our interest expense increased from nil in 2018 to RMB26.9 million (US\$3.9 million) in 2019, primarily due to incurrence of the interest expense associated with the Convertible Loan advanced by Alibaba, which will be paid upon maturity or otherwise be waived in case of conversion.

Foreign exchange related gains/(losses), net. We recognized foreign exchange related gains/losses, net, of RMB4.1 million in 2018 and RMB1.9 million (US\$0.3 million) in 2019.

Investment income. Our investment income increased from RMB4.2 million in 2018 to RMB6.3 million (US\$0.9 million) in 2019 due to an increase in the wealth management products.

Other income/(expenses), net. We recorded other expenses of RMB69.2 thousand in 2018 and other income of RMB9.0 million (US\$1.3 million) in 2019.

Income tax benefit/(expense). We did not incur any income tax expenses in 2018 due to tax loss status. We recorded income tax expense of RMB4.8 million (US\$0.7 million) in 2019.

Net loss attributable to non-controlling interests. Net loss attributable to non-controlling interests represents a subsidiary's cumulative result of operation in deficit attribute to non-controlling shareholders. We recorded net loss attributable to non-controlling interests of RMB3,274.5 thousand in 2018 and RMB587.1 thousand (US\$84.3 thousand) in 2019.

Net loss attributable to Qutoutiao Inc. As a result of the foregoing, our net loss attributable to Qutoutiao Inc. increased from RMB1,942.6 million in 2018 to RMB2,688.7 million (US\$386.2 million) in 2019.

Non-GAAP net loss attributable to Qutoutiao Inc. Non-GAAP net loss attributable to Qutoutiao Inc., which represents net loss attributable to Qutoutiao Inc. before share-based compensation expenses, increased from RMB990.9 million in 2018 to RMB2,416.7 million (US\$347.1 million) in 2019.

Comparison of Year Ended December 31, 2018 and Year Ended December 31, 2017

Revenues. Our net revenues increased from RMB517.1 million in 2017 to RMB3,022.1 million in 2018 primarily due to an increase in our advertising and marketing revenues from RMB512.9 million in 2017 to RMB2,814.3 million in 2018 and an increase in our other revenue from RMB4.2 million in 2017 to RMB207.9 million in 2018. Increase in our advertising and marketing revenues was primarily due to increases in our user base, time spent by our users on our mobile applications and our ability to monetize user traffic. Increase in other revenue was driven by the expanding scale and the increasing sophistication of our advertising platform.

Cost of Revenues. Our cost of revenues increased from RMB76.5 million in 2017 to RMB503.6 million in 2018 primarily due to the continued growth of our business. Share-based compensation expenses recognized in cost of revenues increased from RMB0.9 million in 2017 to RMB5.7 million in 2018. Cost of revenues as a percentage of our net revenues increased from 14.8% in 2017 to 16.7% in 2018 primarily due to (i) increased content procurement costs in 2018 as compared to when we primarily sourced content from publicly available sources in 2017, (ii) increased salaries and benefits paid associated with an increase in the number of employees responsible for content review and management in 2018 and (iii) increased bandwidth costs due to increase in our MAUs and DAUs as well as our emphasis on short videos which consume more bandwidth than articles.

Gross Profit. Our gross profit increased from RMB440.6 million in 2017 to RMB2,518.5 million in 2018. Gross margin decreased from 85.2% in 2017 to 83.3% in 2018.

Operating Expenses. Our total operating expenses increased from RMB536.0 million in 2017 to RMB4,500.9 million in 2018.

- *Research and development expenses.* Our research and development expenses increased from RMB15.3 million in 2017 to RMB270.1 million in 2018. The increase was primarily due to our increased research and development efforts to enhance the technological capability of our platform that has resulted in the number of our research and development personnel. Share-based compensation expenses recognized in research and development expenses increased from RMB1.3 million in 2017 to RMB29.6 million in 2018. Research and development expenses as a percentage of our net revenues increased from 3.0% in 2017 to 8.9% in 2018.
- *Sales and marketing expenses.* Our sales and marketing expenses increased from RMB494.7 million in 2017 to RMB3,250.0 million in 2018. This was primarily due to increase in cost of users' loyalty points associated with our user loyalty programs from RMB419.6 million in 2017 to RMB2,080.7 million in 2018, representing 81.2% and 68.8% of our net revenues in 2017 and 2018, respectively. Decrease in cost of users' loyalty points as a percentage of our net revenues was primarily due to enhanced efficiency in acquiring and engaging users through our user loyalty programs, increase in our ability to monetize our user base and the effect of the reversal for the cleared rewards of users inactive for 90 consecutive days amounted to RMB196.3 million in our user loyalty program, which was partially offset by the decrease of breakage amounted to RMB59.1 million due to the lower cash out threshold. Increase in our sales and marketing expenses was also due to increase in advertising and marketing expenses on other channels to acquire users and to promote brand awareness from RMB41.9 million in 2017 to RMB1,061.0 million in 2018, representing 8.1% and 35.1% of our net revenues in 2017 and 2018, respectively. Share-based compensation expenses recognized in sales and marketing expenses increased from RMB0.9 million in 2017 to RMB9.5 million in 2018. The result of the foregoing contributed to an increase in sales and marketing expenses as a percentage of our net revenues from 95.7% in 2017 to 107.5% in 2018.
- *General and administrative expenses.* Our general and administrative expenses increased from RMB25.9 million in 2017 to RMB980.7 million in 2018. This increase was primarily due to increase in share-based compensation expenses recognized from RMB181.3 thousand in 2017 to RMB906.8 million in 2018, which was primarily due to RMB864.7 million in share-based compensation expense recognized in 2018 related to certain ordinary shares beneficially owned by certain of our co-founders that became restricted pursuant to share restriction deeds entered into by them in January 2018 and fully vested upon completion of our initial public offering in September 2018. This also primarily led to an increase in general and administrative expenses as a percentage of our net revenues from 5.0% in 2017 to 32.5% in 2018.

Interest income. Our interest income increased from RMB0.7 million in 2017 to RMB31.3 million in 2018, primarily due to an increase in the average amount of our cash and cash equivalents as a result of the issuance of Series B1, B2 and B3 convertible redeemable preferred shares and the completion of our initial public offering in 2018 that increased our cash and cash equivalents.

Foreign exchange related gains, net. We recognized foreign exchange related gains, net, of RMB4.1 million in 2018. We did not recognize such gain in 2017.

Investment income. Our investment income increased from nil in 2017 to RMB4.2 million in 2018.

Other income/(expenses), net. We recorded other expenses, net, of RMB17.2 thousand in 2017 and RMB69.2 thousand in 2018.

Income tax benefit/(expense). We did not incur any income tax expenses in either 2017 or 2018 due to tax loss status. We recorded income tax benefit of RMB401 thousand in 2018.

Net loss attributable to non-controlling interests. Net loss attributable to non-controlling interests represents our oversea subsidiary's cumulative result of operation in deficit attribute to non-controlling shareholders.

Net loss attributable to Qutoutiao Inc. As a result of the foregoing, our net loss attributable to Qutoutiao Inc. increased from RMB94.8 million in 2017 to RMB1,942.6 million in 2018.

Non-GAAP net loss attributable to Qutoutiao Inc. Non-GAAP net loss attributable to Qutoutiao Inc., which represents net loss attributable to Qutoutiao Inc. before share-based compensation expenses, increased from RMB91.4 million in 2017 to RMB990.9 million in 2018.

Recent Accounting Pronouncements

A list of recently adopted and recently issued accounting pronouncements that are relevant to us is included in Note 2(ah) and Note 2(ai) to our audited consolidated financial statements included elsewhere in this annual report.

B. Liquidity and Capital Resources

In September 2018, we completed our initial public offering in which we issued and sold an aggregate of 13,800,000 ADSs (including 1,800,000 ADSs sold upon the full exercise of the underwriters' option to purchase additional ADSs), representing 3,450,000 Class A ordinary shares, at a price of US\$7.00 per ADS. The net proceeds raised from the initial public offering were US\$85.8 million after deducting underwriting discounts and commissions and the offering expenses payable by us.

On March 28, 2019, we and Alibaba entered into a convertible loan agreement, pursuant to which Alibaba advanced aggregate principal amount approximately US\$171.1 million to us on April 4, 2019. The Convertible Loan is convertible into our Class A ordinary shares at Alibaba's option (i) on or after the date falling 240 calendar days after the date of the agreement, which has been extended to 422 calendar days pursuant to a supplemental agreement we entered into with Alibaba in October 2019 and further extended to 605 calendar days pursuant to a supplemental agreement entered into in March 2020, or (ii) upon the occurrence of an event of default at a conversion price of US\$60 per share, equivalent to US\$15 per ADS, subject to adjustment under the terms of the agreement. Upon full conversion of the Convertible Loan, we will issue 2,850,849 Class A ordinary shares to Alibaba, representing approximately 4.0% of the total number of outstanding shares as of the date hereof. The Convertible Loan bears interest at the rate of 3.0% per year, which will be waived in case of conversion or payable at maturity. The Convertible Loan is unsecured and unsubordinated and will mature on April 4, 2022, unless previously repaid or converted in accordance with their terms prior to such date. The convertible loan agreement contains certain covenants, restrictions and events of default on our activities, including, but not limited to, limitations on the incurrence of additional indebtedness; dividends or other distributions in cash or cash equivalents; and mergers, consolidations or the sale of all or substantially all of our assets.

In April 2019, we completed a follow-on public offering of an aggregate of 10,000,000 ADSs, comprising 3,327,868 ADSs issued and sold by us, representing 831,967 Class A ordinary shares, and 6,672,132 ADSs sold by certain selling shareholders, at a price of US\$10.00 per ADS. We raised approximately US\$31.0 million in net proceeds, after deducting underwriting discounts and commissions and offering expenses payable by us. We did not receive any of the proceeds from the sale of ADSs by the selling shareholders.

On September 27, 2019, we issued an aggregate of 1,480,123 Class A ordinary shares to Haitong International Investment Solutions Limited pursuant to various agreements entered into between us, Shanghai Dongfang Newspaper Co., Ltd. and its subsidiaries, or collectively, The Paper, and certain other parties, and received proceeds of US\$20.4 million.

In November 2018, Fun Literature Limited, our subsidiary, entered into preferred share purchase agreements with certain third party investors to issue 3,763,440 shares of series A redeemable convertible preferred shares at the price of US\$3.72 per share for an aggregate issuance price of US\$14.0 million. In March 2019, Fun Literature entered certain preferred share purchase agreement with a new third party investor to issue 1,097,212 series A redeemable preferred shares at the price of US\$3.72 per share for an aggregate issuance price of US\$4.0 million.

On September 24, 2019, Fun Literature Limited completed a series B financing of US\$100 million, which was led by CMC Capital and followed by us. CMC Capital subscribed 8,794,703 series B preferred shares at a price of US\$5.69 per share for a total cash consideration of US\$50 million.

In January 2020, one of our wholly owned subsidiaries subscribed 1,500 non-redeemable Class C participating shares of a segregated portfolio in an investment fund at US\$10,000 per share totaling US\$15.0 million. The fund's segregated portfolio for this class pursues multiple strategies to diversify risks, reduce volatility and look for capital appreciation for investments into a range of financial products, instruments and securities. The investment cannot be redeemed for two years after subscription and the directors of the fund can extend the non-redemption period for another year following the two years.

We have incurred losses from operations since inception. We incurred net losses of RMB94.8 million, RMB1,945.8 and RMB2,689.3 million (US\$386.3 million) for the years ended December 31, 2017, 2018 and 2019, respectively. Accumulated deficit amounted to RMB2,153.2 million and RMB4,862.5 million (US\$698.4 million) as of December 31, 2018 and 2019, respectively. Net cash generated from operating activities was approximately RMB132.2 million for the year ended December 31, 2017, and net cash used in operating activities was approximately RMB434.8 million and RMB2,367.3 million (US\$340.0 million) for the years ended December 31, 2018 and 2019, respectively. As of December 31, 2018 and 2019, our working capital was RMB1,515.1 million and RMB816.5 million (US\$117.3 million), respectively. As of December 31, 2019, we had cash and cash equivalent of RMB347.8 million (US\$50.0 million), restricted cash of RMB27.9 million (US\$4.0 million) and short-term investments of RMB1,276.8 million (US\$183.4 million), and total current and long-term liabilities of RMB1,875.7 million (US\$269.4 million) and RMB3,149.7 million (US\$452.4 million), respectively.

Though we had net cash used in operating activities for the years ended December 31, 2018 and 2019, our liquidity has historically been sufficient to meet our working capital and capital expenditure requirements as a result of the above mentioned financing activities.

Our consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on our ability to reduce cash used in operating activities and adjust the pace of our operation expansion and control of the related expense to fund our general operations and capital expansion needs.

Our ability to continue as a going concern is dependent on management's ability to successfully execute our business plan, which includes adjusting the pace of our operation expansion and controlling operating cost and expenses to reduce the cash used in operating cash flows. To implement the plans, we will enhance user engagement and retention by offering higher quality and diversified contents while closely control the content costs with more selective content acquisition and better leverage of existing content varieties, and continue to optimize the user loyalty programs and the traffic acquisition strategy to efficiently control and reduce these user related costs. We will further preserve liquidity and manage cash flows by reducing discretionary expenditure including advertising expenses and general and administrative expenses.

Management has concluded, after giving consideration to our plans as noted above, that they have alleviated the substantial doubt as to our ability to continue as a going concern and believes we have sufficient cash and other financial resources and liquidity to fund our operations for one year from the date of this annual report, and that there is no substantial doubt about our ability to continue operations as a going concern for that one-year period.

We may, however, need additional cash resources in the future if we experience changes in business condition or other developments, or if we find and wish to pursue opportunities for investments, acquisitions, capital expenditures or similar actions. If we determine that our cash requirements exceed the amount of cash and cash equivalents we have on hand at the time, we may seek to issue equity or debt securities or obtain credit facilities. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

The following table sets forth a summary of our cash flows for the years indicated:

	Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
	(in thousands)			
Selected Consolidated Cash Flows Data:				
Net cash provided by/(used in) operating activities	132,226	(434,765)	(2,367,295)	(340,041)
Net cash used in investing activities	(121,919)	(72,493)	(1,224,152)	(175,838)
Net cash provided by financing activities	272,121	2,298,044	1,768,001	253,957
Net increase/(decrease) in cash, cash equivalents and restricted cash	282,428	1,790,787	(1,823,445)	(261,922)
Effect of exchange rate changes on cash and cash equivalents	(4,239)	117,043	12,846	1,845
Cash, cash equivalents and restricted cash at beginning of the year	269	278,458	2,186,288	314,041
Cash, cash equivalents and restricted cash at the end of the year	278,458	2,186,288	375,689	53,964

Operating Activities

Net cash used in operating activities was RMB2,367.3 million (US\$340.0 million) in 2019, primarily due to net loss of RMB2,689.3 million (US\$386.3 million), adjusted for (i) share-based compensation of RMB272.0 million (US\$39.1 million), (ii) non-cash operating lease expense of RMB43.5 million (US\$6.3 million), (iii) interest expenses of RMB26.9 million (US\$3.9 million) and (iv) changes in assets and liabilities, net of impact of acquisition. Changes in assets and liabilities, net of impact of acquisition primarily consisted of (i) an increase in accounts receivable of RMB322.8 million (US\$46.4 million), (ii) an increase in amount due from related parties of RMB278.2 million (US\$40.0 million) and (iii) a decrease in registered users' loyalty payable of RMB122.5 million (US\$17.6 million), which was partially offset by (i) an increase in accounts payable of RMB197.0 million (US\$28.3 million) and (ii) an increase in accrued liabilities and other current liabilities of RMB392.1 million (US\$56.3 million).

Net cash used in operating activities was RMB434.8 million in 2018, primarily due to net loss of RMB1,945.8 million, adjusted for (i) share-based compensation of RMB951.6 million and (ii) depreciation of RMB4.3 million and (iii) changes in working capital. Adjustment for changes in working capital primarily consisted of (i) a decrease in accrued liabilities related to user loyalty programs of RMB142.9 million due to change in the threshold as to when registered users can redeem loyalty points to withdraw cash from his/her accounts and (ii) an increase in accounts receivables of RMB160.7 million, which was partially offset by (i) an increase in registered users' loyalty payable of RMB235.7 million due to our continued efforts to increase user acquisition and engagement and change in the threshold as to when registered users can redeem loyalty points to withdraw cash from his/her accounts, (ii) increase in advances from advertising customers of RMB113.1 million due to an increase in advance payment by advertising customers for our advertising solution, (iii) an increase in accrued liabilities and other current liabilities of RMB354.0 million and (iv) an increase in accounts payable of RMB115.9 million.

Net cash provided by operating activities was RMB132.2 million in 2017, primarily due to net loss of RMB94.8 million, adjusted for (i) share-based compensation of RMB3.4 million and (ii) depreciation of RMB0.3 million and (iii) changes in working capital. Adjustment for changes in working capital primarily consisted of (i) an increase in accrued liabilities related to user loyalty programs of RMB162.5 million due to our continued efforts to increase user acquisition and engagement, (ii) an increase in advances from advertising customers of RMB39.1 million due to an increase in advance payment by advertising customers for our advertising solution, (iii) an increase in registered users' loyalty payable of RMB20.0 million, (iv) an increase in tax payable of RMB19.9 million and (v) an increase in accrued liabilities and other current liabilities of RMB19.3 million, which was partially offset by (i) an increase in accounts receivables of RMB32.1 million relating to the continued growth of our advertising services and (ii) an increase in prepayments and other current assets of RMB13.8 million.

Investing Activities

Net cash used in investing activities was RMB1,224.2 million (US\$175.8 million) in 2019, which were primarily attributable to (i) purchase of short-term investments of RMB2,454.6 million (US\$352.6 million), (ii) purchase of equity investments of RMB37.6 million (US\$5.4 million) and (iii) purchase of property and equipment mainly comprising investments in information technology infrastructure of RMB21.3 million (US\$3.1 million), partially offset by proceeds from maturity of short-term investments of RMB1,294.4 million (US\$185.9 million).

Net cash used in investing activities was RMB72.5 million in 2018, which were primarily attributable to (i) purchase of short-term investments of RMB4,164.0 million, (ii) prepayment made related to the purchase of intangible assets of RMB72.1 million, (iii) cash paid for acquisition, net of cash acquired of RMB10.7 million related to our acquisition of Shanghai Dianguan and (iv) purchase of property and equipment of RMB14.9 million, which was partially offset by proceeds from maturity of short-term investments of RMB4,189.1 million.

Net cash used in investing activities was RMB121.9 million in 2017, which was primarily attributable to (i) purchase of short-term investments of RMB539.4 million in time deposits and money market funds and (ii) purchase of property and equipment and intangible assets of RMB4.5 million, which was partially offset by proceeds from maturity of short-term investments of RMB422.0 million.

Financing Activities

Net cash provided by financing activities was RMB1,768.0 million (US\$254.0 million) in 2019, which was primarily attributable to proceeds from the Convertible Loan advanced by Alibaba, proceeds from Midu's series B financing, and the proceeds from the follow-on public offering, net of issuance costs, partially offset by payment for repurchase of ordinary shares.

Net cash provided by financing activities was RMB2,298.0 million in 2018, which was primarily attributable to proceeds from the issuance of Class A ordinary shares in connection with our initial public offering and issuance of Series B1, B2, B3 and C1 convertible redeemable preferable shares, net of issuance costs, partially offset by cash paid for initial public offering related costs.

Net cash provided by financing activities was RMB272.1 million in 2017, which was primarily attributable to proceeds from the issuance of Series A and Series A-1 convertible redeemable preferable shares, net of issuance costs.

Capital Expenditures

We made capital expenditures of RMB85.9 million and RMB26.3 million (US\$3.8 million) in 2018 and 2019, respectively. Our capital expenditures were mainly used for purchases of property and equipment. The decrease in capital expenditures from 2018 to 2019 was primarily due to the decrease of purchase of intangible assets, partially offset by the increase of investments in information technology infrastructure, such as computers. We will continue to make capital expenditures to meet the expected growth of our business.

Commitments

Please refer to “—F. Tabular Disclosure of Contractual Obligations.”

Holding Company Structure

Qutoutiao Inc. is a holding company with no material operations of its own. We conduct our operations through our subsidiaries, consolidated VIEs and their subsidiaries in China. As a result, Qutoutiao Inc.'s ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries, our consolidated VIEs and their subsidiaries in China are required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until

such reserve funds reach 50% of its registered capital. In addition, our wholly foreign-owned subsidiaries in China and our consolidated VIEs and their subsidiaries may allocate a portion of their after-tax profits based on PRC accounting standards to a discretionary surplus fund at their discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our PRC subsidiaries have not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

C. Research and Development

We have focused on and will continue to invest in our technology system, including (i) enhancing our content recommendation engine, (ii) optimizing our advertising solution by improving our real-time predictive click-through rate model and offering superior user targeting, and (iii) enhancing our content management and delivery capabilities through increased adoption of artificial intelligence based technology and greater level of automation to achieve higher operational efficiency and scalability.

Our research and development expenses were RMB15.3 million, RMB270.1 million and RMB926.2 million (US\$133.0 million) in 2017, 2018 and 2019, respectively.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2019 that are reasonably likely to have a material effect on our total net revenues, income, profitability, liquidity or capital reserves, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's 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 any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

F. Tabular Disclosure of Contractual Obligations

The following table set forth our contractual obligations as of December 31, 2019:

	Total		Payment due by period			
			Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	RMB	US\$	RMB			
	(in thousands)					
Operating lease obligations	68,184	9,794	40,700	27,484	—	—
Content fee	229,725	32,998	162,995	66,730	—	—
Capital and other commitments	54,257	7,793	53,809	448	—	—
Total	352,166	50,585	257,504	94,662	—	—

G. Safe Harbor

See “Forward-Looking Statements.”

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

Name	Age	Position/Title
Eric Siliang Tan	40	Co-founder, chairman and chief executive officer
Lei Li	36	Co-founder and vice chairman
Feng Li	44	Independent director
James Jun Peng	45	Independent director
Yongbo Dai	38	Director
Jianfei Dong	38	Director and co-president
Oliver Yucheng Chen	40	Director
Xiaolu Zhu	36	Chief financial officer
Sihui Chen	35	Co-founder and chief operating officer
Zhiliang Wang	36	Co-founder and chief technology officer
Guanqiang Feng	31	Co-president
Binjie Zhu	35	Vice president

Mr. Eric Siliang Tan is our co-founder, chairman of board of directors and chief executive officer. Mr. Tan has more than 14 years of experience in the Internet industry and serial entrepreneurship experiences. Mr. Tan served as chief executive officer of AdIn Media (Shanghai) Co., Ltd. from 2013 to 2018, an advertising technology company he founded in 2013, which was acquired in 2015 by Wutong Holding Group Co., Ltd., a company listed on Shenzhen Stock Exchange. Prior to that, Mr. Tan was head of advertising solutions of Shanghai Shengyue Advertising Co., Ltd., a subsidiary of SNDA Interactive Entertainment Limited from 2010 to 2013, in charge of developing open Internet advertising platform. Previously, Mr. Tan served at Wealink.com, an Internet recruiting company, as chief technology officer from 2008 to 2009, and at 51.com, an online game company, as engineering manager in 2008. Mr. Tan worked at Yahoo! China, with his last position as senior engineer, from 2006 to 2008. Mr. Tan graduated from Tsinghua University with a bachelor of engineering degree in automation in 2002. Mr. Tan graduated from Chinese Academy of Sciences with master of engineering degree in artificial intelligence in 2006.

Mr. Lei Li is our co-founder and vice chairman of board of directors. Mr. Li has over twelve years of product experience in the Internet industry. Mr. Li served as our chief executive officer from August 2018 to May 2019. Prior to co-founding our company, Mr. Li worked at Anhui Aoding Information Technology Co., Ltd., a subsidiary of AdIn Media (Shanghai) Co., Ltd., from 2013 to 2015, with his last position as director of product engineering. Prior to that, Mr. Li served as director of advertising solutions of Shanghai Shengyue Advertising Co., Ltd., a subsidiary of SNDA Interactive Entertainment Limited from 2010 to 2013. Previously, Mr. Li worked at 51.com, an online game company, from 2007 to 2010, with his last position as manager of research and development. Mr. Li graduated from Open University of China with an associate degree in law in 2014 and a bachelor degree in law in 2017.

Mr. Feng Li has served as our director since September 2018. Mr. Li has more than 20 years of experience in business management and financial education. At the University of Michigan Stephen M. Ross School of Business, he was an Assistant Professor from July 2004 to July 2011 and the Harry Jones Associate Professor with tenure from July 2011 to June 2015. Since July 2015, Mr. Li has been a professor of accounting at Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University, where he served as the Faculty Director of the Finance MBA Program and Deputy Dean for Non-Executive Programs. Mr. Li has also been an independent director and the audit committee financial expert for Sungy Mobile Limited, a company listed on the NASDAQ (NASDAQ: GOMO) and Yintech Investment Holdings Limited, a company listed on the NASDAQ (NASDAQ: YIN). Mr. Li is a member of the American Accounting Association and received the Distinguished Contribution to the Accounting Literature Award from the Association in 2018. Mr. Li graduated from Fudan University with a bachelor degree in economics in July 1996 and a master degree in economics in July 1998. He received his master degree in business

administration from the University of Chicago in June 2004 and obtained a doctor of philosophy degree in accounting from the University of Chicago in June 2005.

Mr. James Jun Peng has served as our director since September 2018. Mr. Peng is the co-founder and CEO of Pony.ai Inc. Prior to co-founding Pony.ai Inc. in 2016, Mr. Peng served as a chief architect of the autonomous driving division, leading the overall strategy and development of Baidu's autonomous vehicle from 2011 to 2016. Mr. Peng began his career as a software engineer at Google in 2005, specializing in backend and frontend advertising systems. Mr. Peng obtained a bachelor of civil engineering degree from Tsinghua University in 1996, a master of civil engineering degree from SUNY-Buffalo in 1998 and a doctor of philosophy degree from Stanford University in 2002.

Mr. Yongbo Dai has served as our director since November 2018. Mr. Dai currently serves as general manager of Shenzhen Paladin Equity Investment Co., Ltd., director of Essence Fund Management Co., Ltd. and supervisor of China Securities Credit Investment Co., Ltd. Prior to that, Mr. Dai worked at Guangzhou Shunlu Engineering Advisory Co., Ltd. as a director and a general manager from June 2017 to June 2018. Previously, Mr. Dai served as an executive general manager in the investment banking division of Shenyin Wanguo Securities Co., Ltd. from January 2013 to March 2015. Mr. Dai holds a master's degree in accounting from Shanghai University of Finance and Economics and a bachelor's degree in accounting from University of Shanghai for Science and Technology.

Mr. Jianfei Dong is our director and co-president. Prior to joining our company in May 2018, Mr. Dong served as the co-chief operating officer of Inke, a mobile live-streaming platform, from 2017 to 2018. Prior to that, he served as the director of technology and general manager of the mobile applications development department of Baidu from 2008 to 2017. Previously, Mr. Dong worked as a senior research and development engineer on Internet search engine at Kuxun, a travel services and search website, from 2007 to 2008. Mr. Dong graduated from Tsinghua University with a bachelor degree in control science and engineering in automation in 2005 and a master degree in control science and engineering in automation in 2007.

Mr. Oliver Yucheng Chen is our director. Mr. Chen served as our chief strategy officer from August 2018 to February 2020. Prior to that he was a co-founding partner of Innotech Capitals from 2015 to 2018, chief financial officer at AdIn Media (Shanghai) Co., Ltd. from 2014 to 2015, SNDA Interactive Entertainment Limited SDO division from 2012 to 2014 and Sohu.com video division from 2011 to 2012. Previously, Mr. Chen worked as Asia audit director of PepsiCo from 2009 to 2011. He also worked in the U.S. from 2001 to 2009 at KPMG and at Deloitte. Mr. Chen graduated from University of Michigan with a bachelor degree in economics and a master degree in accounting in 2001. He is a U.S. certified public accountant with inactive status.

Mr. Xiaolu Zhu is our chief financial officer. Mr. Zhu served as our co-chief financial officer from May 2019 to January 2020 and became our chief financial officer in January 2020. Prior to joining us in May 2019, Mr. Zhu served as CFO at KrSpace Inc., a leading Chinese co-working space operator, from April 2018 to March 2019, and as CFO of Qunar, a leading Chinese mobile and online travel service provider, from January 2016 to November 2017. Mr. Zhu was the Vice President of Finance at Lashou Group Inc. from April 2012 to October 2014. Before that, Mr. Zhu worked at Goldman Sachs where he worked on multiple IPOs and M&A transactions of Chinese Internet and technology companies. Mr. Zhu received his L.L.B. from Peking University and J.D. from Duke University.

Ms. Sihui Chen is our co-founder and chief operating officer. Prior to joining our company in January 2016, Ms. Chen worked at Shanghai Qingyuan Lvwang Co., Ltd., an Internet gaming company, as head of project management responsible for product development. Previously, Ms. Chen held several positions at SNDA Interactive Entertainment Limited, including executive assistant to the chief executive officer of literature division from 2012 to 2014, and corporate human resource business partner from 2007 to 2012. Ms. Chen graduated from Zhongnan University of Economics and Law with a bachelor degree in management and a bachelor degree in finance in 2007.

Mr. Zhiliang Wang is our co-founder and chief technology officer. Prior to joining our company in March 2016, Mr. Wang had over ten years of experience in the Internet industry focusing on advertising and mobile applications. He worked at Baidu, Inc. as an engineering manager responsible for the mobile browser division from 2013 to 2015. Previously, Mr. Wang was a senior manager of programmatic advertising platform solutions at Shanghai Shengyue Advertising Co., Ltd., a subsidiary of SNDA Interactive Entertainment Limited from 2010 to 2013. Prior to that,

Mr. Wang worked at PPLive, an online video company, as a research and development supervisor of online video from 2007 to 2010. Mr. Wang graduated from Southwestern University with a bachelor degree in information management and information systems in 2007.

Mr. Guanqiang Feng is our co-president. Prior to joining our company in February 2018, he worked at a subsidiary of Reatch, an advertising technology company listed on the National Equities Exchange and Quotations in China, as the vice president of product from 2014 to 2017. Previously, Mr. Feng was a senior product manager of mobile advertising solutions at Baidu from 2012 to 2014. Mr. Feng graduated from Tongji University with a master degree in software engineering in 2013, and he graduated from Wuhan University with a bachelor degree in software engineering and economics in 2010.

Mr. Binjie Zhu is our vice president. Prior to joining our company in August 2017, Mr. Zhu was the president of VivaVideo, a leading global short video platform from 2016 to 2017. Prior to that, Mr. Zhu founded a financial technology start-up in 2015. Mr. Zhu worked at Deutsche Bank from 2010 to 2015, with his last position being vice president in the Technology, Media and Telecommunication Investment Banking Division. Mr. Zhu graduated from Tsinghua University with a bachelor degree in electronic engineering in 2007.

The business address for all of our executive officers and directors is 11/F, Block 3, XingChuang Technology Center, Shen Jiang Road 5005, Pudong New Area, Shanghai, 200120, People's Republic of China.

B. Compensation

Compensation

In 2019, we paid aggregate cash compensation of approximately RMB6.0 million (US\$0.9 million) to our directors and executive officers as a group. We did not pay any other cash compensation or benefits in kind to our directors and executive officers. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our directors and executive officers. Our PRC subsidiaries and consolidated VIEs are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund. Our board of directors may determine compensation to be paid to the directors and the executive officers. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors and the executive officers.

For information regarding share awards granted to our directors and executive officers, see “— Equity Incentive Plan.”

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause, at any time, without advance notice, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, willful misconduct or gross negligence to our detriment, or serious breach of duty of loyalty to us. We may also terminate an executive officer's employment without cause upon three-month advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as expressly required by applicable law of the jurisdiction where the executive officer is based. The executive officer may resign at any time with a three-month advance written notice.

Each executive officer has agreed to hold, both during and within two years after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our business partners, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer's employment with us and to assign all right, title and

interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for one year following the last date of employment. Specifically, each executive officer has agreed not to (i) approach financial institutions, dealers or other persons or entities introduced to the executive officer in his or her capacity as a representative of us for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors, without our express consent; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination, without our express consent.

We have entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we agreed to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

Equity Incentive Plan

Equity Incentive Plan

In January 2019, our board of directors adopted a new equity incentive plan, or equity incentive plan, pursuant to which equity-based awards may be granted to eligible participants. The purpose of the equity incentive plan is to attract and retain the services of key personnel by providing additional incentive to promote the business of our company. The equity incentive plan replaced the 2017 equity incentive plan and 2018 equity incentive plan that we previously adopted in their entirety and assumed the awards previously granted under these two plans.

The equity incentive plan provides initially for an aggregate amount of no more than 12,464,141 Class A ordinary shares to be issued pursuant to equity-based awards granted under the plan. On March 5, 2019, the Company increased the aggregate number of Class A ordinary shares reserved for issuance pursuant to awards granted under the equity incentive plan by 3.5% of the total number of Class A ordinary shares and Class B ordinary shares outstanding as of December 31, 2018. On every January 1 thereafter for four years, the aggregate number of Class A ordinary shares reserved and available for issuance pursuant to awards granted under the equity incentive plan will be increased by 2.0% of the total number of Class A ordinary shares and Class B ordinary shares outstanding on December 31 of the preceding calendar year. Generally, if any award (or portion thereof) under the equity incentive plan terminates, expires, lapses, is canceled for any reason without being vested or exercised, or is settled in cash or other property, as applicable, the ordinary shares subject to such award will again be available for future grant.

As of the date of this annual report, equity-based awards with respect to 10,664,333 Class A ordinary shares have been granted and were outstanding under the equity incentive plan (including equity-based awards previously granted under the 2017 equity incentive plan and the 2018 equity incentive plan).

Administration

The equity incentive plan will be administered by our board of directors or any member(s) of the board of directors or officer(s) who have been delegated any authority pursuant to the equity incentive plan. The plan administrator is authorized to interpret the plan and to determine the provisions of each award including the number of shares covered, the type of award, the exercise price, if applicable, and the vesting schedule. In addition, the plan administrator may (i) select the recipients of awards, (ii) prescribe the forms of award agreements and amend any award agreement (subject to certain limitations), (iii) allow a participant to satisfy minimum tax withholding obligations by withholding shares to be issued pursuant to an award and (iv) make other decisions and determinations as provided in the equity incentive plan.

Types of Awards

The equity incentive plan permits awards of, among others, options, restricted shares and restricted share units.

Change in Control

In the event of a change in control, the plan administrator may, in its sole discretion, (i) adjust the number and kind of shares and prices subject to awards then held by a participant in the equity incentive plan to provide the assumption or substitution of any award or provide for the assumption, conversion or replacement of any option with other rights (including cash) or property (as the plan administrator selects or determines to be reasonable, equitable and appropriate) (ii) accelerate the vesting, in whole or in part, of any award, or (iii) purchase any award for an amount of cash or shares (in accordance with the terms of the equity incentive plan). In the event a successor or surviving company refuses to assume, convert or replace an award, then the outstanding awards shall fully vest. A “change of control” under the equity incentive plan is defined as (i) an amalgamation, arrangement, merger, consolidation or scheme of arrangement in which our company is not the surviving entity, except for a transaction the principal purpose of which is to change the jurisdiction in which our company is incorporated or which following such transaction the holders of our company’s voting shares immediately prior to such transaction own more than fifty percent (50%) of the voting shares of the surviving entity; (ii) the sale, transfer or other disposition of all or substantially all of the assets of our company (other than to one of our subsidiaries); (iii) the completion of a voluntary or insolvent liquidation or dissolution of our company; (iv) any takeover, reverse takeover, scheme of arrangement, or series of related transactions culminating in a reverse takeover or scheme of arrangement (including, but not limited to, a tender offer followed by a takeover or reverse takeover) in which our company survives but (A) the shares of our company outstanding immediately prior to such transaction are converted or exchanged by virtue of the transaction into other property, whether in the form of shares, securities, cash or otherwise, or (B) the shares carrying more than 50% of the total combined voting power of our company’s then issued and outstanding shares are transferred to a person or persons different from those who held such shares immediately prior to such transaction culminating in such takeover, reverse takeover or scheme of arrangement, or (C) our company issues new voting shares in connection with any such transaction such that holders of the our company’s voting shares immediately prior to the transaction no longer hold more than 50% of the voting shares of our company after the transaction; or (v) the acquisition in a single or series of related transactions by any person or related group of persons (other than employees of our company, our subsidiaries or any other person in or of which our company or subsidiaries holds a substantial economic interest or possesses the power to direct or cause the direction of the management policies or entities established for the benefit of the employees of our company, our subsidiaries or any other person in or of which our company or subsidiaries holds a substantial economic interest or possesses the power to direct or cause the direction of the management policies) of (A) control of our board of directors or the ability to appoint a majority of the members of our board of directors, or (B) beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of shares carrying more than 50% of the total combined voting power of the our company’s then issued and outstanding shares.

Term

Unless terminated earlier, the equity incentive plan will expire ten years from the date the equity incentive plan becomes effective. Awards made under the equity incentive plan on or prior to the date of its termination will continue in effect subject to the terms of the equity incentive plan and the applicable award agreement.

Vesting Schedule

In general, the plan administrator determines the vesting schedule of each award as evidenced by an award agreement. The plan administrator may accelerate the vesting of any award.

Amendment and Termination of Plan

Our board of directors, in its sole discretion, may at any time amend, alter or discontinue the equity incentive plan, subject to certain exceptions.

Granted Options (including options previously granted under our 2017 equity incentive plan and 2018 equity incentive plan)

Name	Position	Class A Ordinary Shares Underlying Options Awarded	Option Exercise Price	Grant Date	Option Expiration Date
Zhiliang Wang	Chief technology officer	2,372,965	US\$0.0001	June 30, 2016	June 30, 2026
Sihui Chen	Chief operating officer	957,655	US\$0.0001	June 30, 2016	June 30, 2026
Jianfei Dong	Director and co-president	*	US\$0.0001	June 30, 2018	June 30, 2028
		*	US\$0.0001	March 31, 2019	March 31, 2029
Guanqiang Feng	Co-president	*	US\$0.0001	February 28, 2018	February 28, 2028
		*	US\$0.0001	March 31, 2019	March 31, 2029
Xiaolu Zhu	Chief financial officer	*	US\$0.0001	June 30, 2019	June 30, 2029
Binjie Zhu	Vice president	*	US\$0.0001	September 30, 2017	September 30, 2027
		*	US\$0.0001	September 30, 2019	September 30, 2029

* Less than 1% of our outstanding shares

As of the date of this annual report, aside from grants of options, no other awards have been granted under our equity incentive plan.

Share Restriction Deeds

On January 3, 2018, entities respectively controlled by our co-founders Mr. Eric Siliang Tan and Mr. Lei Li entered into share restriction deeds with us, pursuant to which a total of 15,937,500 ordinary shares beneficially owned by such co-founders became restricted shares. 12,187,500 of such restricted shares are beneficially owned by Mr. Eric Siliang Tan and were to be vested in a period over 34 months. 3,750,000 of such restricted shares are beneficially owned by Mr. Lei Li and were to be vested in a period over 24 months. These share restriction deeds were terminated and all remaining restricted shares were vested upon the completion of our initial public offering. For accounting purposes, this transaction has been reflected retrospectively similar to a reverse stock split, with a grant of 15,937,500 restricted shares recognized in January 2018 at their then fair value of approximately US\$128.1 million and unrecognized share-based compensation expenses of RMB649.7 million were recorded upon completion of our initial public offering in September 2018.

Equity Incentive Trusts

We established equity incentive trusts pursuant to a deed dated February 26, 2018 among us, The Core Trust Company Limited, as the trustee, and Qu World Limited and QFUN Limited, each as a nominee. Through such trusts, our ordinary shares underlying equity awards granted pursuant to our equity incentive plan may be provided to certain of recipients of such equity awards. As of the date of this annual report, Qu World Limited holds 6,876,500 Class A ordinary shares pursuant to our equity incentive plan and QFUN Limited holds 1,000,000 Class A ordinary shares. Upon satisfaction of vesting conditions and exercise by a grant recipient, the trustee will transfer the ordinary shares underlying the relevant equity awards to such grant recipient.

The trust deed provides that the trustee shall not have any voting power in relation to the 6,876,500 Class A ordinary shares held by Qu World Limited and the 1,000,000 Class A ordinary shares held by QFUN Limited. Although these shares are legally issued and outstanding, they are accounted for as treasury shares and as a result, are not deemed as outstanding from an accounting perspective.

C. Board Practices

Our board of directors consists of seven directors. A director is not required to hold any shares in our company to qualify to serve as a director. A director may vote with respect to any contract or any proposed contract or arrangement in which he is interested, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered, provided (a) such director has declared the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first considered if he knows his interest then exists, or in any other case at the first meeting of the board after he knows he is or has become so interested, either specifically or by way of a general notice and (b) if such contract or arrangement is a transaction with a related party, such transaction has been approved by the audit committee. The directors may exercise all the powers of the company to borrow money, to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

Committees of the Board of Directors

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. We have adopted a charter for each of the committees. Each committee's members and functions are described below.

Audit Committee

Our audit committee consists of Mr. James Jun Peng and Mr. Feng Li. Mr. Feng Li is the chairperson of our audit committee. Mr. Feng Li satisfies the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. Our audit committee consists solely of independent directors. Each of Mr. James Jun Peng and Mr. Feng Li satisfies the requirements for an "independent director" within the meaning of Rule 5605(a)(2) of the Listing Rules of the NASDAQ Global Select Market and meets the criteria for independence set forth in Rule 10A-3 of the United States Securities Exchange Act of 1934, as amended, or the Exchange Act.

The audit committee oversees our accounting and financial reporting processes and the audits of our financial statements. Our audit committee is responsible for, among other things:

- selecting the independent auditor;
- pre-approving auditing and non-auditing services permitted to be performed by the independent auditor;
- annually reviewing the independent auditor's report describing the auditing firm's internal quality control procedures, any material issues raised by the most recent internal quality control review, or peer review, of the independent auditors and all relationships between the independent auditor and our company;
- setting clear hiring policies for employees and former employees of the independent auditors;
- reviewing with the independent auditor any audit problems or difficulties and management's response;
- reviewing and, if material, approving all related party transactions on an ongoing basis;
- reviewing and discussing the annual audited financial statements with management and the independent auditor;
- reviewing and discussing with management and the independent auditors major issues regarding accounting principles and financial statement presentations;
- reviewing reports prepared by management or the independent auditors relating to significant financial reporting issues and judgments;
- discussing earnings press releases with management, as well as financial information and earnings guidance provided to analysts and rating agencies;

- reviewing with management and the independent auditors the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on our financial statements;
- discussing policies with respect to risk assessment and risk management with management, internal auditors and the independent auditor;
- timely reviewing reports from the independent auditor regarding all critical accounting policies and practices to be used by our company, all alternative treatments of financial information within U.S. GAAP that have been discussed with management and all other material written communications between the independent auditor and management;
- establishing procedures for the receipt, retention and treatment of complaints received from our employees regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately, periodically, with management, internal auditors and the independent auditor; and
- reporting regularly to the full board of directors.

Compensation Committee

Our compensation committee consists of Mr. James Jun Peng and Mr. Feng Li. Mr. James Jun Peng is the chairperson of our compensation committee. Each of Mr. James Jun Peng and Mr. Feng Li satisfies the requirements for an “independent director” within the meaning of Rule 5605(a)(2) of the Listing Rules of the NASDAQ Global Select Market.

Our compensation committee is responsible for, among other things:

- reviewing, evaluating and, if necessary, revising our overall compensation policies;
- reviewing and evaluating the performance of our directors and senior officers and determining the compensation of our senior officers;
- reviewing and approving our senior officers’ employment agreements with us;
- setting performance targets for our senior officers with respect to our incentive—compensation plan and equity-based compensation plans;
- administering our equity-based compensation plans in accordance with the terms thereof; and such other matters that are specifically delegated to the remuneration committee by our board of directors from time to time.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Mr. Eric Siliang Tan, Mr. James Jun Peng and Mr. Feng Li. Mr. Eric Siliang Tan is the chairperson of our nominating and corporate governance committee. Each of Mr. James Jun Peng and Mr. Feng Li satisfies the requirements for an “independent director” within the meaning of Rule 5605 (a)(2) of the Listing Rules of the NASDAQ Global Select Market. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;

- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our amended and restated memorandum and articles of association. A shareholder has the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

- conducting and managing the business of our company;
- representing our company in contracts and deals;
- appointing attorneys for our company;
- select senior management;
- providing employee benefits and pension;
- managing our company's finance and bank accounts;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- exercising any other powers conferred by the shareholders' meetings or under our amended and restated memorandum and articles of association.

Terms of Directors and Executive Officers

Our directors may be elected by a resolution of our board of directors, or by an ordinary resolution of our shareholders, pursuant to our amended and restated memorandum and articles of association. Each of our directors will hold office until his or her successor takes office or until his or her earlier death, resignation or removal or the expiration of his or her term as provided in the written agreement with our company, if any. A director will cease to be a director if, among other things, the director (i) dies, or becomes bankrupt or makes any arrangement or composition with his creditors, (ii) is found to be or becomes of unsound mind, (iii) resigns his office by notice in writing to the company, or (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our directors resolve that his office be vacated. Our officers are elected by and serve at the discretion of the board of directors.

D. Employees

As of December 31, 2017, 2018 and 2019, we had a total of 502, 1,865, and 2,932 employees respectively. The following table sets forth the breakdown of our employees as of December 31, 2019 by function:

Function	Number of Employees	% of Total
Content management	776	26.5
Technology and product development	1,635	55.8
Sales, customer service and marketing	254	8.6
General administration	267	9.1
Total	2,932	100.0

Our employees are based in Shanghai, Beijing, Wuhu City in Anhui Province, Guangzhou in Guangdong Province and Tianjin, respectively.

We believe we offer our employees competitive compensation packages and a dynamic work environment that encourages initiative and meritocracy. As a result, we have generally been able to attract and retain qualified personnel and maintain a stable core management team. We plan to hire additional experienced and talented employees in areas such as content management and research and development as we expand our business.

As required by PRC regulations, we participate in various government statutory employee benefit plans, including social insurance funds, namely a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund. In addition, we purchased employer's liability insurance and additional commercial health insurance to increase insurance coverage of our employees. We enter into standard labor, confidentiality and non-compete agreements with our employees. The non-compete restricted period typically expires two years after the termination of employment, and we agree to compensate the employee with a certain percentage of his or her pre-departure salary during the restricted period.

We believe that we maintain a good working relationship with our employees, and we have not experienced any major labor disputes.

E. Share Ownership

The following table sets forth information as of the date of this annual report with respect to the beneficial ownership of our Class A ordinary shares and Class B ordinary shares by:

- each of our directors and executive officers; and
- each person known to us to own beneficially 5.0% or more of our ordinary shares.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to, or the power to receive the economic benefit of ownership of, the securities. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option or other right or the conversion of any other security.

For the purpose of the table below that sets forth information as to the beneficial ownership of our ordinary shares, the total number of ordinary shares issued and outstanding as of the date of this annual report is 74,583,013, comprising 41,645,820 Class A ordinary shares and 32,937,193 Class B ordinary shares. The 41,645,820 Class A ordinary shares issued and outstanding include 6,876,500 Class A ordinary shares held by an equity incentive trust, Qu World Limited, and 1,000,000 Class A ordinary shares held by the other equity incentive trust, QFUN Limited. Although these shares are legally issued and outstanding, they are accounted for as treasury shares and as a result, are not deemed as outstanding from an accounting perspective. Upon satisfaction of vesting conditions and exercise by a grant recipient, the trustee of our equity incentive trusts will transfer the ordinary shares underlying the relevant equity awards to such grant recipient.

	Ordinary Shares Beneficially Owned			
	Class A Ordinary Shares	Class B Ordinary Shares	Percentage of total ordinary shares	Percentage of aggregate voting power***
Directors and Executive Officers:**				
Eric Siliang Tan ⁽¹⁾	—	27,123,442	36.4%	75.0%
Lei Li ⁽²⁾	—	5,813,751	7.8%	16.1%
Zhiliang Wang ⁽⁵⁾	1,227,965	—	1.6%	—
Sihui Chen	*	—	*	—
James Jun Peng	—	—	—	—
Feng Li	—	—	—	—
Jianfei Dong	*	—	*	—
Guanqiang Feng	*	—	*	—
Xiaolu Zhu	—	—	—	—
Oliver Yucheng Chen	—	—	—	—
Yongbo Dai	—	—	—	—
Binjie Zhu	*	—	*	—
Directors and Executive Officers as a Group	<u>2,485,241</u>	<u>32,937,193</u>	<u>47.5%</u>	<u>91.1%</u>
Principal Shareholders				
Innotech Group Holdings Ltd. ⁽¹⁾	—	27,123,442	36.4%	75.0%
Qu World Limited ⁽³⁾	6,876,500	—	9.9%	—
News List Ltd. ⁽²⁾	—	5,813,751	7.8%	16.1%
Image Flag Investment (HK) Limited ⁽⁴⁾	5,420,144	—	7.3%	1.5%

* Less than 1% of our outstanding shares.

** The business address for our directors and executive officers is 11/F, Block 3, XingChuang Technology Center, Shen Jiang Road 5005, Pudong New Area, Shanghai 200120, People's Republic of China.

*** For each person and group included in this column, the percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our Class A and Class B ordinary shares as a single class. In respect of all matters upon which the ordinary shares are entitled to vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to ten (10) votes, voting together as one class. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

(1) Represents 27,123,442 Class B ordinary shares that are held by Innotech Group Holdings Ltd., a limited liability company established in the Cayman Islands. Innotech Group Holdings Ltd. is indirectly wholly owned by a trust of which Mr. Eric Siliang Tan and his family are beneficiaries. The registered address of Innotech Group Holdings Ltd. is P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands.

- (2) Represents 5,813,751 Class B ordinary shares that are held by News List Ltd., a limited liability company established in the British Virgin Islands. News List Ltd. is indirectly wholly owned by a trust of which Mr. Lei Li and his family are beneficiaries. The registered address of News List Ltd. is Craigmuir Chambers, Road Town, Tortola, British Virgin Islands.
- (3) Represents 6,876,500 Class A ordinary shares held by Qu World Limited, a limited liability company established in the British Virgin Islands, as a nominee of our equity incentive trust. Qu World Limited is wholly owned by The Core Trust Company Limited, a trust company established in Hong Kong that acts as the trustee of our equity incentive trust. Registered address of Qu World Limited is Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The trust deed for our equity incentive trust provides that the trustee shall not have any voting power in relation to the 6,876,500 Class A ordinary shares held by Qu World Limited.
- (4) Represents 5,420,144 Class A ordinary shares in the form of 21,680,576 ADSs held by Image Flag Investment (HK) Limited, a limited liability company incorporated in Hong Kong. Image Flag Investment (HK) Limited is wholly owned by Tencent, a company incorporated in the Cayman Islands and listed on the Hong Kong Stock Exchange. The registered address of Image Flag Investment (HK) Limited is 29/F., Three Pacific Place, No. 1 Queen's Road East, Wanchai, Hong Kong. The registered address of Tencent is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (5) Represents 1,227,965 Class A ordinary shares issuable to Mr. Zhiliang Wang upon exercise of the share options granted under our equity incentive plan that have vested or are expected to vest within 60 days from the date of this annual report.

The trustee of our equity incentive trusts does not have any voting power in relation to the 6,876,500 Class A ordinary shares held by Qu World Limited and the 1,000,000 Class A ordinary shares held by QFUN Limited. In addition, The Bank of New York Mellon, the depository bank of our ADR program, does not have voting power over the 42,077 Class A ordinary shares it holds that are reserved for equity awards granted under our equity incentive plan. As such, 66,664,436 of the 74,583,013 ordinary shares issued and outstanding as of the date of this annual report have voting power.

In April 2019, we completed a follow-on public offering of an aggregate of 10,000,000 ADSs, comprising 3,327,868 ADSs issued and sold by us and 6,672,132 ADSs sold by certain selling shareholders, representing an aggregate of 2,500,000 Class A ordinary shares. We raised approximately US\$31.0 million in net proceeds, after deducting underwriting discounts and commissions and the offering expenses payable by us. We did not receive any of the proceeds from the sale of ADSs by the selling shareholders.

On May 28, 2019, our board of directors authorized a share repurchase program under which we may repurchase up to US\$50 million worth of our outstanding American depository shares ("ADSs") representing our Class A ordinary shares over the next 12 months. Under the share repurchase program, we may repurchase our ADSs from time to time through open market transactions at prevailing market prices, privately negotiated transactions, block trades or any combination thereof. In addition, we will also effect repurchase transactions in compliance with Rule 10b5-1 and/or Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and its insider trading policy. The number of ADSs repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, price, trading volume and general market conditions, along with our working capital requirements, general business conditions and other factors. As of December 31, 2019, 4,665,700 ADSs, representing 1,166,425 Class A ordinary shares, were repurchased for a total consideration of US\$20.7 million.

On September 27, 2019, we issued an aggregate of 1,480,123 Class A ordinary shares to Haitong International Investment Solutions Limited pursuant to various agreements entered into between us, Shanghai Dongfang Newspaper Co., Ltd. and its subsidiaries, or collectively, The Paper, and certain other parties. Upon the completion of this issuance, The Paper is deemed to beneficially own approximately 2.0% of our total enlarged issued and outstanding share capital. The Paper will also carry out the performance with a fee charge of certain strategic cooperation agreements with Shanghai Jifen, our consolidated VIE, for certain years. In addition, Shanghai Jifen has issued equity interests representing 1% of its enlarged share capital to The Paper.

As of the date of this annual report, a total of 27,023,803 Class A ordinary shares are held by one record holder in the United States, The Bank of New York Mellon, the depository bank of our ADR program, which represents approximately 36.2% of our total outstanding shares. None of our outstanding Class B ordinary shares is held by record holders in the United States. We are not aware of any of our shareholders being affiliated with a registered broker-dealer or being in the business of underwriting securities.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to “Item 6. Directors, Senior Management and Employees — E. Share Ownership.”

B. Related Party Transactions

Transactions with Companies Controlled by or Affiliated with Mr. Tan

We paid Shanghai Yinnuo Management Consulting Co., Ltd., or Yinnuo Management, a company controlled by Mr. Eric Siliang Tan, service fees in the amount of RMB16.8 million in 2017. Such service fees related to costs charged by Yinnuo Management for financial accounting support, office space and certain other administrative support provided to us. No amount was due to Yinnuo Management in connection with these service fees as of December 31, 2017. We have since developed all relevant functions internally and leased office space for our operations that were previously provided by Yinnuo Management and we currently do not expect to pay service fees to Yinnuo Management for such functions or office space in the future.

We received RMB29.6 million in service fees from AdIn Media (Shanghai) Co., Ltd., or AdIn Media, a company in which Mr. Eric Siliang Tan indirectly owns a minority interest and in which he was a key management personnel, in 2018. Such fees related to agent and platform service provided to AdIn Media by facilitating advertising customers to display advertisements with AdIn Media. We also received fees in the amount of RMB4.5 million for providing advertising and marketing services to AdIn Media in 2018. As of September 30, 2018, Mr. Tan was no longer a key management personnel of AdIn Media, and thus AdIn Media ceased to be our related party.

We provided advertising and marketing services to several companies controlled by Mr. Eric Siliang Tan, mainly Shanghai Tujin Internet Technology Co., Ltd., and charged service fees of RMB473.2 million (US\$68.0 million) in the fiscal year ended December 31, 2019.

We entered into a cost-per-impression (CPM) arrangement for advertisement placement by our advertising customers with Shanghai Mengjia Internet Technology Co., Ltd., or Shanghai Mengjia, a media platform company controlled by Mr. Eric Siliang Tan, in 2019. The total service fee charged by Shanghai Mengjia amounted to RMB35.6 million (US\$5.1 million) for the fiscal year ended December 31, 2019.

We entered into a game cooperation agreement with Shanghai Ruiti Internet Technology Co., Ltd., or Shanghai Ruiti, a game developing company in which Mr. Eric Siliang Tan’s controlled entity has significant influence on. The total service fee we paid to Shanghai Ruiti in relation to the arrangement amounted to RMB6.8 million (US\$1.0 million) for the fiscal year ended December 31, 2019.

Transaction with Tencent

We entered into a cooperation agreement with an affiliate of Tencent in March 2018 to promote our mobile application and such agreement required us to prepay a total service fee of RMB31.5 million. In 2018, we paid RMB15.8 million in such service fee.

In 2018, we paid an affiliate of Tencent RMB13.9 million for cloud computing services and short messaging services. We also received fees in the amount of RMB12.9 million for providing advertising services to an affiliate of Tencent in 2018.

Upon completion of our initial public offering in September 2018, the right of Tencent to nominate one director to our board of directors was terminated and Tencent only had 1.5% voting power of our company. Therefore, Tencent ceased to be our related party after the completion of our initial public offering.

Contractual Arrangements with Our Consolidated VIEs and Their Respective Shareholders

PRC laws and regulations place certain restrictions on foreign investment in and ownership of internet-based businesses. Accordingly, we conduct our operations mainly through our consolidated VIEs and their subsidiaries. We effectively control the consolidated VIEs through a series of contractual arrangements with the consolidated VIEs, their respective shareholders and our WFOEs. As a result, we operate our relevant business through contractual arrangements among Shanghai Qyun and Shanghai Zhicao, our wholly-owned PRC subsidiaries, Shanghai Jifen, Big Rhinoceros Horn and Beijing Churun, our consolidated VIEs, and their respective shareholders. For a description of these contractual arrangements, see “Item 4. — Information on the Company — D. Organizational Structure — Contractual Arrangements among Our WFOEs, Our Consolidated VIEs and Their Respective Shareholders.”

C. Interests of Experts and Counsel

Not Applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal and Administrative Proceedings

Shanghai Jifen was named as the defendant in a lawsuit filed in the People’s Court of Jiading District in Shanghai in December 2019 on contractual dispute regarding certain advertising placement agreement between Shanghai Jifen and the plaintiff, Shanghai Wenji Culture Communications Co., Ltd. At the request of the plaintiff, the court issued a preliminary order to freeze the assets of Shanghai Jifen. Accordingly, RMB18.5 million (US\$2.6 million) of cash was frozen and recorded as restricted cash as of December 31, 2019.

The plaintiff withdrew the original lawsuit and filed it again in the Shanghai No.2 Intermediate People’s Court on January 20, 2020, and sought a total payment of RMB103.2 million (US\$14.9 million). As a result of this withdrawal, the RMB18.5 million restricted cash has been unfrozen as of the date of this annual report. However, at the request of the plaintiff, Shanghai No. 2 Intermediate People’s Court adopted preservation measures to freeze certain amount of Shanghai Jifen’s deposit and the equity interest held by Shanghai Jifen in several of its subsidiaries. We have recorded related marketing expenses under the agreement in our financial statements for fiscal year 2019. No loss contingency was accrued as of December 31, 2019, since it is not probable that a liability has been incurred and the amount of loss cannot be reasonably estimated.

As of December 31, 2019, an additional RMB9.4 million (US\$1.4 million) of cash was frozen and recorded as restricted cash due to another lawsuit in which we were involved. No loss contingency was accrued as of December 31, 2019, since it is not probable that a liability has been incurred related to this litigation matter and the top end of the range of loss is not material.

Except as disclosed above, we are currently not a party to any other material legal or administrative proceedings. We may from time to time be subject to various legal or administrative claims and proceedings arising from the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management’s time and attention.

Dividend Policy

Since inception, we have not declared or paid any dividends on our shares. We do not have any present plan to pay any dividends on our Class A ordinary shares in the foreseeable future. We intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Any other future determination to pay dividends will be made at the discretion of our board of directors and may be based on a number of factors, including our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we

pay any dividends, ADS holders will receive payment to the same extent as holders of our Class A ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See “Item 12. Description of Securities other than Equity Securities — D. American Depositary Shares.” Cash dividends on our Class A ordinary shares, if any, will be paid in U.S. dollars.

We are an exempted company incorporated in the Cayman Islands. In order for us to distribute any dividends to our shareholders and ADS holders, we may rely on dividends distributed by our PRC subsidiaries. Certain payments from our PRC subsidiaries to us may be subject to PRC withholding income tax. In addition, regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit based on PRC accounting standards every year to a statutory common reserve fund until the aggregate amount of such reserve fund reaches 50% of the registered capital of such subsidiary. Such statutory reserves are not distributable as loans, advances or cash dividends.

B. Significant Changes

We have not experienced any other significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

Our ADSs, every four representing one of our Class A ordinary share, have been listed on the NASDAQ Global Select Market since September 14, 2018 under the symbol “QTT.”

B. Plan of Distribution

Not Applicable.

C. Markets

Our ADSs, every four representing one of our Class A ordinary share, have been listed on the NASDAQ Global Select Market since September 14, 2018 under the symbol “QTT.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not Applicable.

F. Expenses of the Issue

Not Applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not Applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our sixth amended and restated memorandum of association contained in our F-1 registration statement (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018. Our shareholders adopted our sixth amended and restated memorandum and articles of association by a special resolution passed on September 4, 2018, which became effective immediately prior to the completion of our initial public offering of ADSs representing our Class A ordinary shares.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company,” “Item 5. Operating and Financial Review and Prospects,” or elsewhere in this annual report.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview— Regulations — Regulations on Foreign Exchange.”

E. Taxation

The following is a general summary of certain Cayman Islands, People’s Republic of China and United States federal income tax consequences relevant to an investment in our ADSs and Class A ordinary shares. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular prospective purchaser. The discussion is based on laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change or different interpretations, possibly with retroactive effect. The discussion does not address U.S. state or local tax laws, or tax laws of jurisdictions other than the Cayman Islands, the People’s Republic of China and the United States. You should consult your own tax advisors with respect to the consequences of acquisition, ownership and disposition of our ADSs and Class A ordinary shares.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of ADSs and Class A ordinary shares. Stamp duties may be applicable on instruments executed in, or after execution brought within the jurisdiction of, the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands is a party to a double tax treaty entered with the United Kingdom in 2010 but is otherwise not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, we have obtained an undertaking from the Financial Secretary:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to us or our operations; and
- (2) that no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (a) on or in respect of the shares, debentures or other obligations of the Company; or
 - (b) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for us is for a period of twenty years from November 29, 2016.

People's Republic of China Taxation

In December 2018, the National People's Congress of China enacted the modified Enterprise Income Tax Law, which became effective on December 29, 2018. The modified Enterprise Income Tax Law provides that enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The implementing rules of the Enterprise Income Tax Law further define the term "de facto management body" as the management body that exercises substantial and overall management and control over the business, personnel, accounts and properties of an enterprise. While we do not currently consider our company or any of our overseas subsidiaries to be a PRC resident enterprise, there is a risk that the PRC tax authorities may deem our company or any of our overseas subsidiaries as a PRC resident enterprise since a substantial majority of the members of our management team as well as the management team of some of our overseas subsidiaries are located in China, in which case we or the overseas subsidiaries, as the case may be, would be subject to the PRC enterprise income tax at the rate of 25% on worldwide income. If the PRC tax authorities determine that our Cayman Islands holding company is a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. One example is a 10% withholding tax would be imposed on dividends we pay to our non-PRC enterprise shareholders and with respect to gains derived by our non-PRC enterprise shareholders from transferring our shares or ADSs. Furthermore, dividends payable to individual investors who are non-PRC residents and any gain realized on the transfer of ADSs or ordinary shares by such investors may be subject to PRC tax at a current rate of 20%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions. It is unclear whether, if we are considered a PRC resident enterprise, holders of our shares or ADSs would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

Certain United States Federal Income Tax Considerations

The following discussion describes certain United States federal income tax consequences of the ownership and disposition of our ADSs and Class A ordinary shares as of the date hereof. This discussion deals only with ADSs and Class A ordinary shares that are held as capital assets by a United States Holder (as defined below).

As used herein, the term "United States Holder" means a beneficial owner of our ADSs or Class A ordinary shares that is, for United States federal income tax purposes, any of the following:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This discussion is based upon provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations, rulings and judicial decisions thereunder as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below. In addition, this discussion is based, in part, upon representations made by the depository to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

This discussion does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;

- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;
- a person holding our ADSs or Class A ordinary shares as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a person who owns or is deemed to own 10% or more of our stock by vote or value;
- a partnership or other pass-through entity for United States federal income tax purposes;
- a person required to accelerate the recognition of any item of gross income with respect to our ADSs or Class A ordinary shares as a result of such income being recognized on an applicable financial statement; or
- a person whose “functional currency” is not the United States dollar.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) holds our ADSs or Class A ordinary shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our ADSs or Class A ordinary shares, you should consult your tax advisors.

This discussion does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances and does not address the Medicare tax on net investment income or the effects of any state, local or non-United States tax laws. **If you are considering the purchase of our ADSs or Class A ordinary shares, you should consult your own tax advisors concerning the particular United States federal income tax consequences to you of the ownership and disposition of our ADSs or Class A ordinary shares, as well as the consequences to you arising under other United States federal tax laws and the laws of any other taxing jurisdiction.**

ADSs

If you hold ADSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying Class A ordinary shares that are represented by such ADSs. Accordingly, deposits in or withdrawals from our ADS facility as such will not be subject to United States federal income tax.

Taxation of Dividends

Subject to the discussion under “— Passive Foreign Investment Company” below, the gross amount of distributions on the ADSs or Class A ordinary shares (including any amounts withheld to reflect potential PRC withholding taxes, as discussed above under “— People’s Republic of China Taxation”) will be taxable as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, the distribution will first be treated as a tax-free return of capital, causing a reduction in the tax basis of the ADSs or Class A ordinary shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain recognized on a sale or exchange. We do not, however, expect to determine earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend.

Any dividends that you receive (including any withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of Class A ordinary shares, or by the depositary, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

With respect to non-corporate United States investors, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation is treated as a qualified foreign

corporation with respect to dividends received from that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our ADSs, which are listed on the NASDAQ Global Select Market, are readily tradable on an established securities market in the United States. Thus, we believe that dividends we pay on our ADSs will meet the conditions required for these reduced tax rates. Since we do not expect that our Class A ordinary shares will be listed on an established securities market in the United States, we do not believe that dividends that we pay on our Class A ordinary shares that are not represented by ADSs currently meet the conditions required for these reduced tax rates. There can be no assurance, however, that our ADSs will be considered readily tradable on an established securities market in later years. A qualified foreign corporation also includes a foreign corporation that is eligible for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a PRC resident enterprise under the Enterprise Income Tax Law, we may be eligible for the benefits of the income tax treaty between the United States and PRC, or the Treaty, and if we are eligible for such benefits, dividends we pay on our Class A ordinary shares, regardless of whether such shares are represented by ADSs, would be eligible for reduced rates of taxation. See “Item 10. Additional Information — E. Taxation — People’s Republic of China Taxation.” Non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as “investment income” pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules given your particular circumstances.

Non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a passive foreign investment company (a “PFIC”) in the taxable year in which such dividends are paid or in the preceding taxable year (see “— Passive Foreign Investment Company” below).

Subject to certain conditions and limitations (including a minimum holding period requirement), any PRC withholding taxes on dividends may be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the ADSs or Class A ordinary shares will be treated as income from sources outside the United States and will generally constitute passive category income. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Distributions of ADSs, Class A ordinary shares or rights to subscribe for ADSs or Class A ordinary shares that are received as part of a pro rata distribution to all of our shareholders generally will not be subject to United States federal income tax.

Passive Foreign Investment Company

Based on the past and projected composition of our income and assets, and the valuation of our assets, including goodwill, we do not believe we were a PFIC for our most recent taxable year, and we do not expect to become a PFIC in the current taxable year or the foreseeable future, although there can be no assurance in this regard.

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income, or
- at least 50% of the value (determined based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person), and cash is treated as an asset that produces passive income. If we own at least 25% (by value) of the stock of another corporation, for purposes of determining whether we are a PFIC, we will be treated as owning our proportionate share of the other corporation’s assets and receiving our proportionate share of the other corporation’s income. However, there is uncertainty as to the treatment of our corporate structure and ownership of our consolidated VIEs for United States federal income tax purposes. For United States federal income tax purposes, we consider ourselves to own the equity of our consolidated VIEs. If it is determined, contrary to our view, that we do not own the equity of our consolidated

VIEs for United States federal income tax purposes (for instance, because the relevant PRC authorities do not respect these arrangements), we may be treated as a PFIC.

The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. Because we have calculated the value of our goodwill by taking into account the market value of our ADSs, a decrease in the price of our ADSs may also result in our becoming a PFIC. If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares and you do not make a timely mark-to-market election, as described below, you will be subject to special tax rules with respect to any “excess distribution” received and any gain realized from a sale or other disposition, including a pledge, of ADSs or Class A ordinary shares. Distributions received in a taxable year will be treated as excess distributions to the extent that they are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ADSs or Class A ordinary shares. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or Class A ordinary shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

Although the determination of whether we are a PFIC is made annually, if we are a PFIC for any taxable year in which you hold our ADSs or Class A ordinary shares, you will generally be subject to the special tax rules described above for that year and for each subsequent year in which you hold the ADSs or Class A ordinary shares (even if we do not qualify as a PFIC in such subsequent years). However, if we cease to be a PFIC, you can avoid the continuing impact of the PFIC rules by making a special election to recognize gain as if your ADSs or Class A ordinary shares had been sold on the last day of the last taxable year during which we were a PFIC. You are urged to consult your own tax advisor about this election.

In lieu of being subject to the special tax rules discussed above, you may make a mark-to-market election with respect to your ADSs or Class A ordinary shares, provided such ADSs or Class A ordinary shares are treated as “marketable stock.” The ADSs or Class A ordinary shares generally will be treated as marketable stock if the ADSs or Class A ordinary shares are regularly traded on a “qualified exchange or other market” (within the meaning of the applicable Treasury regulations). Under current law, the mark-to-market election may be available to holders of ADSs since the ADSs are listed on the NASDAQ Global Select Market, which constitutes a qualified exchange, although there can be no assurance that the ADSs will be “regularly traded” for purposes of the mark-to-market election. It should also be noted that only the ADSs and not the Class A ordinary shares are listed on the NASDAQ Global Select Market. Consequently, if you are a holder of Class A ordinary shares that are not represented by ADSs, you generally will not be eligible to make a mark-to-market election.

If you make an effective mark-to-market election, for each taxable year that we are a PFIC you will include as ordinary income the excess of the fair market value of your ADSs at the end of the year over your adjusted tax basis in the ADSs. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted tax basis in the ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. Your adjusted tax basis in the ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. In addition, upon the sale or other disposition of your ADSs in a year that we are a PFIC, any gain will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount of previously included income as a result of the mark-to-market election. Because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, if you make a mark-to market election with respect to

our ADSs, you may continue to be subject to the general PFIC rules with respect to your indirect interest in any of our non-United States subsidiaries that is classified as a PFIC (as discussed below).

If you make a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or other market, or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

Alternatively, you can sometimes avoid the special tax rules described above by electing to treat a PFIC as a “qualified electing fund” under Section 1295 of the Code. However, this option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election.

If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares and any of our non-United States subsidiaries is also a PFIC, you will be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of the PFIC rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

You will generally be required to file Internal Revenue Service Form 8621 if you hold our ADSs or Class A ordinary shares in any year in which we are classified as a PFIC. You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding ADSs or Class A ordinary shares if we are considered a PFIC in any taxable year.

Taxation of Capital Gains

For United States federal income tax purposes, you will recognize taxable gain or loss on any sale or exchange of the ADSs or Class A ordinary shares in an amount equal to the difference between the amount realized for the ADSs or Class A ordinary shares and your tax basis in the ADSs or Class A ordinary shares. Subject to the discussion under “— Passive Foreign Investment Company” above, such gain or loss will generally be capital gain or loss and will generally be long-term capital gain or loss if you have held the ADSs or Class A ordinary shares for more than one year. Long-term capital gains of non-corporate United States Holders (including individuals) are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States source gain or loss. However, if we are treated as a PRC resident enterprise for PRC tax purposes and PRC tax were imposed on any gain, and if you are eligible for the benefits of the Treaty, you may be able to elect to treat such gain as PRC source gain under the Treaty. If you are not eligible for the benefits of the Treaty or if you fail to make the election to treat any gain as PRC source, then you generally would not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of ADSs or Class A ordinary shares unless such credit can be applied (subject to applicable limitations) against tax due on other income derived from foreign sources.

Information Reporting and Backup Withholding

You may be required to report information to the Internal Revenue Service relating to an interest in “specified foreign financial assets,” including our ADSs or Class A ordinary shares, subject to certain asset value thresholds and subject to certain exceptions (including an exception for shares held in a custodial account maintained with a United States financial institution). You may also be subject to penalties if you are required to submit information to the Internal Revenue Service and fail to do so.

In general, information reporting will apply to dividends in respect of our ADSs or Class A ordinary shares and the proceeds from the sale, exchange or other disposition of our ADSs or Class A ordinary shares that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of exempt status or fail to report in full dividend and interest income.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

H. Documents on Display

We have filed this annual report on Form 20-F, including exhibits, with the SEC. As allowed by the SEC, in Item 19 of this annual report, we incorporate by reference certain information we filed with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report.

You may read and copy this annual report, including the exhibits incorporated by reference in this annual report, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC's regional offices in New York, New York and Chicago, Illinois. You also can request copies of this annual report, including the exhibits incorporated by reference in this annual report, upon payment of a duplicating fee, by writing information on the operation of the SEC's Public Reference Room.

The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Our annual report and some of the other information submitted by us to the SEC may be accessed through this web site. Our filings are also available on our website at <http://www.qutoutiao.net>. The information on our website, however, is not, and should not be deemed to be a part of this annual report.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Our financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Substantially all of our revenues and substantially all of our expenses are denominated in Renminbi. The functional currency of our company and our Hong Kong subsidiary is the U.S. dollar. The functional currency of our subsidiaries in the PRC, the consolidated VIEs and their subsidiaries is the Renminbi. We use Renminbi as our reporting currency. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into functional currency at the applicable rates of exchange prevailing when the transactions occurred. Transaction gains and losses are recognized in the

statements of operations. We recorded a gain in foreign currency translation adjustment, net, of RMB25 thousand in 2017, but recorded a loss in foreign currency translation adjustment, net of RMB16,454 thousand in 2018 and RMB1,506 thousand (US\$216 thousand) in 2019.

We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although in general our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the exchange rate between the U.S. dollar and the Renminbi because the value of our business is effectively denominated in Renminbi, while our ADSs will be traded in U.S. dollars.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the PBOC. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollar had been stable and traded within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the Renminbi has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

Interest Rate Risk

We have not been exposed to material risks due to changes in market interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure. However, we cannot provide assurance that we will not be exposed to material risks due to changes in market interest rate in the future.

We may invest in interest-earning instruments. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall.

Inflation

Since inception, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for 2017, 2018 and 2019 were increases of 1.6%, 2.1% and 2.9%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not Applicable

B. Warrants and Rights

Not Applicable

C. Other Securities

Not Applicable

D. American Depositary Shares

Depository Fees and Charges

Under the terms of the deposit agreement for our ADSs, an ADS holder will be required to pay the following service fees to the depository and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of ADSs):

Persons depositing or withdrawing shares or ADS holders must pay:

US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

US\$0.05 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs

US\$0.05 (or less) per ADS per calendar year

Registration or transfer fees

Expenses of the depository

Taxes and other governmental charges the depository or the custodian has to pay on any ADSs or shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depository or its agents for servicing the deposited securities

For:

Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property

Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates

Any cash distribution to ADS holders

Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the depository to ADS holders

Depository services

Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares

Cable and facsimile transmissions (when expressly provided in the deposit agreement)

Converting foreign currency to U.S. dollars

As necessary

As necessary

The depository collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a

portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may collect any of its fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the depositary may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depositary or share revenue from the fees collected from ADS holders. In performing its duties under the deposit agreement, the depositary may use brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the depositary and that may earn or share fees, spreads or commissions.

The depositary may convert currency itself or through any of its affiliates and, in those cases, acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the deposit agreement and the rate that the depositary or its affiliate receives when buying or selling foreign currency for its own account. The depositary makes no representation that the exchange rate used or obtained in any currency conversion under the deposit agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to ADS holders, subject to the depositary's obligations under the deposit agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

Payments by Depositary

In 2018, we received US\$1.8 million from The Bank of New York Mellon, the depositary bank for our ADR program. We did not receive any payment from The Bank of New York Mellon in 2019.

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

See “Item 10. Additional Information” for a description of the rights of securities holders, which remain unchanged.

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File No. 333-226913) in relation to our initial public offering, which was declared effective by the SEC on September 13, 2018. In September 2018, we completed our initial public offering in which we issued and sold an aggregate of 13,800,000 ADSs (including 1,800,000 ADSs sold upon the full exercise of the underwriters’ option to purchase additional ADSs), representing 3,450,000 shares, at a price of US\$7.00 per ADS for a total offering size of approximately US\$96.6 million. The net proceeds raised from the initial public offering were US\$85.8 million after deducting underwriting discounts and commissions and the offering expenses payable by us.

As of December 31, 2019, we had used approximately US\$60.6 million of the net proceeds from our initial public offering for expanding and enhancing our content offerings, product development and technology infrastructure, and general corporate purposes, including marketing and promotion of our products and branding and user acquisition. We intend to use the remaining proceeds from our initial public offering in the manner as disclosed in our registration statement on Form F-1, as amended (File No. 333-226913).

We filed another registration statement on Form F-1 (File No. 333-230624), as amended, in relation to a follow-on public offering, which was declared effective by the SEC on April 2, 2019, and the related registration statement on Form F-1 (File No. 333-230697) pursuant to Rule 462(b) of the rules and regulations promulgated under the Securities Act in relation to the offer and sale of an aggregate of 10,000,000 ADSs, comprising 3,327,868 ADSs issued and sold by us and 6,672,132 ADSs sold by certain selling shareholders, representing an aggregate of 2,500,000 Class A ordinary shares. The net proceeds raised from the follow-on public offering were US\$31.0 million, after deducting underwriting discounts and commissions and the offering expenses payable by us. We did not receive any of the proceeds from the sale of ADSs by the selling shareholders.

As of December 31, 2019, we had used approximately US\$12.8 million of the net proceeds from the follow-on public offering for general corporate purposes. We intend to use the remaining proceeds for general corporate purposes.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to our management, including our principal executive officer and principal accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, under the supervision and with the participation of our principal executive officer and our principal accounting officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Exchange Act, as of December 31, 2019. Based on that evaluation, our principal executive officer and principal accounting officer have concluded that, as of December 31, 2019, our existing disclosure controls and procedures were ineffective due to the material weakness in internal control over financial reporting identified in “— Management’s Annual Report on Internal Control over Financial Reporting” below.

Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act). Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules promulgated by the Securities and Exchange Commission, our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, it used the criteria established within the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that, as of December 31, 2019, our internal control over financial reporting was ineffective due to the material weakness identified below.

In accordance with reporting requirements set forth by the SEC, a “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our company’s annual or interim consolidated financial statements will not be prevented or detected on a timely basis. The material weakness, which was first identified in the course of preparing our consolidated financial statements for the year ended December 31, 2017, relates to the lack of sufficient financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP and SEC reporting requirements to formalize key controls over financial reporting and to prepare consolidated financial statements and related disclosures.

To remedy our identified material weakness, we have undertaken and will continue to undertake steps to strengthen our internal control over financial reporting, including: (i) hiring more qualified resources including financial controller, equipped with relevant U.S. GAAP and SEC reporting experience and qualifications to strengthen the financial reporting function and to set up a financial and system control framework, (ii) implementing regular and continuous U.S. GAAP accounting and financial reporting training programs for our accounting and financial reporting personnel, (iii) establishing effective oversight and clarifying reporting requirements for non-recurring and complex transactions to ensure consolidated financial statements and related disclosures are accurate, complete and in compliance with SEC reporting requirements, and (iv) enhancing an internal audit function as well as engaging an external consulting firm to help us assess our compliance readiness under rule 13a-15 of the Exchange Act and improve overall internal control. However, such measures have not been fully implemented and we concluded that the material weakness and deficiencies in our internal control over financial reporting have not been remediated as of December 31, 2019.

Since we qualified as an “emerging growth company” as defined under the JOBS Act as of December 31, 2019, this annual report on Form 20-F does not include an attestation report of our independent registered public accounting firm.

Changes in Internal Control over Financial Reporting

Other than as described above, there were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Mr. Feng Li, who is an independent director, qualifies as an audit committee financial expert as defined in Item 16A of the instruction to Form 20-F.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers and employees. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the SEC on August 17, 2018. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person's written request.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP, our independent public accountant for the years indicated. We did not pay any other fees to our auditors during the years indicated below.

	For the Year Ended December 31,	
	2018	2019
	(In thousands of US dollars)	
Audit Fees(1)	1,963	1,151
Tax Fees (2)	114	22
All Other Fees	—	—
Total	<u>2,077</u>	<u>1,173</u>

(1) "Audit fees" means the aggregate fees billed for each of the fiscal years listed for professional services rendered by our principal auditors for the audit or review of our annual or quarterly financial statements, fees for assurance services rendered in connection with our initial public offering in 2018, and fees related to the follow-on offering in 2019.

(2) "Tax fees" represents the aggregate fees for professional services rendered by our principal auditors for tax compliance.

The policy of our audit committee or our board of directors is to pre-approve all audit and non-audit services provided by our independent public accountant, including audit services, audit-related services and other services as described above. All of the services of PricewaterhouseCoopers Zhong Tian LLP for 2019 and 2018 described above were in accordance with the audit committee pre-approval policy.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The following table sets forth information about our purchases of outstanding ADSs from May 28, 2019 to December 31, 2019:

Period	Total Number of ADSs Purchased	Average Price Paid per ADS(1)	Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs(2)	Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Program(2)
May 28, 2019 through May 31, 2019	369,000	\$ 4.94	369,000	48,176,464
June 2019	2,946,700	\$ 4.42	3,315,700	35,162,342
July 2019	1,350,000	\$ 4.24	4,665,700	29,435,841
August 2019	—	—	4,665,700	29,435,841
September 2019	—	—	4,665,700	29,435,841
October 2019	—	—	4,665,700	29,435,841
November 2019	—	—	4,665,700	29,435,841
December 2019	—	—	4,665,700	29,435,841

(1) Every four of the ADSs represent one Class A ordinary share. The average price per ADS is calculated using the execution price for each repurchase excluding commissions paid to brokers.

(2) We announced a share repurchase program approved by our board of directors in May 2019, under which we may repurchase up to US\$50 million worth of our outstanding ADSs over a period of twelve months. Under the share repurchase program, we may repurchase our ADSs from time to time through open market transactions at prevailing market prices, privately negotiated transactions, block trades or any combination thereof. In addition, we will also effect repurchase transactions in compliance with Rule 10b5-1 and/or Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and its insider trading policy. The number of ADSs repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, price, trading volume and general market conditions, along with our working capital requirements, general business conditions and other factors.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not Applicable.

ITEM 16G. CORPORATE GOVERNANCE

We are a "foreign private issuer" (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs, every four representing one ordinary share, are listed on the NASDAQ Global Select Market. The NASDAQ Global Select Market rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NASDAQ Global Select Market corporate governance listing standards.

For instance, we are not required to: (i) have a majority of the board be independent; (ii) have a compensation committee or a nominating and corporate governance committee consisting entirely of independent directors; or (iii) have regularly scheduled executive sessions with only independent directors each year.

ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of Qutoutiao Inc., its subsidiaries and its variable interest entities are included at the end of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Description of Document
1.1	<u>Sixth Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018)</u>
2.1	<u>Form of American Depositary Receipt evidencing American Depositary Shares (incorporated herein by reference to Exhibit (1) to the registration statement on Form F-6 (File No. 333-227181), as amended, filed with the Securities and Exchange Commission on September 4, 2018)</u>
2.2	<u>Specimen of Ordinary Share Certificate (incorporated herein by reference to Exhibit 4.1 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018)</u>
2.3	<u>Form of Deposit Agreement among the Registrant and The Bank of New York Mellon, as depository, and all Owners and Holders from time to time of American Depositary Shares issued thereunder (incorporated herein by reference to Exhibit (1) to the registration statement on Form F-6 (File No. 333-227181), as amended, filed with the Securities and Exchange Commission on September 4, 2018)</u>
2.4*	<u>Description of Rights of Each Class of Securities Registered Under Section 12 of the Securities Exchange Act of 1934</u>
4.1	<u>Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018)</u>
4.2	<u>Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018)</u>
4.3	<u>Equity Interest Pledge Agreement by and among Shanghai Quyun Internet Technology Co., Ltd. (“Shanghai Quyun”), Shanghai Jifen Culture Communications Co., Ltd. (“Shanghai Jifen”) and each shareholder of Shanghai Jifen (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018)</u>
4.4	<u>Voting Rights Proxy Agreement by and among Shanghai Quyun, Shanghai Jifen and each shareholder of Shanghai Jifen (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018)</u>

Exhibit Number	Description of Document
4.5	<u>Exclusive Technology and Consulting Service Agreement by and between Shanghai Quyun and Shanghai Jifen (incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>
4.6	<u>Exclusive Option Agreement by and among Shanghai Quyun, Shanghai Jifen and each shareholder of Shanghai Jifen (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>
4.7	<u>Loan Agreement by and among Shanghai Quyun and each shareholder of Shanghai Jifen (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>
4.8	<u>Qutoutiao Inc. Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Registration Statement on Form S-8 (Registration No. 333-229673), filed with the Securities and Exchange Commission on February 14, 2019).</u>
4.9	<u>Series B1 Preferred Share Purchase Agreement, dated March 4, 2018, by and among Image Flag Investment (HK) Limited, the Registrant, its principal shareholders and subsidiaries and other parties named thereto (incorporated herein by reference to Exhibit 10.10 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>
4.10	<u>Series B2 Preferred Share Purchase Agreement, dated March 8, 2018, by and among several investors, the Registrant, its principal shareholders and subsidiaries and other parties named thereto (incorporated herein by reference to Exhibit 10.11 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>
4.11	<u>Trust Deed dated February 26, 2018 among the Registrant, The Core Trust Company Limited, as trustee, and Qu World Limited and QFUN Limited, each as a nominee (incorporated herein by reference to Exhibit 10.12 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>
4.12	<u>Baidu Alliance Membership Registration Agreement (English Translation) (incorporated herein by reference to Exhibit 10.16 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>
4.13	<u>Series B3 Preferred Share Purchase Agreement, dated April 19, 2018, by and among several investors, the Registrant, its principal shareholders and subsidiaries and other parties named thereto (incorporated herein by reference to Exhibit 10.17 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>
4.14	<u>Series C1 Preferred Share Purchase Agreement, dated August 17, 2018, by and among Shimmering Investment (BVI) Ltd., the Registrant, its principal shareholders and subsidiaries and other parties named thereto (incorporated herein by reference to Exhibit 10.18 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>
4.15	<u>Series C1 Preferred Share Purchase Agreement, dated August 17, 2018, by and among CG Partners Opportunity Fund SP, the Registrant, its principal shareholders and subsidiaries and other parties named thereto (incorporated herein by reference to Exhibit 10.19 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>

Exhibit Number	Description of Document
4.16	<u>Supplementary Agreement to Series C1 Preferred Share Purchase Agreement, dated September 4, 2018, by and among Shimmering Horizon L.P., the Registrant, its principal shareholders and subsidiaries and other parties named thereto (incorporated herein by reference to Exhibit 10.20 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>
4.17	<u>Series C2 Preferred Share Purchase Agreement, dated August 27, 2018, by and among Shanghai Pengpai Online Network Technology Co., Ltd., the Registrant, its principal shareholders and subsidiaries and other parties named thereto (incorporated herein by reference to Exhibit 10.21 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>
4.18	<u>Strategic Cooperation Framework Agreement, dated August 27, 2018, by and between Shanghai Dongfang Newspaper Co., Ltd. and Shanghai Jifen (English Translation), (incorporated herein by reference to Exhibit 10.22 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>
4.19	<u>Supplementary Agreement to Series C1 Preferred Share Purchase Agreement, dated September 11, 2018, by and among CG Partners Opportunity Fund SP, the Registrant, its principal shareholders and subsidiaries and other parties named thereto (incorporated herein by reference to Exhibit 10.23 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018).</u>
4.20	<u>Equity Interest Pledge Agreement by and among Shanghai Zhicao Information Technology Co., Ltd. (“Shanghai Zhicao”), Shanghai Big Rhinoceros Horn Information Technology Co., Ltd (“Big Rhinoceros Horn”) and each shareholder of Big Rhinoceros Horn (English Translation) (incorporated herein by reference to Exhibit 10.20 to the registration statement on Form F-1 (File No. 333-230624), as amended, initially filed with the Securities and Exchange Commission on March 29, 2019).</u>
4.21	<u>Voting Rights Proxy Agreement by and among Shanghai Zhicao, Big Rhinoceros Horn and each shareholder of Big Rhinoceros Horn (English Translation) (incorporated herein by reference to Exhibit 10.21 to the registration statement on Form F-1 (File No. 333-230624), as amended, initially filed with the Securities and Exchange Commission on March 29, 2019).</u>
4.22	<u>Exclusive Technology and Consulting Service Agreement by and between Shanghai Zhicao and Big Rhinoceros Horn (English Translation) (incorporated herein by reference to Exhibit 10.22 to the registration statement on Form F-1 (File No. 333-230624), as amended, initially filed with the Securities and Exchange Commission on March 29, 2019).</u>
4.23	<u>Exclusive Option Agreement by and among Shanghai Zhicao, Big Rhinoceros Horn and each shareholder of Big Rhinoceros Horn (English Translation) (incorporated herein by reference to Exhibit 10.23 to the registration statement on Form F-1 (File No. 333-230624), as amended, initially filed with the Securities and Exchange Commission on March 29, 2019).</u>
4.24	<u>Loan Agreement by and among Shanghai Zhicao and each shareholder of Big Rhinoceros Horn (English Translation) (incorporated herein by reference to Exhibit 10.24 to the registration statement on Form F-1 (File No. 333-230624), as amended, initially filed with the Securities and Exchange Commission on March 29, 2019).</u>
4.25	<u>Convertible Loan Agreement, dated March 28, 2019, by and between the Registrant and Alibaba Investment Limited (incorporated herein by reference to Exhibit 10.25 to the registration statement on Form F-1 (File No. 333-230624), as amended, initially filed with the Securities and Exchange Commission on March 29, 2019).</u>

Exhibit Number	Description of Document
4.26*	<u>Series B Preferred Share Purchase Agreement, dated September 24, 2019, by and among Fun Literature Limited, Fun Literature (HK) Limited, Shanghai Zhicao, Big Rhinoceros Horn, Qutoutiao Inc. and CMC Rocket Holdings Limited</u>
4.27*	<u>Share Pledge Agreement, dated September 29, 2019, by and among Shanghai Quyun, Anhui Zhangduan Internet Technology Co., Ltd. (“Anhui Zhangduan”) and each shareholder of Anhui Zhangduan (English Translation)</u>
4.28*	<u>Voting Rights Proxy Agreement, dated September 29, 2019, by and among Shanghai Quyun, Anhui Zhangduan and each shareholder of Anhui Zhangduan (English Translation)</u>
4.29*	<u>Exclusive Technical and Consulting Service Agreement, dated September 29, 2019, by and between Shanghai Quyun and Anhui Zhangduan (English Translation)</u>
4.30*	<u>Exclusive Option Agreement, dated September 29, 2019, by and among Shanghai Quyun, Anhui Zhangduan and each shareholder of Anhui Zhangduan (English Translation)</u>
4.31*	<u>Loan Agreement, dated September 29, 2019, by and among Shanghai Quyun and each shareholder of Anhui Zhangduan (English Translation)</u>
4.32*	<u>Share Pledge Agreement, dated January 1, 2019, by and among Shanghai Quyun, Shanghai DragonS Information Technology, Co., Ltd. (“DragonS Information”) and each shareholder of DragonS Information (English Translation)</u>
4.33*	<u>Voting Rights Proxy Agreement, dated January 1, 2019, by and among Shanghai Quyun, DragonS Information and each shareholder of DragonS Information (English Translation)</u>
4.34*	<u>Exclusive Technical and Consulting Service Agreement, dated January 1, 2019, by and between Shanghai Quyun and DragonS Information (English Translation)</u>
4.35*	<u>Exclusive Option Agreement, dated January 1, 2019, by and among Shanghai Quyun, DragonS Information and each shareholder of DragonS Information (English Translation)</u>
4.36*	<u>Loan Agreement, dated January 1, 2019, by and among Shanghai Quyun and each shareholder of DragonS Information (English Translation)</u>
4.37*	<u>Share Pledge Agreement, dated June 1, 2019, by and among Shanghai Quyun, Hubei Rapid Information Technology Co., Ltd. (“Rapid Information”) and each shareholder of Rapid Information (English Translation)</u>
4.38*	<u>Voting Rights Proxy Agreement, dated June 1, 2019, by and among Shanghai Quyun, Rapid Information and each shareholder of Rapid Information (English Translation)</u>
4.39*	<u>Exclusive Technical and Consulting Service Agreement, dated June 1, 2019, by and between Shanghai Quyun and Rapid Information (English Translation)</u>
4.40*	<u>Exclusive Option Agreement, dated June 1, 2019, by and among Shanghai Quyun, Rapid Information and each shareholder of Rapid Information (English Translation)</u>
4.41*	<u>Loan Agreement, dated June 1, 2019, by and among Shanghai Quyun and each shareholder of Rapid Information (English Translation)</u>
8.1*	<u>List of Subsidiaries</u>
11.1	<u>Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-226913), as amended, initially filed with the Securities and Exchange Commission on August 17, 2018)</u>
12.1*	<u>Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>

Exhibit Number	Description of Document
12.2*	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Independent Registered Public Accounting Firm
15.2*	Consent of King & Wood Mallesons
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Furnished herewith

† Certain portions of this exhibit have been redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K. The omitted information is (i) not material and (ii) would likely cause competitive harm to the Company if publicly disclosed. Schedules have been omitted from this exhibit pursuant to Item 601(a)(5) of Regulation S-K. The Company agrees to furnish supplementally an unredacted copy of the exhibit or a copy of any omitted schedule to the SEC upon its request.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

QUTOUTIAO INC.

By /s/ Eric Siliang Tan
Name: Eric Siliang Tan
Title: Chairman and Chief Executive Officer

Date: April 23, 2020

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2018 and 2019	F-3
Consolidated Statements of Comprehensive Loss for the years ended December 31, 2017, 2018 and 2019	F-5
Consolidated Statements of Changes in Shareholders' Equity (Deficit) for the years ended December 31, 2017, 2018 and 2019	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2018 and 2019	F-9
Notes to the Consolidated Financial Statements	F-11

To the Board of Directors and Shareholders of Qutoutiao Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Qutoutiao Inc. and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive loss, of changes in shareholders’ equity (deficit) and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People’s Republic of China

April 23, 2020

We have served as the Company’s auditor since 2017.

QUTOUTIAO INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2018 and 2019
(RMB, except share data and per share data, or otherwise noted)

	Note	As of December 31, 2018 RMB	As of December 31, 2019	
			RMB	US\$ (Note 2(e))
ASSETS				
Current assets:				
Cash and cash equivalents	5	2,186,288,246	347,817,093	49,960,799
Restricted cash	2(h)	—	27,871,552	4,003,498
Short-term investments	2(i)	115,436,080	1,276,830,926	183,405,287
Accounts receivable, net	6	203,984,074	526,822,932	75,673,379
Amounts due from related parties	21	—	278,155,878	39,954,592
Prepayments and other current assets	7	120,365,506	234,728,386	33,716,623
Total current assets		2,626,073,906	2,692,226,767	386,714,178
Non-current assets:				
Property and equipment, net	8	13,929,542	24,115,374	3,463,957
Right-of-use assets, net	10	—	69,241,754	9,945,956
Intangible assets	9	94,527,598	88,943,679	12,775,960
Goodwill	3	7,268,330	7,268,330	1,044,030
Long-term investments	2(l)	—	37,589,200	5,399,351
Other non-current assets	7	10,672,141	20,811,791	2,989,427
Total non-current assets		126,397,611	247,970,128	35,618,681
Total assets		2,752,471,517	2,940,196,895	422,332,859
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' (DEFICIT)/EQUITY				
Current liabilities (including current liabilities of the consolidated variable interest entity("VIEs") and its subsidiaries without recourse to the Company amounting to RMB1,022,418,769 and RMB1,792,082,225, as of December 31, 2018 and December 31, 2019, respectively):				
Accounts payable (including accounts payable of the consolidated VIEs and VIE's subsidiaries without recourse to the Company of RMB73,087,671 and RMB313,189,188 as of December 31, 2018 and December 31, 2019, respectively)		131,249,219	328,268,752	47,152,856
Amounts due to a related party (including amount due to a related party of the consolidated VIEs and VIE's subsidiaries without recourse to the Company of nil and RMB3,330,101 as of December 31, 2018 and 2019, respectively)	21	—	3,436,586	493,635
Registered users' loyalty payable (including registered users' loyalty payable of the consolidated VIEs and VIE's subsidiaries without recourse to the Company of RMB249,881,449 and RMB127,253,323 as of December 31, 2018 and December 31, 2019, respectively)	2(v)	256,661,934	134,145,439	19,268,787
Advance from customers and deferred revenue (including advance from customers and deferred revenue of the consolidated VIEs and VIE's subsidiaries without recourse to the Company of 152,181,358 and RMB 246,251,382 as of December 31, 2018 and December 31, 2019, respectively)		155,099,317	246,630,128	35,426,201
Salary and welfare payable (including salary and welfare payable of the consolidated VIEs and VIE's subsidiaries without recourse to the Company of RMB41,665,582 and RMB126,884,752 as of December 31, 2018 and December 31, 2019, respectively)		43,422,202	129,169,734	18,554,071

	Note	As of December 31, 2018 RMB	As of December 31, 2019	
			RMB	US\$ (Note 2(e))
Tax payable (including tax payable of the consolidated VIEs and VIE's subsidiaries without recourse to the Company of RMB100,757,561 and RMB93,025,726 as of December 31, 2018 and December 31, 2019, respectively)	11	101,286,721	118,156,494	16,972,118
Lease liabilities, current (including lease liabilities, current of the consolidated VIEs and VIE's subsidiaries without recourse to the Company of nil and RMB31,275,663 as of December 31, 2018 and December 31, 2019, respectively)	10	—	38,210,188	5,488,550
Accrued liabilities related to users' loyalty programs (including accrued liabilities related to users' loyalty program of the consolidated VIEs and VIE's subsidiaries without recourse to the Company of RMB44,133,812 and RMB89,184,947 as of December 31, 2018 and December 31, 2019, respectively)	2(v)	44,133,812	89,184,947	12,810,616
Accrued liabilities and other current liabilities (including accrued liabilities and other current liabilities of the consolidated VIEs and VIE's subsidiaries without recourse to the Company of RMB360,711,336 and RMB761,687,143 as of December 31, 2018 and December 31, 2019, respectively)	12	379,130,559	788,495,442	113,260,284
Total current liabilities		<u>1,110,983,764</u>	<u>1,875,697,710</u>	<u>269,427,118</u>
Non-current liabilities:				
Other non-current liabilities	12	9,686,219	7,212,463	1,036,005
Lease liabilities, non-current	10	—	26,651,446	3,828,241
Deferred tax liabilities	18	23,631,899	21,228,656	3,049,306
Convertible loan	13	—	1,218,905,676	175,084,845
Non-current liabilities		<u>33,318,118</u>	<u>1,273,998,241</u>	<u>182,998,397</u>
Total liabilities		<u>1,144,301,882</u>	<u>3,149,695,951</u>	<u>452,425,515</u>
Commitments and contingencies	23			
Mezzanine equity:				
Redeemable non-controlling interests	20	96,936,855	495,844,565	71,223,615
Total mezzanine equity		<u>96,936,855</u>	<u>495,844,565</u>	<u>71,223,615</u>
Shareholders' equity (deficit):				
Class A ordinary shares (US\$0.0001 par value, 50,000,000 shares authorized as of December 31, 2018 and 2019; 37,022,806 shares and 40,812,245 issued as of December 31, 2018 and 2019; 27,522,806 shares and 32,176,825 shares outstanding as of December 31, 2018 and 2019)	15	16,292	20,260	2,910
Class B ordinary shares (US\$0.0001 par value; 34,248,442 shares authorized as of December 31, 2018 and 2019; 34,248,442 shares and 32,937,193 shares issued and outstanding as of December 31, 2018 and 2019)	15	25,255	24,391	3,504
Additional paid-in capital		3,684,130,058	4,321,100,861	620,687,302
Treasury stock (US\$0.0001 par value; 9,500,000 and 8,635,420 shares as of December 31, 2018 and December 31, 2019, respectively)		—	(142,228,779)	(20,429,886)
Accumulated other comprehensive (loss)		(16,428,875)	(17,934,525)	(2,576,132)
Accumulated deficit		(2,153,235,425)	(4,862,464,162)	(698,449,275)
Total Qutoutiao Inc. shareholders' equity (deficit)		<u>1,514,507,305</u>	<u>(701,481,954)</u>	<u>(100,761,577)</u>
Non-controlling interests	20	(3,274,525)	(3,861,667)	(554,694)
Total shareholders' equity (deficit)		<u>1,511,232,780</u>	<u>(705,343,621)</u>	<u>(101,316,271)</u>
Total liabilities, mezzanine equity and shareholders' equity		<u><u>2,752,471,517</u></u>	<u><u>2,940,196,895</u></u>	<u><u>422,332,859</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

QUTOUTIAO INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the years ended December 31, 2017, 2018 and 2019
(RMB, except share data and per share data, or otherwise noted)

	Note	Year ended December 31,			
		2017 RMB	2018 RMB	2019 RMB	2019 US\$(Note 2(e))
Advertising and marketing revenue		512,882,481	2,796,810,549	4,942,104,752	709,888,930
Advertising and marketing revenue- related parties	21	—	17,447,475	473,215,790	67,973,195
Other revenue		4,170,469	178,290,618	154,760,062	22,229,892
Other revenue-related parties	21	—	29,597,143	—	—
Net revenues		<u>517,052,950</u>	<u>3,022,145,785</u>	<u>5,570,080,604</u>	<u>800,092,017</u>
Cost of revenues		(75,996,476)	(497,592,461)	(1,598,220,452)	(229,570,004)
Cost of revenues-related parties	21	(484,019)	(6,020,268)	(42,411,604)	(6,092,046)
Gross profit		<u>440,572,455</u>	<u>2,518,533,056</u>	<u>3,929,448,548</u>	<u>564,429,967</u>
Operating expenses:					
Research and development expenses		(15,096,815)	(270,107,740)	(926,231,578)	(133,044,842)
Research and development expenses-related parties	21	(220,189)	—	—	—
Sales and marketing expenses		(493,775,027)	(3,226,367,334)	(5,486,423,653)	(788,075,448)
Sales and marketing expenses-related parties	21	(950,185)	(23,670,772)	(3,284,223)	(471,749)
General and administrative expenses		(10,812,869)	(980,725,286)	(267,033,100)	(38,356,905)
General and administrative expenses-related parties	21	(15,133,767)	—	—	—
Total operating expenses		<u>(535,988,852)</u>	<u>(4,500,871,132)</u>	<u>(6,682,972,554)</u>	<u>(959,948,944)</u>
Other operating income	19	—	724,892	30,292,356	4,351,225
Loss from operations		<u>(95,416,397)</u>	<u>(1,981,613,184)</u>	<u>(2,723,231,650)</u>	<u>(391,167,752)</u>
Interest income		673,858	27,087,009	48,440,468	6,958,038
Interest expense		—	—	(26,878,316)	(3,860,829)
Foreign exchange related gains, net		—	4,133,996	1,868,497	268,393
Investment income		—	4,214,607	6,327,104	908,832
Other income/(expenses), net	2(aa)	(17,150)	(69,181)	9,048,926	1,299,797
Loss before income taxes		<u>(94,759,689)</u>	<u>(1,946,246,753)</u>	<u>(2,684,424,971)</u>	<u>(385,593,521)</u>
Income tax benefit/ (expense)	18	—	400,541	(4,842,876)	(695,636)
Net loss		<u>(94,759,689)</u>	<u>(1,945,846,212)</u>	<u>(2,689,267,847)</u>	<u>(386,289,157)</u>
Net loss attributable to non-controlling interests		—	3,274,525	587,142	84,338
Net loss attributable to Qutoutiao Inc.		<u>(94,759,689)</u>	<u>(1,942,571,687)</u>	<u>(2,688,680,705)</u>	<u>(386,204,829)</u>
Accretion to convertible redeemable preferred shares redemption value		(6,012,783)	(101,806,743)	—	—
Accretion to redemption value of convertible redeemable preferred shares of a subsidiary	20	—	(978,201)	(20,548,032)	(2,951,540)
Gains on repurchase of convertible redeemable preferred shares	14	—	18,332,152	—	—
Deemed dividend to preferred shareholders	14	—	(1,916,871)	—	—
Net loss attributable to Qutoutiao Inc.'s ordinary shareholders		<u>(100,772,472)</u>	<u>(2,028,941,350)</u>	<u>(2,709,228,737)</u>	<u>(389,156,359)</u>
Net loss		<u>(94,759,689)</u>	<u>(1,945,846,212)</u>	<u>(2,689,267,847)</u>	<u>(386,289,157)</u>
Other comprehensive income/ (loss)					
Foreign currency translation adjustment, net of nil tax		24,651	(16,453,526)	(1,505,650)	(216,273)
Total comprehensive loss		<u>(94,735,038)</u>	<u>(1,962,299,738)</u>	<u>(2,690,773,497)</u>	<u>(386,505,430)</u>
Comprehensive loss attributable to non-controlling interests		—	3,274,525	587,142	84,338
Comprehensive loss attributable to Qutoutiao Inc.		<u>(94,735,038)</u>	<u>(1,959,025,213)</u>	<u>(2,690,186,355)</u>	<u>(386,421,092)</u>
Net loss per share attributable to Qutoutiao Inc.'s ordinary shareholders					
— Basic and diluted	22	(3.95)	(52.69)	(39.41)	(5.66)
Weighted average number of ordinary shares used in per share calculation:					
— Basic and Diluted	22	<u>25,542,031</u>	<u>38,507,184</u>	<u>68,749,981</u>	<u>68,749,981</u>

The accompanying notes are an integral part of these consolidated financial statements.

QUTOUTIAO INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2017, 2018 and 2019
(RMB, except share data and per share data, or otherwise noted)

	Outstanding ordinary shares		Additional paid-in capital	Treasury stocks		Accumulated other		Statutory reserves	Non-controlling interests	Total shareholders' deficit
	Number of Shares	Amount		Number of Shares	Amount	comprehensive income	Accumulated deficit			
Balance as of January 1, 2017	24,062,500	15,723	1,118,808	10,000,000	—	—	(12,325,548)	—	—	(11,191,017)
Share-based compensation expense (Note 16)	—	—	3,378,827	—	—	—	—	—	—	3,378,827
Distribution to the founder (Note 16)	—	—	4,358,681	—	—	—	(4,358,681)	—	—	—
Accretion on Series A convertible redeemable preferred shares to redemption value	—	—	—	—	—	—	(5,213,802)	—	—	(5,213,802)
Accretion on Series A1 convertible redeemable preferred shares to redemption value	—	—	—	—	—	—	(798,981)	—	—	(798,981)
Net loss for the year	—	—	—	—	—	—	(94,759,689)	—	—	(94,759,689)
Foreign currency translation	—	—	—	—	—	24,651	—	—	—	24,651
Balance as of December 31, 2017	24,062,500	15,723	8,856,316	10,000,000	—	24,651	(117,456,701)	—	—	(108,560,011)

The accompanying notes are an integral part of these consolidated financial statements.

QUTOUTIAO INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2017, 2018 and 2019
(RMB, except share data and per share data, or otherwise noted)

	Outstanding ordinary shares		Additional paid-in capital	Treasury stocks		Accumulated other comprehensive income/(loss)	Accumulated deficit	Statutory reserves	Non-controlling interests	Total shareholders' deficit
	Number of Shares	Amount		Number of Shares	Amount					
Balance as of January 1, 2018	24,062,500	15,723	8,856,316	10,000,000	—	24,651	(117,456,701)	—	—	(108,560,011)
Share-based compensation expense (Note 16)	—	—	951,626,250	—	—	—	—	—	—	951,626,250
Distribution to the founder (Note 16)	—	—	6,837,374	—	—	—	(6,837,374)	—	—	—
Accretion on Series A convertible redeemable preferred shares to redemption value	—	—	—	—	—	—	(15,718,213)	—	—	(15,718,213)
Accretion on Series A1 convertible redeemable preferred shares to redemption value	—	—	—	—	—	—	(4,840,875)	—	—	(4,840,875)
Accretion on Series B1 convertible redeemable preferred shares to redemption value	—	—	—	—	—	—	(37,001,459)	—	—	(37,001,459)
Accretion on Series B2 convertible redeemable preferred shares to redemption value	—	—	—	—	—	—	(31,800,587)	—	—	(31,800,587)
Accretion on Series B3 convertible redeemable preferred shares to redemption value	—	—	—	—	—	—	(12,312,158)	—	—	(12,312,158)
Accretion on Series C1 convertible redeemable preferred shares to redemption value	—	—	—	—	—	—	(133,451)	—	—	(133,451)
Accretion on Series A convertible redeemable preferred shares of a subsidiary	—	—	—	—	—	—	(978,201)	—	—	(978,201)
Deemed dividend to preferred shareholders (Note 14)	—	—	1,916,871	—	—	—	(1,916,871)	—	—	—
Conversion of series A, A1, B1, B2, B3, C1 preferred shares to ordinary shares	17,821,248	12,217	2,123,975,054	—	—	—	—	—	—	2,123,987,271
Vesting of restricted shares to founders	15,937,500	10,926	(10,926)	—	—	—	—	—	—	—
Gains on repurchase of convertible redeemable preferred shares	—	—	—	—	—	—	18,332,152	—	—	18,332,152
Issuance of ordinary shares upon Initial Public Offering ("IPO") and over-allotment option, net of cost of issuance (Note 3)	3,450,000	2,364	590,929,119	—	—	—	—	—	—	590,931,483
Exercise of share options	500,000	317	—	(500,000)	—	—	—	—	—	317
Net loss	—	—	—	—	—	—	(1,942,571,687)	—	(3,274,525)	(1,945,846,212)
Foreign currency translation	—	—	—	—	—	(16,453,526)	—	—	—	(16,453,526)
Balance as of December 31, 2018	61,771,248	41,547	3,684,130,058	9,500,000	—	(16,428,875)	(2,153,235,425)	—	(3,274,525)	1,511,232,780

The accompanying notes are an integral part of these consolidated financial statements.

QUTOUTIAO INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2017, 2018 and 2019
(RMB, except share data and per share data, or otherwise noted)

	Outstanding ordinary shares		Additional paid-in capital	Treasury stocks		Accumulated other			Non-controlling interests	Total shareholders' deficit
	Number of Shares	Amount		Number of Shares	Amount	comprehensive income/(loss)	Accumulated deficit	Statutory reserves		
Balance as of January 1, 2019	61,771,248	41,547	3,684,130,058	9,500,000	—	(16,428,875)	(2,153,235,425)	—	(3,274,525)	1,511,232,780
Share-based compensation expense (Note 16)	—	—	271,978,493	—	—	—	—	—	—	271,978,493
Accretion on Series A convertible redeemable preferred shares of a subsidiary	—	—	—	—	—	—	(12,171,842)	—	—	(12,171,842)
Accretion on Series B convertible redeemable preferred shares of a subsidiary	—	—	—	—	—	—	(8,376,190)	—	—	(8,376,190)
Issuance of ordinary shares upon follow-on offering, net of issuance costs (Note 3)	831,967	558	212,143,015	—	—	—	—	—	—	212,143,573
Issuance of ordinary shares to the Paper (Note 3)	1,480,123	1,047	152,849,295	—	—	—	—	—	—	152,850,342
Repurchase of ordinary shares (Note 2y)	(1,166,425)	—	—	1,166,425	(142,228,779)	—	—	—	—	(142,228,779)
Exercise of share options	2,197,105	1,499	—	(2,031,005)	—	—	—	—	—	1,499
Net loss	—	—	—	—	—	—	(2,688,680,705)	—	(587,142)	(2,689,267,847)
Foreign currency translation	—	—	—	—	—	(1,505,650)	—	—	—	(1,505,650)
Balance as of December 31, 2019	<u>65,114,018</u>	<u>44,651</u>	<u>4,321,100,861</u>	<u>8,635,420</u>	<u>(142,228,779)</u>	<u>(17,934,525)</u>	<u>(4,862,464,162)</u>	<u>—</u>	<u>(3,861,667)</u>	<u>(705,343,621)</u>

The accompanying notes are an integral part of these consolidated financial statements.

QUTOUTIAO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017, 2018 and 2019
(RMB, except share data and per share data, or otherwise noted)

	Year ended December 31,			
	2017	2018	2019	US\$(Note 2(e))
	RMB	RMB	RMB	
Cash flows from operating activities				
Net loss	(94,759,689)	(1,945,846,212)	(2,689,267,847)	(386,289,157)
Adjustments for:				
Depreciation of property and equipment	330,238	4,291,284	10,003,655	1,436,935
Amortization of intangible assets	—	1,602,163	10,555,229	1,516,164
Non-cash operating lease expense	—	—	43,513,790	6,250,365
Deferred tax benefit	—	(400,541)	(2,403,243)	(345,204)
Share-based compensation	3,378,827	951,626,250	271,978,493	39,067,266
Interest expense	—	—	26,878,316	3,860,829
Changes in estimate for accrued liabilities related to users' loyalty programs	(100,382,099)	54,601,750	22,687,320	3,258,830
Changes in assets and liabilities, net of impact of acquisition:				
Accounts receivable	(32,099,995)	(160,733,479)	(322,838,858)	(46,372,900)
Amount due from related parties	5,000,000	—	(278,155,878)	(39,954,592)
Prepayments and other current assets	(13,759,902)	(74,365,824)	(85,958,956)	(12,347,231)
Other non-current assets	(5,758,946)	(3,388,147)	(8,979,480)	(1,289,822)
Accounts payable	7,050,837	115,892,236	197,019,533	28,300,085
Amount due to related parties	(3,024,000)	—	3,436,586	493,635
Registered users' loyalty payable	19,953,908	235,684,796	(122,516,495)	(17,598,393)
Salary and welfare payable	5,086,102	36,964,404	85,747,532	12,316,863
Tax payable	19,901,230	70,010,545	13,096,995	1,881,266
Accrued liabilities related to users' loyalty programs	262,877,012	(197,471,407)	22,363,815	3,212,361
Accrued liabilities and other current liabilities	19,297,288	353,985,756	392,071,989	56,317,617
Advances from customers and deferred revenue	39,135,595	113,095,683	91,530,811	13,147,578
Operating lease liabilities	—	—	(45,584,621)	(6,547,822)
Non-current liabilities	—	9,686,219	(2,473,756)	(355,333)
Net cash provided by/(used in) operating activities	<u>132,226,406</u>	<u>(434,764,524)</u>	<u>(2,367,295,070)</u>	<u>(340,040,660)</u>
Cash flows from investing activities:				
Purchase of short-term investments	(539,360,549)	(4,164,032,230)	(2,454,602,495)	(352,581,587)
Purchase of equity investments	—	—	(37,589,200)	(5,399,351)
Proceeds from maturity of short-term investments	421,985,200	4,189,115,780	1,294,361,059	185,923,333
Purchase of intangible assets	—	(72,097,321)	(4,971,310)	(714,084)
Cash paid for acquisitions, net of cash acquired	—	(10,729,825)	—	—
Purchase of property and equipment	(4,543,180)	(14,924,590)	(21,349,657)	(3,066,686)
Proceeds from disposal of property and equipment	—	175,634	—	—
Net cash used in investing activities	<u>(121,918,529)</u>	<u>(72,492,552)</u>	<u>(1,224,151,603)</u>	<u>(175,838,376)</u>
Cash flows from financing activities:				
Proceeds from issuance of Series A Convertible redeemable Preferred Shares, net of issuance costs	208,490,509	—	—	—
Proceeds from issuance of Series A1 Convertible redeemable Preferred Shares, net of issuance costs	63,630,530	—	—	—
Proceeds from issuance of Series B1 Convertible redeemable Preferred Shares, net of issuance costs	—	651,736,522	—	—
Proceeds from issuance of Series B2 Convertible redeemable Preferred Shares, net of issuance costs	—	569,316,830	—	—
Proceeds from issuance of Series B3 Convertible redeemable Preferred Shares, net of issuance costs	—	282,249,969	—	—
Proceeds from issuance of Series C1 Convertible redeemable Preferred Shares, net of issuance costs	—	104,947,585	—	—
Proceeds from issuance of Series A Convertible redeemable Preferred Shares of a subsidiary, net of issuance cost	—	97,147,400	27,357,503	3,929,659
Proceeds from issuance of Series B Convertible redeemable Preferred Shares of a subsidiary, net of issuance cost	—	—	353,337,104	50,753,699
Proceeds from issuance of ordinary shares upon Initial Public Offering and over-allotment option, net of cost of issuance	—	592,507,394	—	—
Payment of accrued Initial Public Offering expense	—	—	(1,575,911)	(226,365)
Proceeds from follow-on offering, net of issuance costs	—	—	212,143,573	30,472,518
Proceeds from issuance of ordinary shares to The Paper	—	—	144,351,128	20,734,742
Proceeds from Convertible Loan, net of issuance costs	—	—	1,174,616,692	168,723,131
Payment for repurchase of ordinary shares	—	—	(142,228,779)	(20,429,886)
Cash received from other financing activities	—	138,051	—	—
Net cash provided by financing activities	<u>272,121,039</u>	<u>2,298,043,751</u>	<u>1,768,001,310</u>	<u>253,957,498</u>
Net increase/ (decrease) in cash, cash equivalents and restricted cash	<u>282,428,916</u>	<u>1,790,786,675</u>	<u>(1,823,445,363)</u>	<u>(261,921,538)</u>
Effect of exchange rate changes on cash, restricted cash and cash equivalents	(4,239,131)	117,043,158	12,845,762	1,845,178
Cash, cash equivalents and restricted cash at the beginning of year	<u>268,628</u>	<u>278,458,413</u>	<u>2,186,288,246</u>	<u>314,040,657</u>
Cash, cash equivalents and restricted cash at the end of year	<u>278,458,413</u>	<u>2,186,288,246</u>	<u>375,688,645</u>	<u>53,964,297</u>
Supplemental disclosure of cash flow information:				
Accounts payable related to the purchase of property and equipment	263,000	—	—	—
Accrued Initial Public Offering expense	—	1,575,911	—	—
Accrued Series A and B convertible redeemable preferred shares issuance cost of a subsidiary	—	126,146	435,000	62,484
Revenue recognized for non-monetary transactions (Note 7)	—	—	(40,000,000)	(5,745,640)
Sales and marketing expense recorded for non-monetary transactions (Note 7)	—	—	21,132,075	3,035,433
Incentive payment to customer (Note 12)	—	(22,842,164)	—	—
Cooperation service fee to The Paper (Note 3)	—	—	(8,499,574)	(1,220,887)
Accretion to Series A preferred shares redemption value	—	15,718,213	—	—
Accretion to Series A1 preferred shares redemption value	5,213,802	4,840,875	—	—
Accretion to Series B1 preferred shares redemption value	798,981	37,001,459	—	—
Accretion to Series B2 preferred shares redemption value	—	31,800,587	—	—
Accretion to Series B3 preferred shares redemption value	—	12,312,158	—	—

Accretion to Series C1 preferred shares redemption value	—	133,451	—	—
Deemed dividend to preferred shares shareholders	—	1,916,871	—	—
Gains on repurchase of convertible redeemable preferred shares	—	(18,332,152)	—	—
Accretion to redemption value of Series A and B convertible redeemable preferred shares of a subsidiary	—	978,201	20,548,032	2,951,540

The below table reconciles cash, cash equivalents, and restricted cash as reported in the consolidated balance sheets to the total of the same amounts shown in the consolidated statements of cash flows

Cash and cash equivalents	278,458,413	2,186,288,246	347,817,093	49,960,799
Restricted cash	—	—	27,871,552	4,003,498
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	<u>278,458,413</u>	<u>2,186,288,246</u>	<u>375,688,645</u>	<u>53,964,297</u>

The accompanying notes are an integral part of these consolidated financial statements.

QUTOUTIAO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(RMB, except share data and per share data, or otherwise noted)

1. Organization and Principal Activities

(a) Principal activities

Qutoutiao Inc. (the “Company”), an exempted company with limited liability incorporated in the Cayman Islands, (i) its various equity-owned consolidated subsidiaries, (ii) its controlled affiliates, and (iii) the subsidiaries of its controlled affiliates are collectively referred to as the “Group”. The Group’s principal activity is to operate mobile platforms Qutoutiao (“QTT”), Quduopai (QDP) and Midu (“MD”) for the distribution, consumption and sharing of light entertainment content. The Group generates revenue primarily by providing cost-effective and targeted advertising solutions through the mobile platforms in the People’s Republic of China (“PRC”), through its controlled affiliates and their wholly-owned subsidiaries thereof (collectively referred to as the “Affiliated Entities”).

As of December 31, 2019, the Company's principal subsidiaries and consolidated Affiliated Entities are as follows:

Name of subsidiaries and VIEs	Date of establishment/ acquisition	Place of incorporation	Percentage of direct or indirect economic ownership
Wholly owned subsidiaries of the Company:			
InfoUniversal Limited("InfoUniversal")	Established on August 15, 2017	Hong Kong	100%
Qtech USA Inc. ("Qtech")	Established on April 23, 2018	USA	100%
Fun Literature Limied (Cayman) ("Fun Literature")	Established on October 19, 2018	Cayman Islands	78%
Shanghai Quyun Internet Technology Co., Ltd. ("Quyun WFOE")	Established on October 13, 2017	PRC	100%
Shanghai Dianguan Network Technology Co., Ltd. ("Dianguan")	Acquired on February 2, 2018	PRC	100%
QTT Asia Ltd.("QTT Asia")	Established on April 10, 2018	British Virgin Islands("BVI")	100%
Shanghai Zhicao Information Technology Co., Ltd. ("Zhicao WFOE")	Established on December 4, 2018	PRC	100%
Variable Interest Entity ("VIEs")			
Shanghai Jifen Culture Communications Co., Ltd. ("Jifen or Jifen VIE")	Established on January 10, 2012	PRC	100%
Beijing Churun Internet Technology Co., Ltd. ("Churun VIE")	Acquired on November 1, 2018	PRC	100%
Shanghai Big Rhinoceros Horn Information Technology, Co., Ltd ("Big Rhinoceros Horn VIE")	Established on November 9, 2018	PRC	100%
Shanghai DragonS Information Technology, Co., Ltd ("DragonS Information VIE")	Established on January 1, 2019	PRC	100%
Anhui Zhangduan Internet Technology Co., Ltd. ("Zhangduan VIE")	Established on March 31, 2017	PRC	100%
Hubei Rapid Information Technology Co., Ltd ("Rapid Information VIE")	Established on March 1, 2019	PRC	100%
Subsidiaries of Variable Interest Entity ("VIE subsidiaries")			
Shanghai Xike Information Technology Service Co., Ltd. ("Xike")	Established on July 14, 2016	PRC	100%
Shanghai Tuile Information Technology Service Co., Ltd. ("Tuile")	Established on July 14, 2016	PRC	100%
Beijing Qukandian Internet Technology Co., Ltd ("Qukandian")	Established on April 13, 2017	PRC	100%
Shanghai Heitu Internet Technology Co., Ltd ("Heitu")	Established on January 1, 2019	PRC	100%
Shanghai Zheyun Internet Technology Co., Ltd ("Zheyun")	Established on January 1, 2019	PRC	100%
Beijing Supreme Pole International Sports Development Co., Ltd. ("Supreme Pole International Sports")	Established on January 1, 2019	PRC	100%
Tianjin Quwen Internet Technology Co., Ltd ("Quwen")	Established on August 9, 2018	PRC	100%

(b) Reorganization

Jifen was incorporated in the PRC in 2012 and started the operation of the mobile platforms for distribution, consumption and sharing of light entertainment content (the “principal business”) from 2016.

To facilitate offshore financing, an offshore corporate structure was formed in July 2017 (the “Reorganization”), which was carried out as follows:

- 1) On July 17, 2017, the Company was incorporated in the Cayman Islands by the founders.
- 2) On August 15, 2017, InfoUniversal was incorporated in Hong Kong with 100% ownership by the Company.
- 3) October 13, 2017, Quyun WFOE was incorporated in the PRC with 100% ownership by InfoUniversal.
- 4) On October 13, 2017, the Group entered into various arrangements (“VIE Agreements”) as related to its Affiliated Entities or its shareholders in order to comply with PRC laws and regulations on internet business.

By entering the VIE Agreements, Jifen became a VIE whose primary beneficiary is Quyun WFOE and the shareholders of Jifen became the “Nominee Shareholders” of Jifen. Reorganization is accounted for as a common control transaction under the pooling of interest method. Accordingly, the accompanying consolidated financial statements have been prepared as if the current corporate structure had been in existence throughout the periods.

Jifen VIE

The Group has entered into various agreements as related to its Affiliated Entities or its shareholders as follows:

Exclusive Technology Support and Consulting Services Agreement

Under the exclusive technology support and consulting services agreement entered on October 13, 2017 between Jifen VIE and Quyun WFOE, Quyun WFOE has the exclusive right to provide to Jifen technology support, business management consulting, marketing consultation, products research and development and technology services related to all technologies, and business operations needed for its business. Quyun WFOE owns the exclusive intellectual property rights created because of the performance of this agreement. The service fee payable by Jifen to Quyun WFOE is determined by Quyun WFOE based on its services provided including various factors such as Quyun WFOE’s incurred technology support and consulting services fees, performance data and Jifen VIE’s revenues. The term of this agreement will expire in 10 years and may be extended at Quyun WFOE’s request prior to the expiration date. Quyun WFOE is entitled to terminate the agreement at any time by providing 30 days’ prior written notice to Jifen VIE. There was no service fee paid and payable from Jifen VIE to Quyun WFOE for the years ended December 31, 2017, 2018 and 2019 as Jifen, in aggregated, has been incurring losses.

Exclusive Option Agreement

The parties to the exclusive option agreement entered on October 13, 2017 are Jifen VIE, Quyun WFOE and each of the shareholders of Jifen VIE. Under the exclusive option agreement, each of the shareholders of Jifen VIE irrevocably granted Quyun WFOE or its designated representative(s) an exclusive option to purchase, to the extent permitted under PRC law, all or part of his or its equity interests in Jifen VIE and all or part of assets of Jifen VIE. Quyun WFOE or its designated representative(s) have sole discretion as to when to exercise such options, either in part or in full. The exercise price shall be the lowest allowable share purchase amount permitted by the PRC law for the 100% equity interest (or pro-rata if Quyun WFOE decides to purchase part of the equity interest). Additionally, the share purchase amount paid by WFOE to the shareholders should be used to settle the outstanding loan amounts under the loan agreement and/or refund back to Quyun WFOE through the method permitted by the PRC law once received. Without Quyun WFOE’s prior written consent, Jifen VIE’s shareholders shall not sell, transfer, mortgage or otherwise dispose their equity interests in Jifen VIE. The agreement expires upon transfer of all shares or assets of Jifen VIE to Quyun WFOE or its designated representative(s). The term of this agreement will expire in 10 years and may be extended at Quyun WFOE’s request prior to the expiration date. Quyun WFOE is entitled to terminate the agreement at any time by providing 30 days’ prior written notice to Jifen VIE.

Voting Rights Proxy Agreement

The parties to the exclusive option agreement entered on October 13, 2017 are Jifen VIE, Quyun WFOE and each of the shareholders of Jifen VIE, with the exception of The Paper (see below for additional information on The Paper arrangement). Under the agreement, each of the shareholders of Jifen VIE irrevocably granted Quyun WFOE or its designated representative(s) the right to exercise his/her rights as a shareholder of Jifen VIE including hosting board of directors meeting, terminate and nominate board members and senior management of Jifen VIE and other shareholders' voting rights. During the period that each of Shanghai Quyun and Shanghai Jifen remain in operation, the voting rights proxy agreement shall be irrevocable and continuously effective and valid for ten years from the execution date unless otherwise agreed to by all parties. Upon the expiration of the original term or any renewal term of the voting rights proxy agreement, the agreement shall be automatically renewed for an additional one year period unless, at least 30 days prior to the expiration date, Shanghai Quyun provides notice to the other parties to the voting rights proxy agreement not to renew the agreement.

Loan Agreement

Quyun WFOE has entered into an interest-free loan agreement with Jifen VIE, which may only be used for the purpose of business operations and development of Jifen VIE. Under the terms of the agreement, Quyun WFOE is going to provide unconditional financial support to Jifen VIE and the amount would be agreed between Quyun WFOE and Jifen VIE. Jifen VIE along with its subsidiaries pledge all its shares equity for the outstanding loan. Also, the maturity date of the loan is the earlier of 10 years, the end of Quyun WFOE's operation period or the end of Jifen VIE's operation period. Upon maturity, Quyun WFOE or its designated third party may purchase the equity interests in the Jifen VIE at a price equal to the lowest allowable amount for a similar transaction per PRC laws, rules and regulations. Quyun WFOE can also accelerate the payment terms of Jifen VIE to repay the loan using its shares/equity. Additionally, Quyun WFOE should provide unconditional capital support to Jifen VIE.

Equity Interest Pledge Agreement

Pursuant to the equity interest pledge agreement between Quyun WFOE and the shareholders of Jifen VIE, with the exception of The Paper (see below for additional information on The Paper arrangement), the shareholders of Jifen VIE has pledged all of their equity interests in Jifen VIE to Quyun WFOE to guarantee the performance by Jifen VIE and its shareholders' performance of their respective obligations under the exclusive option agreement, exclusive technology support and business services agreement, voting rights proxy agreement and loan agreement. If Jifen VIE and/or its shareholders breach their contractual obligations under those agreements, Quyun WFOE, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests.

Jifen, under Generally Accepted Accounting Principles in the United States ("US GAAP"), is considered to be a consolidated VIE in which the Company, or its subsidiaries, through contractual arrangements, bears the risks of, and enjoys the rewards normally associated with, ownership of the entity, and therefore the Company or one of its subsidiaries is the primary beneficiary of the entity. Through the aforementioned contractual agreements, the Company has the ability to:

- exercise effective control over Jifen whereby having the power to direct Jifen's activities that most significantly drive the economic results of Jifen;
- receive substantially all of the economic benefits and residual returns, and absorb substantially all the risks and expected losses from the Jifen as if it was their sole shareholder; and
- have an exclusive option to purchase all of the equity interests in Jifen.

Management evaluated the relationships among the Company, Quyun WFOE and Jifen VIE, and concluded that Quyun WFOE is the primary beneficiary of Jifen VIE. As a result, Jifen's results of operations, assets and liabilities have been included in the Group's consolidated financial statements for all the presented periods.

Except for Jifen VIE mentioned above, the Group's other VIEs entered into the VIE Agreements (Exclusive Technology Support and Consulting Services Agreement, Exclusive Option Agreement, Voting Rights Proxy Agreement, Loan Agreement and Equity Interest Pledge Agreement) which have the same terms as those described in Jifen VIE. As a result, these VIEs' primary beneficiaries are Quyun WFOE and Zhicao WFOE and their shareholders became the "Nominee Shareholders".

In September 2019, Jifen VIE issued equity interests representing 1% of its enlarged share capital to Shanghai Dongfang Newspaper Co., Ltd., commonly known as “The Paper” at a nominal price. The Paper has designated one representative to Jifen VIE’s Board of Directors to assist with enhancing the quality of content on the Company’s platform but does not participate in the VIE’s operational decision making. The Paper will not absorb the losses allocation, if any, from the Jifen VIE. The Company believes that its control over the consolidated VIE and its subsidiaries and the economic benefits received from the consolidated VIE will not be affected and will continue to consolidate the VIE. The 1% equity interests held by The Paper represents a non-controlling interest of the Group.

(c) Going Concern

The Group has incurred losses from operations since inception. The Group incurred net losses of RMB94.8 million, RMB1,945.8 and RMB2,689.3 million for the years ended December 31, 2017, 2018 and 2019, respectively. Accumulated deficit amounted to RMB2,153.2 million and RMB4,862.5 million as of December 31, 2018 and 2019, respectively. Net cash generated from operating activities was approximately RMB132.2 million for the year ended December 31, 2017, and net cash used in operating activities was approximately RMB434.8 million and RMB2,367.3 million for the years ended December 31, 2018 and 2019, respectively. As of December 31, 2018 and 2019, the Group’s working capital was RMB1,515.1 million and RMB816.5 million, respectively. As of December 31, 2019, the Group had cash and cash equivalent of RMB347.8 million, restricted cash of RMB27.9 million and short-term investments of RMB1,276.8 million, and total current and long-term liabilities of RMB1,875.7 million and RMB3,149.7 million, respectively.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on the Group’s ability to reduce cash used in operating activities, obtain capital financing from equity or debt investors and adjust the pace of its operation expansion and control of the related expense to fund its general operations and capital expansion needs.

The Group’s ability to continue as a going concern is dependent on management’s ability to successfully execute its business plans, which include adjusting the pace of its operation expansion and controlling operating cost and expenses to reduce the cash used in operating cash flows. To implement the plans, the Company will enhance user engagement and retention by offering higher quality and diversified contents while closely control the content costs with more selective content acquisition and better leverage of existing content varieties, and continue to optimize the user loyalty programs and the traffic acquisition strategy to efficiently control and reduce these user related costs. The Company will further preserve liquidity and manage cash flows by reducing discretionary expenditure including advertising expenses and general and administrative expenses.

Management has concluded, after giving consideration to its plans as noted above, that they have alleviated the substantial doubt as to its ability to continue as a going concern and believes the Company has sufficient cash and other financial resources and liquidity to fund its operations for one year from the date of the filing of the consolidated financial statements, and that there is not substantial doubt about the Company’s ability to continue operations as a going concern for that one-year period.

2. Principal Accounting Policies

(a) Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

The Reorganization was accounted for as a common control transaction under the pooling of interest method. Accordingly, the accompanying consolidated financial statements have been prepared as if the current corporate structure had been in existence throughout the periods.

Significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements are summarized below.

(b) Use of estimates

The preparation of the Group’s consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from such estimates.

The Company believes that revenue recognition, liabilities related to loyalty programs, consolidation of VIEs, determination of share-based compensation and impairment assessment of long-lived assets reflect more significant judgments and estimates used in the preparation of its consolidated financial statements.

Management bases the estimates on historical experience and on various other assumptions as discussed elsewhere to the consolidated financial statements that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could materially differ from these estimates.

(c) Consolidation

The Group's consolidated financial statements include the financial statements of the Company, its subsidiaries, its VIEs and a VIEs' subsidiaries for which the Company or its subsidiary is the primary beneficiary. All transactions and balances among the Company, its subsidiaries, its VIEs have been eliminated upon consolidation.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting powers; or has the power to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meeting of directors; or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A VIE is an entity in which the Company, or its subsidiary, through contractual agreements, bears the risks of, and enjoys the rewards normally associated with ownership of the entity. In determining whether the Company or its subsidiaries are the primary beneficiary, the Company considered whether it has the power to direct activities that are significant to the VIEs' economic performance, and also the Group's obligation to absorb losses of the VIEs that could potentially be significant to the VIEs or the right to receive benefits from the VIEs that could potentially be significant to the VIEs. The Company's WFOEs and ultimately the Company hold all the variable interests of the VIEs and its subsidiaries, and have been determined to be the primary beneficiaries of the VIEs.

The following table sets forth the assets, liabilities, results of operations and cash flows of VIEs and its subsidiaries, which are included in the Group's consolidated financial statements. Transactions between the VIEs and its subsidiaries are eliminated in the balances presented below:

	As of	
	December 31, 2018	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	19,464,246	7,807,740
Restricted cash	—	27,871,552
Short-term investments	5,000,000	31,430,000
Accounts receivable, net	200,289,537	526,689,373
Amount due from subsidiaries of the Company	291,902,904	548,857,973
Amount due from related parties	—	262,581,158
Prepayments and other current assets	80,565,668	172,737,341
Total current assets	597,222,355	1,577,975,137
Non-current assets		
Property and equipment, net	13,376,314	23,152,687
Long-term investments	—	10,000,000
Right-of-use assets	—	61,931,400
Intangible assets	—	4,029,056
Other non-current assets	8,945,774	14,211,365
Total non-current assets	22,322,088	113,324,508
Total assets	619,544,443	1,691,299,645
Liabilities		
Current liabilities		
Accounts payable	73,087,671	313,189,188
Amount due to subsidiaries of the Company	629,835,620	2,734,962,567
Amount due to related parties	—	3,330,101
Registered users' loyalty payable	249,881,449	127,253,323
Advance from customers and deferred revenue	152,181,358	246,251,382
Salary and welfare payable	41,665,582	126,884,752
Tax payable	100,757,561	93,025,726
Lease liabilities, current	—	31,275,663
Accrued liabilities related to users' loyalty programs	44,133,812	89,184,947
Accrued liabilities and other current liabilities	360,711,336	761,687,143
Total current liabilities	1,652,254,389	4,527,044,792
Lease liabilities, non-current	—	25,279,037
Total liabilities	1,652,254,389	4,552,323,829

	Year ended December 31,		
	2017	2018	2019
Net revenues	517,052,950	3,065,573,756	5,627,372,568
Net loss	(90,843,873)	(1,882,747,022)	(2,469,063,768)

	Year ended December 31,		
	2017	2018	2019
Net cash provided by/(used in) operating activities	132,992,222	(77,218,211)	(2,782,745,243)
Net cash provided by/(used in) investing activities	(121,943,180)	90,767,728	(60,545,682)
Net cash (used in) financing activities	—	(5,402,941)	2,859,505,971
Net increase in cash and cash equivalents	<u>11,049,042</u>	<u>8,146,576</u>	<u>16,215,046</u>

In accordance with the aforementioned VIE agreements, the Company has power to direct activities of the VIEs, and can have assets transferred out of VIEs. Therefore the Company considers that there is no asset in VIEs that can be used only to settle obligations of the VIEs, except for registered capital, as of December 31, 2018 and 2019. As the VIEs and their subsidiaries were incorporated as limited liability Company under the PRC Company Law, the creditors do not have recourse to the general credit of the Company for all the liabilities of the VIEs.

There were no pledges or collateralization of the Affiliated Entities' assets. As the Company is conducting its business mainly through the Affiliated Entities, the Company may provide such support on a discretionary basis in the future, which could expose the Company to a loss.

There is no VIEs where the Company has variable interest but is not the primary beneficiary.

The Group believes that the contractual arrangements among its shareholders and WFOEs comply with PRC law and are legally enforceable. However, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements and if the shareholders of the VIEs were to reduce their interests in the Company, their interests may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms.

The Company's ability to control the VIEs also depends on the voting rights proxy and the effect of the share pledge under the Equity Interest Pledge Agreement and the WFOEs have to vote on all matters requiring shareholder approval in the VIEs. As noted above, the Company believes this voting right proxy is legally enforceable but may not be as effective as direct equity ownership.

(d) Functional Currency and Foreign Currency Translation

The Group uses Renminbi ("RMB") as its reporting currency. The functional currency of the Company and its subsidiaries incorporated outside of PRC is the United States dollar ("US\$"), while the functional currency of the PRC entities in the Group is RMB as determined based on the criteria of ASC 830, Foreign Currency Matters.

Transactions denominated in other than the functional currencies are re-measured into the functional currency of the entity at the exchange rates prevailing on the transaction dates. Financial assets and liabilities denominated in other than the functional currency are re-measured at the balance sheet date exchange rate. The resulting exchange differences are recorded in the consolidated statements of comprehensive loss as foreign exchange related gain / loss.

The financial statements of the Group are translated from the functional currency to the reporting currency, RMB. Assets and liabilities of the subsidiaries are translated into RMB using the exchange rate in effect at each balance sheet date. Income and expense items are generally translated at the average exchange rates prevailing during the fiscal year. Foreign currency translation adjustments arising from these are accumulated as a separate component of shareholders' deficit on the consolidated financial statement. The exchange rates used for translation on December 31, 2018 and December 31, 2019 were US\$1.00=RMB6.8632 and RMB6.9762, respectively, representing the index rates stipulated by the People's Bank of China.

(e) Convenience Translation

Translations of balances in the Group's consolidated balance sheet, consolidated statement of operations and comprehensive loss and consolidated statement of cash flows from RMB into US\$ as of and for the year ended December 31, 2019 are solely for the convenience of the readers and were calculated at the rate of US\$1 = RMB6.9618, representing the noon buying rate set forth in the H.10 statistical release of the US Federal Reserve Board on December 31, 2019. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at that rate on December 31, 2019, or at any other rate.

(f) Fair value of financial instruments

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs that may be used to measure fair value include:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable, market-based inputs, other than quoted prices, in active markets for identical assets or liabilities.

Level 3: Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Accounting guidance also describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

The Group's financial instruments consist principally of cash and cash equivalents, short-term investments, accounts receivable, equity securities, accounts payable, advance from advertising customers, registered users' loyalty payable, other liabilities, and convertible loan.

As of December 31, 2018 and 2019, the carrying values of cash and cash equivalents, short-term investments in time deposits, accounts receivable, accounts payable, advance from customers and deferred revenue, registered users' loyalty payable and other liabilities approximated their fair values reported in the consolidated balance sheets due to the short-term maturities of these instruments. As of December 31, 2019, the estimated fair value of the long-term convertible loan approximated its carrying amount of RMB1,218.9 million due to the short duration between the issuance and period-end date. The convertible loan would qualify as Level 3 in the fair value hierarchy if it was to be carried at fair value due to the presence of significant unobservable inputs.

On a recurring basis, the Group measures its short-term investments in wealth management products at fair value.

The following table sets forth the Group's assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy:

As of December 2018	Level 1	Level 2	Level 3	Balance at fair value
Assets				
Short-term investments — Wealth management products	—	115,436,080	—	115,436,080
As of December 2019	Level 1	Level 2	Level 3	Balance at fair value
Assets				
Short-term investments — Wealth management products	—	314,812,946	—	314,812,946

The Group values its investments in wealth management products issued by certain banks using quoted subscription/redemption prices published by these banks, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 2.

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash in bank and time deposits placed with banks or other financial institutions, which have original maturities of three months or less at the time of purchase and are readily convertible to known amounts of cash.

(h) Restricted cash

As of December 31, 2019, restricted cash of RMB27.9 million represents the cash balance in Jifen VIE's bank accounts that were frozen as a result of a pending litigation. Refer to Note 23 – Commitments and Contingencies for additional information.

(i) Short-term investments

Short-term investments include time deposits placed with original maturities between three months and a year with banks in the PRC and investments in wealth management products issued by certain banks which are redeemable by the Company at any time. As of December 31, 2018 and 2019, the time deposits amounted to nil and RMB962.0 million while the wealth management products amounted to RMB115.4 million and RMB314.8 million respectively. For time deposits with original maturities between three months and a year, its interest income amounted to nil, RMB4.9 million and RMB32.4 million in the consolidated statements of comprehensive loss for the years ended December 31, 2017, 2018 and 2019, respectively. The wealth management products are unsecured with variable interest rates and primarily invested in debt securities issued by the PRC government, corporate debt securities and central bank bills. The Company measures the investments in wealth management products at fair value using the quoted subscription or redemption prices published by these banks. The change in fair value is recorded as investment income amounted to RMB 0.7 million, RMB 4.2 million and RMB 6.3 million in the consolidated statements of comprehensive loss for the years ended December 31, 2017, 2018 and 2019, respectively.

(j) Accounts receivable, net

Accounts receivable are presented net of allowance for doubtful accounts. The Group uses specific identification in providing for bad debts when facts and circumstances indicate that collection is doubtful and based on factors listed in the following paragraph. If the financial conditions of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

The Company maintains an allowance for doubtful accounts which reflects its best estimate of amounts that potentially will not be collected. The Company determines the allowance for doubtful accounts on general basis taking into consideration various factors including but not limited to historical collection experience and credit-worthiness of the customers as well as the age of the individual receivables balance. Additionally, the Company makes specific bad debt provisions based on any specific knowledge the Company has acquired that might indicate that an account is uncollectible. The facts and circumstances of each account may require the Company to use substantial judgment in assessing its collectability.

(k) Property and equipment, net

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Depreciation is calculated using the straight-line method over their estimated useful lives. The estimated useful lives are as follows:

Leasehold improvements	Over the shorter of lease term or estimated useful lives of the assets
Office equipment	3 – 5 years

Expenditures for maintenance and repairs are expensed as incurred. The gain or loss on the disposal of property and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated statements of comprehensive loss.

(l) Equity investments

The Company's equity investments are accounted for as follows:

- Non-marketable equity securities that do not have readily determinable fair value are measured using the measurement alternative recorded at cost less any impairment, plus or minus changes resulting from qualifying observable price changes. As of December 31, 2019, the Company's investments in non-marketable equity securities primarily consist of small, non-controlling investments in companies for which the Company has equity ownership with preferential rights but cannot exert significant influence. The carrying value of equity securities without readily determinable fair values was nil and RMB10.0 million as of December 31, 2018 and 2019 respectively. There were no fair value changes related to these investments for the years ended December 31, 2018 and 2019.
- Equity method investments are securities that the Company does not control, but are able to exert significant influence over the investee. These investments are measured at cost less any impairment, plus or minus our share of equity method investee income or loss. An impairment loss on the equity method investments is recognized in earnings when the decline in value is determined to be other-than-temporary. As of December 31, 2019, the Company's equity method investment is an investment of RMB27.6 million as a limited partner in a venture fund that has not completed set-up.

The Company monitors its investments for other-than-temporary impairment by considering factors including, but not limited to, current economic and market conditions, the operating performance of the companies including current earnings trends and other company-specific information.

(m) Goodwill and intangible assets

Intangible assets

Intangible assets represent the acquired right to operate an online audio/video content platform(note 9), which is amortized on a straight-line basis over its estimated useful life of 10 years, as well as computer software, which is amortized on a straight-line basis over its estimated useful life of 3-10 years. The estimated life of intangible assets subject to amortization is reassessed if circumstances occur that indicate the life has changed. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. No impairment of intangible assets was recognized for the years ended December 31, 2018 and 2019.

Goodwill

Goodwill represents the excess of the total cost of the acquisition over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed of the acquired entity as a result of the Company's acquisitions of interests in its subsidiaries and VIEs. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. The Company first assesses qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of the reporting unit is less than its carrying value. In the qualitative assessment, the Company considers primary factors such as industry and market considerations, overall financial performance of the reporting unit and other specific information related to the operations. If the reporting unit does not pass the qualitative assessment, the Company estimates its fair value and compares the fair value with the carrying value of its reporting unit, including goodwill. If the fair value is greater than the carrying value of its reporting unit, no impairment is recorded. If the fair value is less than the carrying value, an impairment loss is recognized for the amount that the carrying amount of a reporting unit, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. The impairment charge would be recorded to earnings in the consolidated statements of operations.

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets, liabilities and goodwill to reporting units and the determination of the fair value of each reporting unit. The Company estimates the fair value of the reporting unit using a discounted cash flow model. This valuation approach considers various assumptions including projections of future cash flows, perpetual growth rates and discount rates. The assumptions about future cash flows and growth rates are based on management's assessment of a number of factors, including the reporting unit's recent performance against budget, performance in the market that the reporting unit serves, as well as industry and general economic data from third party sources. Discount rate assumptions reflect an assessment of the risk inherent in those future cash flows. Changes to the underlying businesses could affect the future cash flows, which in turn could affect the fair value of the reporting unit. Management performs its annual goodwill impairment test as of December 31. Each quarter the Company reviews the events and circumstances to determine if there are indicators that goodwill may be impaired.

As of December 31, 2019, there is no event or any circumstance that the Company identified, which indicated that the fair value of the Company's reporting unit was substantially lower than the respective carrying value. There was no impairment of goodwill for the years ended December 31, 2018 and 2019 and there was no change in goodwill during 2019.

(n) Impairment of long-lived assets other than Goodwill

For other long-lived assets including property and equipment and other non-current assets, the Group evaluates for impairment whenever events or changes (triggering events) indicate that the carrying amount of an asset may no longer be recoverable. The Group assesses the recoverability of the long-lived assets by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to receive from use of the assets and their eventual disposition. Such assets are considered to be impaired if the sum of the expected undiscounted cash flows is less than the carrying amount of the assets. The impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

(o) Leases

Prior to the adoption of ASC 842 on January 1, 2019:

Leases, including leases of office spaces, where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases are recognized as an expense on a straight-line basis over the lease term. The Group had no capital leases for any of the years stated herein.

Upon and hereafter the adoption of ASC 842 on January 1, 2019:

The Company determines if an arrangement is a lease or contains a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, operating lease liability, and operating lease liability, non-current in the Company's consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. When determining the lease term, the Company includes options to extend or terminate the lease when it is reasonably certain that it will exercise that option, if any. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate, which it calculates based on the credit quality of the Company and by comparing interest rates available in the market for similar borrowings, and adjusting this amount based on the impact of collateral over the term of each lease.

The Company has elected to adopt the following lease policies in conjunction with the adoption of ASU 2016-02: (i) elect for each lease not to separate non-lease components from lease components and instead to account for each separate lease component and the non-lease components associated with that lease component as a single lease component; (ii) for leases that have lease terms of 12 months or less and does not include a purchase option that is reasonably certain to exercise, the Company elected not to apply ASC 842 recognition requirements; and (iii) the Company elected to apply the package of practical expedients for existing arrangements entered into prior to January 1, 2019 to not reassess (a) whether an arrangement is or contains a lease, (b) the lease classification applied to existing leases, and (c) initial direct costs.

(p) Advances from customers and deferred revenue

Certain third party advertising customers pay in advance to purchase advertising and marketing services. Cash proceeds received from customers are initially recorded as advances from advertising customers and are recognized as revenues when revenue recognition criteria are met.

Advances from customers and deferred revenue also consist of prepayments from users in the form of the purchase of the Group's virtual currency that can be used for live streaming and online games that are not yet consumed or converted into virtual items, and that upon the consumption or conversion, are recognized as revenue according to the prescribed revenue recognition policies described below.

(q) Revenue recognition

A. Significant accounting policy

The Group has adopted the new revenue standard, ASC 606, by applying the full retrospective method. Revenues are recognized when or as the control of a good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of goods and services may be transferred over time or at a point in time. Control of goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If the control of goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains the control of goods and services.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer; or
- the Group's efforts or inputs to the satisfaction of the performance obligation.

B. Nature of services

The following is a description of principal activities of the Group from which the Group generates its revenue.

(i) Advertising and marketing

The Group's main revenue generating activity is the provision of online advertising and marketing services. The Group generates revenue from performing specific actions, i.e. an optimized cost per thousand impressions ("oCPM") or optimized cost per click ("oCPC") basis or related advertising and marketing services. Revenue is recognized on an oCPM or oCPC basis as impressions or clicks are delivered, or when related advertising and marketing services are performed.

Whether revenues should be reported on a gross or net basis is determined by an assessment of whether the Group is acting as the principal or an agent in the transaction. In determining whether the Group acts as the principal or an agent, the Group follows the accounting guidance for principal-agent considerations. Such determination involves judgment and is based on evaluation of the terms of each arrangement.

a. Advertising and marketing service provided to advertising customers

Before February 2018, the Group engaged certain advertising customers through a third-party advertising agent ("advertising agent"). In the arrangement with this advertising agent, it served as the Group's sales agent in selling the Group's advertising solutions to other second-tier advertising agents. The end advertisers are the customers of the Group as they specifically selected Qutoutiao to display its advertisement and the performance obligation of the Group is to provide the underlying advertising display services. The advertising agent earns a commission of 2% of the advertising revenues in the arrangement in return for providing bidding system for placement on Qutoutiao which the Company recognized as cost of revenues. The Group provides advertising and marketing services to advertising customers and recognizes advertising and marketing revenues on a gross basis as impressions or clicks are delivered.

The Group receives refundable advance payments from advertising customers through this advertising agent and reconciles the advertising and marketing revenue with this advertising agent. If the advance payment deposited in the Group is not ultimately used for the advertisement on Qutoutiao, the Group refunds the advance payment back to advertising customers through this advertising agent.

In February 2018, the Group acquired 100% equity interests of this advertising agent with a total consideration of RMB 15.0 million (Note 3). Since the acquisition, the Group has effectively been providing advertising and marketing services to these advertising customers directly and continues to recognize revenue on a gross basis as clicks or impressions are delivered.

Besides this arrangement, the Group also provides advertising and marketing services to advertising customers directly.

Starting from 2019, the placement of the advertising customers' advertisements is not restricted to be only on Qutoutiao's application. When advertisements cannot be placed on Qutoutiao due to capacity limit or bidding, the Group has the discretion to choose a media platform for advertisement placement. The Group determined it is the principal to the advertising customer when the Group (1) is the primary obligor ultimately responsible for delivering advertising and marketing services to the advertising customers, (2) has the discretion in pricing and (3) takes certain risks of loss due to the different settlement methods between the media platform and advertising customers. Hence, the Group recognizes the revenue on a gross basis.

In May 2019, the Group also started a new advertising and marketing service by providing integrated marketing solution to its customers based on their customized needs. The services include but are not limited to designing and executing a systematic marketing plan online and offline, coming up with best solutions for online promotion of the customers' mobile application by selecting appropriate advertisement platforms, designing the advertisement clips, monitoring advertisement effects and organizing offline marketing campaigns. The Group pays the vendors or suppliers when costs are incurred and advertisements are displayed while the Group charges the service fees to the customers based on specified achievements, i.e. a Gross Merchandise Volume ("GMV") which revenue is recognized based on number of first effective purchase, or optimized cost per action ("oCPA") basis which revenue is recognized based on number of registered new users. The Group is the principal ultimately responsible for delivering the integrated marketing services to the customers in the arrangement, it has the discretion in pricing and takes certain risks of loss as the results cannot be guaranteed while costs are incurred. The Group recognizes the integrated marketing services revenue at gross based on GMV or oCPA basis and recognizes incurred expenses to vendors or suppliers as cost of revenue.

b. Advertising and marketing services provided to advertising platforms

The Group provides advertising and marketing services to other third-party advertising platforms. In the arrangement with these advertising platforms, these advertising platforms are the customers of the Group and the performance obligation of the Group is to provide traffic service to these advertising platforms. Therefore, the Group recognizes revenue based on the net amount as impressions or clicks are delivered.

(ii) Other services

a. Agent and platform service

After the acquisition of the advertising agent in February 2018 (Note 3), the Group also provides agent and platform service by facilitating the advertising customers to select third-party advertising platforms to display their advertisements. The Group recognizes revenue from the advertising customers based on the net amount equal to certain agreed percentage of the gross revenue earned by the third-party advertising platforms when impressions or clicks are successfully delivered.

b. Live streaming

In January 2019, the Group started operating its own live streaming platform. It generates revenue from sales of virtual items in the platform. Users can access the platforms and view the live streaming content showed by the performers for free. The Group shares a portion of the sales proceeds of virtual items ("revenue sharing fee") with performers and talent agencies in accordance with their revenue sharing arrangements.

The Group evaluates and determines that it is the principal and views users to be its customers. The Group reports live streaming revenues on a gross basis. Accordingly, the amounts paid by users to purchase virtual items are recorded as revenues and revenue sharing fee paid to performers and talent agencies are recorded as cost of revenues. Where the Group is the principal, it controls the virtual items before they are transferred to users. Its control is evidenced by the Group's sole ability to monetize the virtual items before they are transferred to users, and is further supported by the Group being primarily responsible to users and having a level of discretion in establishing pricing.

The Group designs, creates and offers various virtual items for sales to users with pre-determined selling price. Users can purchase and present virtual items to performers to show support for their favorite performers and virtual items are consumed and used upon purchase. Accordingly, live streaming revenue is recognized immediately when virtual items are used. The Group does not have further obligations to the user after the virtual items are consumed immediately.

The Group may also enter into contracts that can include various combinations of virtual items and privileges such as priority speaking rights or special symbols, which are generally capable of being distinct and accounted for as separate performance

obligations, such as the VIP member program. Judgments are required as follow: 1) determining whether those virtual items and privilege are considered distinct performance obligations that should be accounted for separately versus together, 2) determining the standalone selling price for each distinct performance obligation, and 3) allocating of the arrangement consideration to the separate accounting of each distinct performance obligation based on their relative standalone selling prices. In instances where standalone selling price is not directly observable as the Group does not sell the virtual item or privilege separately, the Group determines the standalone selling price based on pricing strategies, market factors and strategic objectives. The Group recognizes revenue for each of the distinct performance obligations identified in accordance with the applicable revenue recognition method relevant for that obligation. For consumable virtual items, revenues is recognized immediately when the virtual item is used. For durable virtual items, revenue is recognized over the estimated user relationship periods. For the year ended December 31, 2019, the VIP membership program was not material.

c. Online games

The Group generates revenues from offering virtual items in online games developed by third parties to game players.

Users play games on the Group's various mobile applications free of charge and are charged for purchases of consumable virtual items, which can be utilized in the online games to enhance their game-playing experience.

Pursuant to contracts signed between the Group and the respective game developers, although game developers own the games' copyrights and other intellectual property, in general the Group controls the games and takes the main responsibilities to operate the games, maintains a functioning gaming environment for the players, sets the pricing of virtual items, collects the in-game purchase payment from the players and shares the revenue based on a pre-agreed scheme to the game developers. The users make the purchases in the games operated and managed by the Group and the Group provides the game services to the users. Accordingly, the Group is the principal in the arrangements. The revenues derived from these online games are recorded on a gross basis and the amount paid to game developers are recorded as cost of revenue.

Online games revenue is recognized immediately when the consumable virtual item is purchased and used. The Group does not have further obligations to the user after the virtual items are consumed immediately.

In addition, the Group sells the advertisement spots placed in the online games to the advertisers and gets paid based on views/clicks. The advertisements price is negotiated and determined by the Group with a shared fee to be paid to the game developer. Similar to the advertising and marketing service provided to advertising customers described above in 2 (q) B (i) a, the Group is the principal in the arrangement and revenue is recognized on a gross basis as clicks or impressions are delivered with fees paid to game developers as cost of revenue.

d. Online marketplace service

The Group operates an online marketplace which users can access merchandise offered by third-party merchandise suppliers. The suppliers are the customers of the Group as these suppliers are the primary obligor to provide goods and delivery service to the users and the performance obligation of the Group is to provide matching service for the suppliers. The Group acts as an agent in this transaction and recognize revenue when the matching service is completed. The Group settles the payment with suppliers on a monthly basis.

C. Disaggregation of revenue

In the following table, revenue is disaggregated by major service line and gross vs net recognition.

Major service line	For the years ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$ (Note 2(e))
Advertising service provided to advertising customers, recorded gross (1)	264,471,551	2,399,716,518	4,339,602,177	623,344,850
Advertising service provided to advertising platforms, recorded net	248,410,930	414,541,506	1,075,718,365	154,517,275
Other service				
Agent and platform services	4,170,469	203,389,356	33,154,982	4,762,415
Live streaming and online games	-	-	104,445,462	15,002,652
Other revenues	-	4,498,405	17,159,618	2,464,825
Total Other services	4,170,469	207,887,761	154,760,062	22,229,892
	<u>517,052,950</u>	<u>3,022,145,785</u>	<u>5,570,080,604</u>	<u>800,092,017</u>

(1) For the year ended December 31, 2019, revenue in advertising services provided to advertising customers which recorded gross include integrated marketing solution services which amounted to nil, nil and RMB 381.8 million.

(r) Cost of revenues

The Group's cost of revenues consists primarily of (i) bandwidth and server costs, (ii) costs incurred to vendors and suppliers for advertising and marketing services, (iii) content procurement costs paid to third-party professional media companies and freelancers, (iv) direct cost related to in-house content, rental cost, depreciation, salary and welfare for cost personnel and other miscellaneous costs, (v) costs incurred for mobile gaming and live streaming content, (vi) cultural development fee and surcharges. The Group is subject to a cultural development fee on the provision of advertising services in the PRC. The applicable tax rate prior to June 30, 2019 was 3% of the net advertising revenues, and was changed to 1.5% effective July 1, 2019.

(s) Research and development expenses

Research and development expenses consist primarily of (i) salary and welfare for research and development personnel, (ii) stock-based compensation for research and development personnel (iii) office rental expenses (iv) IT service fees and (v) depreciation of office premise and servers utilized by research and development personnel. Costs incurred during the research stage are expensed as incurred. Costs incurred in the development stage, prior to the establishment of technological feasibility, which is when a working model is available, are expensed when incurred.

The Company accounts for internal use software development costs in accordance with guidance on intangible assets and internal use software. This requires capitalization of qualifying costs incurred during the software's application development stage and to expense costs as they are incurred during the preliminary project and post implementation/operation stages. For the years ended December 31, 2017, 2018 and 2019, the Company has not capitalized any costs related to internal use software because the inception of the Group software development costs qualified for capitalization have been insignificant.

(t) Sales and marketing expenses

Sales and marketing expenses consist primarily of (i) rewards to registered users related to loyalty programs, (ii) advertising and marketing expenses, (iii) charges for short mobile message service to registered users (iv) salary and welfare for sales and marketing personnel and (iv) stock-based compensation expenses for sales and marketing personnel. The advertising and marketing expenses amounted to RMB 41.9 million, RMB 1,061.0 million and RMB 2,863.8 million during the years ended December 31, 2017, 2018 and 2019, respectively.

(u) General and administrative expenses

General and administrative expenses also consist of (i) salary and welfare for general and administrative personnel, (ii) office expense and (iii) professional service fees and (iv) stock-based compensation expense. For the years ended December 31, 2017, 2018 and 2019, general and administrative expenses include stock-based compensation expenses of approximately RMB0.2 million, RMB906.8 million and RMB82.0 million. For the year ended December 31, 2018, general and administrative expenses included stock-based compensation expenses approximating RMB 864.7 million expensed upon the completion of IPO related to the vesting of 15,937,500 ordinary shares owned by the founders (Note 16b).

(v) User loyalty programs

The Group has loyalty programs for its registered users primarily in its mobile Qutoutiao, Midu and formerly on Quduopai to enhance user engagement, loyalty and to incentivize word-of-mouth referrals. Through the programs, the Group give users loyalty points and in certain cases cash credits for taking specific actions. Such actions primarily include referring new users to register on the platforms or through the viewing or sharing of content, providing valuable comments and encourage inactive users to continue to the platforms. The cost of users' loyalty points is recognized as sales and marketing expenses in the consolidated statements of operations and comprehensive loss.

On Qutoutiao, the Group's users can redeem earned rewards, which is in a form of cash credits reflecting the same amount of cash value, upon redemption. The Group offers its users the flexibility to choose a number of rewards payment options, including i) online cash out, when the cash credits balance exceeds a certain cash out threshold or at a lower cash out threshold if the users log on Qutoutiao for a certain number of consecutive days, ii) purchasing virtual items in live streaming and online games, iii) purchasing merchandise through Qutoutiao's online market place. On *Midu*, the loyalty program is operated in a similar manner as *Qutoutiao*.

The Group also has a number of other loyalty programs for various applications. As of December 31, 2019, the loyalty program volume associated with these applications are immaterial.

On Quduopai, the Group's users can also earn cash credits (reflecting the same amount of cash value) that they may cash out when the cash credits balance exceeds a certain threshold. Before April 9, 2018, the Group's users on Quduopai could also earn loyalty points, which could only be exchanged for coupons issued to the Group by a third-party, which can be used to purchase goods or service on that third-party's group buying website. The Group did not recognize any expenses or liability for those loyalty points earned on Quduopai since the Group did not bear any additional cost to settle these loyalty points awarded to its users before April 9, 2018. Starting from April 9, 2018, the Group's users on Quduopai who are not content providers, can also start to earn and redeem earned rewards, which is in a form of cash credits reflecting the same amount of cash value, upon request. Users can cash out the rewards when the cash credits balance exceeds a certain cash out threshold. All the outstanding loyalty point granted to users on Quduopai were converted to rewards upon the enacting of the revised loyalty program in April 2018. As a result, the Company recorded costs of RMB 62,359 in the sales and marketing expenses in April 2018. In November 2018, the Company, as a result of the change of business strategy, announced the change of the loyalty program on Quduopai and reversed the unused rewards under the original loyalty program amounted to RMB 11.6 million in the consolidated statements of comprehensive loss. As of December 31, 2019, Quduopai's loyalty program is no longer in place and the ending balance has been reduced to nil.

For *Qutoutiao*'s loyalty program, prior to May 2018 the user's agreement provides that rewards expire after one month. However, the Group may, at its discretion, provide rewards to its users even after one month expiration period. Starting from May 2018, rewards to its users are cleared from their accounts and will not be redeemable after the users have been inactive for 90 days. Other loyalty programs also have similar rewards clearing policies after the users have been inactive for up to 90 days.

The Group's experience indicates that a certain portion of rewards is never redeemed in cash by its users, which the Group refers to as a "breakage". The liability accrued for the reward is reduced by the estimated breakage that is expected to occur. The Group estimates breakage based upon its analysis of relevant reward history and redemption pattern as well as considering the expiration period of the rewards under the users agreement. In the assessment of breakage, each individual user's account is categorized into certain pools of different range of outstanding rewards, and then further grouped into certain sub-groups on the basis of inactivity days. The past reward redemption pattern in those sub-groups was used to estimate the respective breakage for the outstanding rewards in each sub-group at each period end. For the years ended December 31, 2017, 2018 and 2019, total costs related to the users' rewards granted (before estimated breakage) amounted to RMB 527.8 million, RMB 2,207.8 million and RMB 2,708.2 million, respectively, and total rewards redeemed in cash amounted to RMB 245.0 million, RMB 1,973.5 million and RMB 2,514.8 million, respectively. The Company also reversed the accrued rewards of users who have not been active for the period specified in accordance with its rewards clearance policies, which amounted to non-cash adjustments of

nil, RMB 196.3 million and RMB 293.5 million for the years ended December 31, 2017, 2018 and 2019, respectively, which were recorded as a reduction of sales and marketing expense. As of December 31, 2017, 2018 and 2019, the total estimated breakage not accrued approximated to RMB 113.7 million, RMB 59.1 million and RMB 36.5 million, respectively. For the years ended December 31, 2017, 2018 and 2019, rewards consumed by purchasing the virtual items in live streaming and online games amounted to nil, nil and RMB18.0 million, respectively. The consumption was recorded as a reduction of revenue.

Once the amount of accumulated unredeemed rewards for individual user exceeds the cash out threshold or the continuous log-on criteria is reached, the Group reclassifies the balance as “registered users’ loyalty payable” in consolidated balance sheet as a monetary liability and reverses the amount of breakage originally assumed. The registered users’ loyalty payable is derecognized only if (1) the Group pays the user and is relieved of its obligation for the liability by paying the users, including delivery of cash or (2) the Group is legally released from the liability.

The actual cost to settle the estimated liability may differ from the estimated liability recorded. As of December 31, 2018 and 2019, users’ reward recorded in “Registered users’ loyalty payable” were RMB 256.7 million and RMB 134.1 million, respectively, and estimated users’ rewards recorded in “Accrued liabilities related to users’ loyalty programs” were RMB 44.1 million and RMB 89.2 million, respectively.

(w) Employee social security and welfare benefits

Employees of the Group in the PRC are entitled to staff welfare benefits including pension, work-related injury benefits, maternity insurance, medical insurance, unemployment benefit and housing fund plans through a PRC government-mandated multi-employer defined contribution plan. The Group is required to contribute to the plan based on certain percentages of the employees’ salaries, up to a maximum amount specified by the local government.

The PRC government is responsible for the medical benefits and the pension liability to be paid to these employees and the Group’s obligations are limited to the amounts contributed and no legal obligation beyond the contributions made.

(x) Income taxes

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions.

Deferred income taxes are accounted for using an asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purpose. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statements of comprehensive loss in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

Uncertain tax positions

The guidance on accounting for uncertainties in income taxes prescribes a more likely than not threshold for financial statements recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance was also provided on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. Significant judgment is required in evaluating the Group’s uncertain tax positions and determining its provision for income taxes. The Group recognizes interests and penalties, if any, under accrued expenses and other current liabilities on its consolidated balance sheets and under other expenses in its statements of operations and comprehensive loss. The Group did not recognize any significant interest and penalties associated with uncertain tax positions for the years ended December 31, 2017, 2018 and 2019. As of December 31, 2018 and 2019, the Group did not have any significant unrecognized uncertain tax positions.

(y) Treasury Stock

The Group accounts for treasury stock using the cost method. Under this method, the cost incurred to purchase the shares is recorded in the treasury stock account in the consolidated balance sheets. At retirement, the ordinary shares account is charged

only for the aggregate par value of the shares. The excess of the acquisition cost of treasury shares over the aggregate par value is allocated between additional paid-in capital (up to the amount credited to the additional paid-in capital upon original issuance of the shares) and retained earnings. In the event that treasury stock is reissued at an amount different from the cost the Company paid to repurchase the treasury stock, the Company will recognize the difference in additional paid-in capital by using the specified identification method.

Effective May 28, 2019, the Board of Directors approved a share repurchase program to repurchase in the open market up to US\$50 million of outstanding ADSs of the Company, every four of which represents one class A ordinary share, from time to time over the next 12 months. Up to December 31, 2019, 4,665,700 outstanding ADSs (1,166,425 ordinary shares) were repurchased and held in treasury stock with a total consideration of RMB142.2 million. As of December 31, 2019, no repurchased shares have been retired or reissued.

(z) Share-based compensation

Share-based compensation costs are measured at the grant date. The share-based compensation expenses have been categorized as either cost of revenue, general and administrative expenses, selling and marketing expenses or research and development expenses, depending on the job functions of the grantees.

Option granted to employees

For the options granted to employees, the compensation expense is recognized using the straight-line method over the requisite service period. Forfeitures are estimated at the time of grant, with such estimate updated periodically and with actual forfeitures recognized currently to the extent they differ from the estimate. In determining the fair value of the Company's share options, the binomial option pricing model has been applied.

Option granted to non-employee

For share-based awards granted to non-employees, the Group accounts for the related share-based compensation expenses in accordance with ASC subtopic, 505-50 ("ASC 505-50"), Equity-Based Payments to Non-Employees. Under the provision of ASC 505-50, options of the Company issued to non-employees are measured based on fair value of the options which are determined by using the binomial option pricing model. These options are measured as of the earlier of the date at which either: (1) commitment for performance by the non-employee has been reached; or (2) the non-employee's performance is complete. Subsequent to the completion of the performance, the share-based award is assessed in accordance with ASC 815 to determine whether the award meets the definition of a derivative.

Restricted shares

In January 2018, the founders entered into Share Restriction Deeds with the Company such that a total of 15,937,500 ordinary shares of the Company held by the founders became restricted and will be vested in periods from 24 months to 34 months. Prior to the end of the vesting periods, all the remaining restricted shares shall vest immediately and no longer constitute restricted shares upon a Deemed Liquidation Event or IPO of the Company. In the event that the founder voluntarily and unilaterally terminates his employment/service contract with any applicable Group entities or his employment or service relationship is terminated by any applicable Group entities for cause as stated in the Deed, the related founder shall sell to the Company, and the Company shall repurchase from the founder, all of the restricted shares (not vested shares) at a price of US\$0.0001 per share. For accounting purposes, this transaction has been reflected retrospectively similar to a reverse stock split, with a grant of the 15,937,500 restricted shares to be recognized in January 2018 at their then fair value and recognized as compensation expense over the vesting periods. Upon completion of the Company's IPO in September 2018, the restrictions were released. See Note 16 (b).

(aa) Government grants

Government grants are recognized as other income/ (expenses) when received. For the years ended December 31, 2017, 2018 and 2019, the Group received financial subsidies of nil, nil and RMB9.5 million from the local PRC government authorities, respectively. These subsidies were non-recurring, not refundable and with no conditions attached. There are no defined rules and regulations to govern the criteria necessary for companies to enjoy such benefits and the amount of financial subsidy is determined at the discretion of the relevant government authorities.

(ab) Statutory reserves

The Group's subsidiaries, consolidated VIEs and its subsidiaries incorporated in the PRC are required on an annual basis to make appropriations of retained earnings set at certain percentage of after-tax profit determined in accordance with PRC accounting standards and regulations ("PRC GAAP").

Appropriation to the statutory general reserve should be at least 10% of the after tax net income determined in accordance with the legal requirements in the PRC until the reserve is equal to 50% of the entities' registered capital. The Group is not required to make appropriation to other reserve funds and the Group does not have any intentions to make appropriations to any other reserve funds.

The general reserve fund can only be used for specific purposes, such as setting off the accumulated losses, enterprise expansion or increasing the registered capital. Appropriations to the general reserve funds are classified in the consolidated balance sheets as statutory reserves.

There are no legal requirements in the PRC to fund these reserves by transfer of cash to restricted accounts, and the Group was not done so.

Relevant laws and regulations permit payments of dividends by the PRC subsidiaries and affiliated companies only out of their retained earnings, if any, as determined in accordance with respective accounting standards and regulations. Accordingly, the above balances are not allowed to be transferred to the Company in terms of cash dividends, loans or advances.

(ac) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence, such as a family member or relative, shareholder, or a related corporation.

(ad) Dividends

Dividends are recognized when declared. No dividends were declared for the years ended December 31, 2017, 2018 and 2019, respectively. The Group does not have any present plan to pay any dividends on ordinary shares in the foreseeable future. The Group currently intends to retain the available funds and any future earnings to operate and expand its business.

(ae) Loss per share

Basic loss per share is computed by dividing net loss attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year using the two class method. Ordinary shares issuable for little or no cash consideration are also included as outstanding shares once all of their conditions have been met as they are considered contingently issuable shares. Using the two class method, net loss is allocated between ordinary shares and other participating securities (i.e. preferred shares) based on their participating rights.

Diluted loss per share is calculated by dividing net loss attributable to ordinary shareholders as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the year. Dilutive equivalent shares are excluded from the computation of diluted loss per share if their effects would be anti-dilutive. Ordinary share equivalents consist of the ordinary shares issuable in connection with the Group's convertible redeemable preferred shares using the if-converted method, and ordinary shares issuable upon the conversion of the stock options, using the treasury stock method. Except for voting rights, the Class A and Class B ordinary shares have all the same rights and therefore the loss per share for both classes of shares are identical.

(af) Comprehensive loss

Comprehensive loss is defined as the change in shareholders' deficit of the Company during a period arising from transactions and other events and circumstances excluding transactions resulting from investments by shareholders and distributions to shareholders.

Comprehensive loss is reported in the consolidated statements of comprehensive loss. Accumulated other comprehensive losses of the Group include the foreign currency translation adjustments.

(ag) Segment reporting

Operating segments are defined as components of an enterprise engaging in businesses activities for which separate financial information is available that is regularly evaluated by the Group's chief operating decision makers in deciding how to allocate resources and assess performance. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results including revenue, gross profit and operating profit at a consolidated level only. The Group does not distinguish between markets for the purpose of making decisions about resources allocation and performance assessment. Hence, the Group has only one operating segment and one reportable segment.

(ah) Revision to previously issued financial statements

The financial statements for the years ended December 31, 2017 and 2018 have been revised to correct for an immaterial error related to the calculations of basic loss per share due to a failure to include the contingently issuable shares related to options exercisable for a minimal exercise price (RMB 0.0007) in the denominator of basic loss per share once there were no further vesting conditions or contingencies associated with them. The impact of the error was not material to the previously issued financial statements taken as a whole and the impact of these revisions on the previously issued consolidated financial statements are reflected in the following table:

	Year ended December 31, 2017		
	As Previously Reported	Adjustments	As Revised
Numerator:			
Net loss attributable to Qutoutiao Inc.'s ordinary shareholders	(100,772,472)	—	(100,772,472)
Denominator:			
Denominator for basic and diluted loss per share Weighted- average ordinary shares outstanding			
Basic and diluted	24,062,500	1,479,531	25,542,031
Basic and diluted loss per share	(4.19)	0.24	(3.95)
Denominator for basic and diluted loss per ADS Weighted- average ADS outstanding			
Basic and diluted	96,250,000	5,918,124	102,168,124
Basic and diluted loss per ADS	(1.05)	0.06	(0.99)

	Year ended December 31, 2018		
	As Previously Reported	Adjustments	As Revised
Numerator:			
Net loss attributable to Qutoutiao Inc.'s ordinary shareholders	(2,028,941,350)	—	(2,028,941,350)
Denominator:			
Denominator for basic and diluted loss per share Weighted- average ordinary shares outstanding			
Basic and diluted	35,000,472	3,506,712	38,507,184
Basic and diluted loss per share	(57.97)	5.28	(52.69)
Denominator for basic and diluted loss per ADS Weighted- average ADS outstanding			
Basic and diluted	140,001,888	14,026,848	154,028,736
Basic and diluted loss per ADS	(14.49)	1.32	(13.17)

The following potential ordinary shares were excluded from the computation of diluted net loss per ordinary share for the periods presented because including them would have had an anti-dilutive effect:

	Year ended December 31, 2017		
	As Previously Reported	Adjustments	As Revised
Preferred shares — weighted average	1,425,137	—	1,425,137
Share options — weighted average	8,496,225	(1,479,531)	7,016,694
Restricted shares — weighted average	—	—	—

Year ended December 31, 2018

	As Previously Reported	Adjustments	As Revised
Preferred shares — weighted average	10,134,756	—	10,134,756
Share options — weighted average	9,857,447	(3,506,712)	6,350,735
Restricted shares — weighted average	6,976,785	—	6,976,785

(ai) Recent adopted accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to classify leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification determines whether lease expense is recognized over the lease term based on an effective interest method for financing leases or on a straight-line basis for operating leases. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expenses for such lease generally on a straight-line basis over the lease term. For public entities, the guidance was effective for annual reporting periods beginning after December 15, 2018 and for interim periods within those fiscal years.

ASU 2016-02 initially required adoption using a modified retrospective approach, under which all years presented in the financial statements would be prepared under the revised guidance. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842), which added an optional transition method under which financial statements may be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities will recognize a cumulative catch-up adjustment to the opening balance of retained earnings in the period of adoption.

The Company adopted ASC 842 using the modified retrospective transition approach, to be applied to leases existing as of, or entered into after, January 1, 2019. Prior period results continue to be presented under ASC 840 based on the accounting standards originally in effect for such periods. This standard provides a number of optional practical expedients in transition, which has been detailed in accounting policy (o) above.

In connection with the adoption of ASC 842, on January 1, 2019, the Company recorded an impact of RMB 50.4 million on its assets and RMB 47.1 million on its liabilities for the recognition of operating lease right-of-use-assets and operating lease liabilities, respectively, which are primarily related to the lease of the Company’s office spaces. The adoption of ASC 842 did not have a material impact on the Company’s results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-04, “Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which simplifies how an entity is required to test goodwill for impairment by eliminating step two from the goodwill impairment test. Step two of the goodwill impairment test measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with its carrying amount. The Company adopted the new standard effective January 1, 2019 on a prospective basis, and the adoption did not have an impact on the Company’s consolidated financial statements and the related disclosures.

In February 2018, the Financial Accounting Standard Board (“FASB”) issued ASU 2018-02, *Income Statement — Reporting Comprehensive Income (Topic 220) — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, to allow entities to reclassify the income tax effects of tax reform legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”) on items within accumulated other comprehensive income to retained earnings. ASU 2018-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, and early adoption is permitted. The Company adopted ASU 2018-02 on January 1, 2019 and the adoption did not have an impact on the Company’s consolidated financial statements and the related disclosures.

(aj) Recent issued accounting pronouncements

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments — Credit Losses” (“ASU 2016-13”), which introduces new guidance for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, modify the impairment model for available-for-sale debt securities and provide for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The ASU is effective for public companies for fiscal years beginning after December 15, 2019, and

interim periods within those fiscal years. Early adoption is permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

The FASB further issued Accounting Standards Update No. 2018-19, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses,” or ASU 2018-19, Accounting Standards Update No. 2019-04, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses,” or ASU 2019-04, Accounting Standards Update No. 2019-05, “Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief,” or ASU 2019-05, Accounting Standards Update No. 2019-10, “Financial Instruments—Credit Losses (Topic 326): Effective Dates,” or ASU 2019-10 and Accounting Standards Update No. 2019-11, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses,” or ASU 2019-11. The amendments in these ASUs provide clarifications to ASU 2016-13.

The Company will adopt the new standard effective January 1, 2020, and the adoption is not expected to not have a material impact on the Company’s consolidated financial statements and the related disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. This standard eliminates, adds and modifies certain disclosure requirements for fair value measurements in ASC 820, Fair Value Measurement, as part of its disclosure framework project. ASU 2018-13 is effective for the Company beginning January 1, 2020. The amendments in ASU 2018-13 that relate to changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments in ASU 2018-13 should be applied retrospectively to all periods presented upon their effective date. The adoption of this standard is not expected to have a material impact on the Company’s disclosures.

In December 2019, the FASB issued ASU 2019-12—Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments in ASU 2019-12 simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 is effective for the Company beginning on January 1, 2021. Early adoption of the amendments is permitted. The Company is currently evaluating the impact of ASU 2019-12 on its consolidated financial statements.

3. Significant equity transactions and acquisitions

(a) Initial public offering

In September 2018, the Company completed its initial public offering on the NASDAQ Global Market of 13,800,000 American Depositary Shares (“ADS”) (including 1,800,000 ADSs sold upon the full exercise of the underwriters’ over-allotment option) (every four ADS represents one Class A ordinary share, for a total ordinary shares offering of 3,450,000 shares), at a price of US\$7.00 per ADS for a total offering size of approximately US\$96.6 million. The net proceeds raised from the IPO amounted to approximately RMB 590.9 million (US\$85.9 million) after deducting underwriting discounts and commissions and other offering expenses.

Upon the completion of the IPO, all classes of preferred shares of the Company were converted and designated as Class A ordinary shares on a one-for-one basis. 34,248,442 ordinary shares, including the vesting of 15,937,500 ordinary owned by the founders that became subsequently restricted on January 3, 2018, were designated as Class B ordinary share on a one-for-one basis. The remaining ordinary shares were designated as Class A ordinary shares on a one-for-one basis.

In respect of all matters subject to shareholders’ vote, each holder of Class A ordinary share is entitled to one and each holder of Class B ordinary share is entitled to ten votes.

(b) Follow-on public offering

On April 5, 2019, the Company completed a follow-on public offering of 3,327,868 ADSs (equivalent to 831,967 ordinary shares) by the Company and 6,672,132 ADSs (equivalent to 1,668,033 ordinary shares) by several shareholders (the “Selling Shareholders”), at a public offering price of US\$10.00 per ADS. The net proceeds to the company raised from the follow-on public offering amounted to approximately RMB 212.1 million (approximately US\$ 31.9 million) after deducting issuance costs.

(c) Issuance of ordinary shares to The Paper

On September 23, 2019, Qutoutiao Inc. obtained the relevant PRC government approval and completed a share purchase agreement with The Paper. The Company issued 1,480,123 Class A ordinary shares for an aggregate cash consideration of US\$20,408,467 (RMB 144.4 million), amounting to a cash consideration of US\$13.79 per share (US\$3.45 per ADS).

As part of the share issuance, The Paper will also carry out the performance of certain strategic cooperation agreements for an annual fee charge to Jifen VIE, for five years. The difference of US\$1,201,625 (RMB8.4 million) between the fair value of the shares issued to The Paper (i.e. the share price on issuance day) and the cash consideration paid is also considered an incremental cooperation service fee and will be amortized to expense over a service period of five years.

In addition, Jifen VIE issued equity interests representing 1% of its enlarged share capital to The Paper at a nominal price (Note 2(b)).

(d) Business acquisition

The Company accounted for its acquisition in accordance with ASC 805, “Business Combination” (“ASC 805”). The result of the acquiree’s operation has been included in the consolidated financial statements since the acquisition date. The excess of the fair value of the acquired entity over the fair value of net tangible and intangible assets acquired was recorded as goodwill, which is not deductible for corporate income taxation purposes.

Acquisition of Dianguan

In February 2018, the Company acquired 100% equity interests of Dianguan, an advertising agent (Note 2(n)), from its shareholder for a cash consideration of RMB 15.0 million.

The acquisition was recorded as a business combination. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Fair value of consideration transferred:

	RMB
Cash	<u>15,000,000</u>

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash and cash equivalents	4,270,175
Short-term investments	9,940,000
Prepayments and other current assets	30,936,027
Property and equipment, net	17,978
Accounts payable	(364,242)
Salary and welfare payable	(778,438)
Tax payable	(9,933,408)
Advance from advertising customers	(24,664,513)
Accrued liabilities and other current liabilities	(1,691,909)
Total identifiable net assets acquired	7,731,670
Goodwill	7,268,330
Total purchase consideration	15,000,000

The excess of purchase price over tangible assets and identifiable intangible assets acquired and liabilities assumed was recorded as goodwill. Goodwill associated with acquisition of Dianguan was attribute to the expected synergy arising from the consolidation operations. The acquired goodwill is not deductible for tax purposes. Acquisition-related costs were insignificant and were included in general and administrative expenses for the year ended December 31, 2018.

Based on the Company's assessment, the revenues and net earnings of Dianguan were not considered material in 2018 prior to the acquisition date. Pro forma results of operations for the acquisition described above have not been presented because they are not material to the consolidated statements of operations and comprehensive loss, either individually or in aggregate.

4. Risks and Concentration

(a) PRC regulations

(1) VIEs

Though the PRC has, since 1978, implemented a wide range of market-oriented economic reforms, continued reforms and progress towards a full market-oriented economy are uncertain. In addition, the PRC government regulates telecommunications-related businesses through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership of PRC companies that engage in telecommunications-related businesses. Specifically, foreign investors are not allowed to own more than a 50% equity interest in any PRC company engaging in value-added telecommunications businesses. The primary foreign investor must also have experience and a good track record in providing value-added telecommunications services, or VATS, overseas.

Restrictions are currently in place and are unclear with respect to which segments of these industries foreign owned entities, like the Company, may operate. The Chinese government may issue from time to time new laws or new interpretations on existing laws to regulate areas such as telecommunication, information and media. Regulatory risk also encompasses the interpretation by the tax authorities of current tax laws, and the Group's legal structure and scope of operations in the PRC, which could be subject to further restrictions resulting in limitations on the Company's ability to conduct business in the PRC. There are uncertainties regarding the interpretation and application of current and future PRC laws, rules and regulations, including but not limited to the laws, rules and regulations governing the validity and enforcement of the contractual arrangements with consolidated VIEs. The Company believes that the structure for operating its business in China (including the ownership structure and the contractual arrangements with the consolidated VIEs) is in compliance with all applicable existing PRC laws, rules and regulations, and does not violate, breach, contravene or otherwise conflict with any applicable PRC laws, rules or regulations.

However, as there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, and the Telecommunications Regulations and the relevant regulatory measures concerning the telecommunications industry, there can be no assurance that the PRC government authorities, such as the MOFCOM or the MIIT, or other authorities that regulate Internet content providers and other participants in the telecommunications industry, would agree that the Company's corporate structure or the contractual arrangements with the consolidated VIEs comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and

regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations.

If the Company's corporate structure and contractual arrangements are deemed by the MIIT or the MOFCOM or other regulators having competent authority to be illegal, either in whole or in part, the Company may lose control of their consolidated VIEs and have to modify such structure to comply with regulatory requirements. Furthermore, if the Company and its consolidated VIEs are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses;
- levying fines on the Company;
- confiscating any of the Company's income that they deem to be obtained through illegal operations;
- shutting down the services;
- discontinuing or restricting the operations in China;
- imposing conditions or requirements with which the Company may not be able to comply;
- requiring the Company to change corporate structure and contractual arrangements;
- restricting or prohibiting the use of the proceeds from overseas offering to finance the consolidated VIE's business and operations; and
- taking other regulatory or enforcement actions that could be harmful to the business.

If the imposition of any of these penalties precludes the Company from operating its business, it would no longer be in a position to generate revenue or cash from it. If the imposition of any of these penalties causes the Company to lose its rights to direct the activities of its consolidated VIEs or its rights to receive its economic benefits, the Company would no longer be able to consolidate these entities, and its financial statements would no longer reflect the results of operations from the business conducted by VIEs except to the extent that the Company receives payments from VIEs under the contractual arrangements. Either of these results, or any other significant penalties that might be imposed on the Company in this event, would have a material adverse effect on its financial condition and results of operations. Nevertheless, the laws and regulations that imposed restrictions on foreign ownership in advertising companies, including the Administrative Provisions on Foreign-Invested Advertising Enterprises were abolished in June 2015. To the extent any current or future business of VIEs can be directly operated by the Company's wholly owned subsidiaries under PRC law, the Company expect to transfer such business to the Company's wholly owned subsidiaries. When permissible by the PRC laws and regulations, the Company expects that Quyun WFOE and Zhicao WFOE will replace VIEs and its subsidiary as contracting party for their business that are operated by VIEs and its subsidiary.

On March 15, 2019, the National People's Congress of the PRC adopted the Foreign Investment Law, which came into force on January 1, 2020. The Foreign Investment Law defines the "foreign investment" as the investment activities in China conducted directly or indirectly by foreign investors in the following manners: (i) the foreign investor, by itself or together with other investors establishes a foreign invested enterprises in China; (ii) the foreign investor acquires shares, equities, asset tranches, or similar rights and interests of enterprises in China; (iii) the foreign investor, by itself or together with other investors, invests and establishes new projects in China; (iv) the foreign investor invests through other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council. The Foreign Investment Law keeps silent on how to define and regulate the VIEs, while adding a catch-all clause that "other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council" can fall into the concept of "foreign investment," which leaves uncertainty as to whether the foreign investor's controlling PRC onshore variable interest entities via contractual arrangements will be recognized as "foreign investment." Pursuant to the Foreign Investment Law, PRC governmental authorities will regulate foreign investment by applying the principle of pre-entry national treatment together with a "negative list," which will be promulgated by or promulgated with approval by the State Council. Foreign investors are prohibited from making any investments in the industries which are listed as "prohibited" in such negative list; and, after satisfying certain additional requirements and conditions as set forth in the "negative list," are allowed to make investments in the industries which are listed as "restricted" in such negative list. For any foreign investor that fails to comply with the negative list, the competent authorities are entitled to ban its investment activities, require such investor to take measures to correct its non-compliance and impose other penalties.

It is uncertain whether any of the businesses that the Company currently operate or plan to operate in the future through the consolidated VIEs would be on the “negative list” as updated by the governmental authority from time to time and therefore be subject to any foreign investment restrictions or prohibitions. If any of the businesses that the Company operates were in the “restricted” category on the to-be-issued “negative list,” such determination would materially and adversely affect the value of the ADSs. The Company also faces uncertainties as to whether the to-be-issued “negative list” would mandate further actions, such as MOFCOM market entry clearance, to be completed by companies with existing VIE structure and whether such clearance can be timely obtained, or at all. If they are not able to obtain any approval when required, the VIE structure may be regarded as invalid and illegal under the promulgated Foreign Investment Law, which may materially and adversely affect business, results of operations and financial condition, for instance, the Company may not be able to (i) continue business in China through their contractual arrangements with their consolidated affiliated entities, (ii) exert effective control over their consolidated affiliated entities, or (iii) consolidate the financial results of, and receive economic benefits from their consolidated affiliated entities under existing contractual arrangements.

VIEs holds assets that are important to the operation of the Group’s business, including patents for proprietary technology and trademarks. If VIEs falls into bankruptcy and all or part of its assets become subject to liens or rights of third-party creditors, the Group may be unable to conduct major part of its business activities in China, which could have a material adverse effect on the Group’s future financial position, results of operations or cash flows. However, the Group believes this is a normal business risk many companies face. The Group will continue to closely monitor the financial conditions of VIEs.

VIEs’ assets comprise both recognized and unrecognized revenue-producing assets. The recognized revenue-producing assets include leasehold improvements, computers and network equipment and purchased intangible assets which are recognized in the Company’s consolidated balance sheet. The unrecognized revenue-producing assets mainly consist of patents, trademarks and assembled workforce which are not recorded in the financial statements of VIEs as they did not meet the recognition criteria set in ASC 350-30-25.

In accordance with the VIE arrangements, the Group has power to direct activities of the VIEs, and can have assets transferred out of the VIEs. Therefore, the Group considers that there is no assets of the VIEs can be used only to settle their obligations.

(2) Inability to fully comply with Audio-visual Program Provisions

Pursuant to the Administrative Provisions on Internet Audio-visual Program Service, or the Audio-visual Program Provisions, which was issued by the State Administration of Radio, Film and Television (the predecessor of GAPPRT), or SARFT, and MIIT on December 20, 2007 and came into effect on January 31, 2008 and was amended on August 28, 2015, online transmission of audio and video programs requires an Internet audio-visual program transmission license and online audio-visual service providers must be either wholly state-owned or state-controlled. In a press conference jointly held by SARFT and MIIT to answer questions with respect to the Audio-visual Program Provisions in February 2008, SARFT and MIIT clarified that online audio-visual service providers that had already been operating lawfully prior to the issuance of the Audiovisual Program Provisions may re-register and continue to operate without becoming state-owned or controlled, provided that such providers have not engaged in any unlawful activities. This exemption will not be granted to online audio/video service providers established after the Audio-visual Program Provisions was issued.

Although the Group has been taking measures to ensure compliance, the Group may not be able to fully comply with Audio-visual Program Provisions. As a result, the Group may face, according to Audio-visual Program Provisions, administrative sanctions including receiving a warning and be ordered to pay a fine of not more than RMB30,000. In the case of severe contravention, the Group may be ordered to cease transmission of audio and video programs, be subject to a penalty equal to one to two times our total investment in the affected business and the devices the Group used for such operation may be confiscated. Furthermore, according to the Audio-visual Program Provisions, the telecommunications administrative authorities may, based on written opinions of GAPPRT, and in accordance with the relevant laws and regulations on supervision of telecommunications and Internet, close the Group’s mobile platform, revoke the license for the provision of Internet information services, or the ICP license, and order the relevant network operation entity which provides the Group signal access services to stop such provision of services.

The Group believes that the risks of material loss related to inability to fully comply with Audio-visual Program Provisions and fines or penalties are remote.

(b) Foreign exchange risk

The Group's sales, purchase and expense transactions are generally denominated in RMB and a significant portion of the Group's liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies.

In the PRC, foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China. In addition, the Group's cash denominated in US\$ subject the Group to risks associated with changes in the exchange rate of RMB against US\$ and may affect the Group's results of operations going forward.

(c) Credit and Concentration risk

The Group's credit risk arises from cash and cash equivalents, short-term investments, prepayments and other current assets, and accounts receivable. The carrying amounts of these financial instruments represent the maximum amount of loss due to credit risk.

The Group expects that there is no significant credit risk associated with the cash and cash equivalents and short-term investments which are held by reputable financial institutions in the jurisdictions where the Company, its subsidiaries and the Affiliated Entities are located. The Group believes that it is not exposed to unusual risks as these financial institutions have high credit quality.

The Group has no significant concentrations of credit risk with respect to its prepayments.

Accounts receivable are typically unsecured and are derived from revenue earned through third party advertising platforms and customers as well as related parties. The risk with respect to accounts receivable is mitigated by credit evaluations performed on them.

(i) Concentration of revenues

For the years ended December 31, 2017, Customer B contributed 44% of total net revenue of the Group.

For the year ended December 31, 2017, the Company, as a principal, earned net revenue, representing 13% of total revenue, through a third party advertising agent. The arrangement with advertising agent has been terminated as of December 31, 2017.

For the year ended December 31, 2017, the Company, as a principal, earned net revenue, representing 26% of total revenue, through another third party advertising agent. In February 2018, the Group acquired 100% equity interests of this advertising agent with a total consideration of RMB 15.0 million (Note 3).

For the years ended December 31, 2017, 2018 and 2019, no single customer accounted for more than 10% of total net revenues of the Group, respectively.

(ii) Concentration of accounts receivable

The Group has not experienced any significant recoverability issue with respect to its accounts receivable. The Group conducts credit evaluations on its platforms and customers and generally does not require collateral or other security from such platforms and customers. The Group periodically evaluates the creditworthiness of the existing platforms in determining an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers.

The following table summarized customers with greater than 10% of the accounts receivables, including accounts receivable from related parties:

	As of	
	December 31, 2018	December 31, 2019
Customer A — advertising platform	14%	*
Customer B — advertising platform	*	*
Customer C — advertising platform	29%	16%
Customer D — advertising platform	14%	*
Customer E — advertising platform	10%	11%
Customer F — advertising and marketing customer (related party)	—	28%

* Less than 10%

(iii) Credit risk

The Group's credit risk arises from cash, restricted cash and cash equivalents, short-term investments, accounts receivables and amounts due from related parties, and prepayments and other current assets. The carrying amounts of these financial instruments represent the maximum amount of loss due to credit risk.

The Group expects that there is no significant credit risk associated with the cash and cash equivalents and short-term investments which are held by reputable financial institutions in the jurisdictions where the Company, its subsidiaries and the Affiliated Entities are located. The Group believes that it is not exposed to unusual risks as these financial institutions have high credit quality.

The Group has no significant concentrations of credit risk with respect to its prepayments.

Accounts receivable are typically unsecured and are derived from revenue earned through third party advertising platforms and customers as well as from related parties. The risk with respect to accounts receivable is mitigated by credit evaluations performed on them.

5. Cash and cash equivalents

Cash and cash equivalents represent cash on hand and demand deposits placed with banks or other financial institutions, which are unrestricted as to withdrawal or use. The following table sets forth a breakdown of cash and cash equivalents by currency denomination and jurisdiction as of December 31, 2018 and 2019:

	RMB			RMB equivalent (US\$)			RMB equivalent (HKD/SGD/IDR)			Total in RMB
	Overseas	China		Overseas	China		Overseas	China		
		Non VIE	VIE		Non VIE	VIE		Non VIE	VIE	
December 31, 2018	—	39,016,535	19,464,246	2,125,034,745	2,269,863	—	502,857	—	—	2,186,288,246
December 31, 2019	—	59,438,015	7,806,771	223,534,731	56,358,066	969	678,541	—	—	347,817,093

6. Accounts receivable, net

	As of	
	December 31, 2018	December 31, 2019
Accounts receivable, gross	203,984,074	526,822,932
Less: allowance for doubtful accounts	—	—
Accounts receivable, net	203,984,074	526,822,932

7. Prepayments and other assets

The other assets consist of the following:

	As of	
	December 31, 2018	December 31, 2019
Prepayment and other current assets		
Deposit to third-party payment service providers ⁽¹⁾	24,888,833	62,240,852
Value-added tax receivable	20,640,519	48,451,205
Prepayment for the use of contents ⁽³⁾	7,166,442	34,361,525
Receivable for share option exercises ⁽⁷⁾	—	22,212,500
Contract assets ⁽⁶⁾	—	18,867,925
Lease deposits-current portion	1,017,056	4,647,787
Loans and advance to employees ⁽⁵⁾	5,389,935	8,723,553
Deposit to third-party advertising platforms ⁽⁴⁾	5,000,000	16,821,962
Interest receivable	2,958,984	4,272,559
Prepayments of business insurance	2,996,381	3,607,569
Cooperation service fee-current portion (Note 3c)	—	1,676,555
Prepayments of advertisement fee ⁽²⁾	17,669,507	1,456,410
Prepayments of IT service fee	705,580	1,110,150
Prepayment of office lease	5,609,752	93,783
Deferred cost for incentive payment to customer (Note 14 – Series C1 Investor A)	22,842,164	—
Others	3,480,353	6,184,051
	<u>120,365,506</u>	<u>234,728,386</u>
Non-current		
Long-term lease deposits	7,424,707	7,944,497
Long-term prepayments of advertisement fee ⁽²⁾	—	6,615,789
Long-term cooperation service fee (Note 3c)	—	6,251,505
Long-term prepaid server fee	2,087,264	—
Prepayment for purchase of property and equipment	1,160,170	—
	<u>10,672,141</u>	<u>20,811,791</u>

- (1) Deposit to third party payment service providers represent cash prepaid to the Group's third party on-line payment service providers, which will be used to settle the Group's obligation for outstanding user loyalty payable or content procurement fee to professional third party media companies and freelancers. As of December 31, 2018 and 2019, no allowance for doubtful accounts was provided for the prepayment.
- (2) Prepayments of advertisement fee represent prepayments made to service providers for future services to promote the Company's mobile applications through online and media advertising. Such service providers charge expenses based on activities during the month, and once confirmed by the Company, the expenses will be deducted from the prepayments already made by the Company. Prepayments of advertising fee is recorded when prepayments are made to service providers and are expensed as services are provided.
- (3) Prepayment for the use of contents represents the payment to the content providers for the use of the content on the Company's mobile applications for a period from 6 to 12 months. In June 2019, the Company also entered into an arrangement with a literature content provider based in China for the use of their content library on the Company's mobile applications. Access to the literature content library includes rights to existing content as well as all content that is still to be released and will be continuously updated throughout the contract term. As the nature of the arrangement includes continuous content updates which the Company will receive over time, the related fees are recorded and expensed evenly over the contract period.
- (4) Deposit to third-party advertising platforms represents the deposit made to third-party advertising platforms that the Group provides agent and platform service by facilitating the advertising customers to select third-party advertising platforms to display the advertisements. The deposit is used to secure the timely payment of the agent and platform service fee received by the Group to the third-party platforms.

- (5) Loans to employees mainly represents loans to the employees to meet their personal needs for a period within one year.
- (6) In June 2019, the Company entered into one-year non-monetary contracts with a third party television content provider. In exchange for the content provider's selected contents that the Company can use and place on the Company's platform to attract the users, the Company will provide advertising and marketing services on its platform to the television content provider. The contracts were both executed at a fair value of RMB40.0 million, and the Company recorded a contract asset and a corresponding contract liability at the inception of the transaction. As the Company obtained full access to the contents upon inception, the contract asset is expensed evenly over the contract period, while the contract liability is recognized as revenue when the Company actually provides the advertising and marketing services. For the year ended December 31, 2019, the contract liability was fully recognized as revenue as the Company has completed its advertising services, and the amortization of the contract asset of RMB21.1 million was recorded in sales and marketing expenses.
- (7) Receivables for share option exercises represent incoming proceeds to be received by the Company on behalf of employees, executives and directors for the sale of the shares as a result of the exercise of share options by these personnel. The gross proceeds will be remitted to the Company by a designated financial institution, which the Company is then obligated to transfer to the relevant personnel once the proceeds are received by the Company.

8. Property and equipment, net

Property and equipment consist of the following:

	As of	
	December 31, 2018	December 31, 2019
Cost:		
Office equipment	10,883,248	26,203,041
Leasehold improvements	7,705,824	12,575,518
Total cost	18,589,072	38,778,559
Less: Accumulated depreciation	(4,659,530)	(14,663,185)
Property and equipment, net	<u>13,929,542</u>	<u>24,115,374</u>

Depreciation expense recognized for the years ended December 31, 2017, 2018 and 2019 are summarized as follows:

	Year ended December 31,		
	2017	2018	2019
Cost of revenues	95,948	156,725	3,182,644
Research and development expenses	21,850	3,238,987	5,075,929
Sales and marketing expenses	92,642	417,934	959,610
General and administrative expenses	119,798	477,638	785,472
Total	<u>330,238</u>	<u>4,291,284</u>	<u>10,003,655</u>

9. Intangible assets, net

Intangible assets consist of the following:

	As of	
	December 31, 2018	December 31, 2019
Cost:		
Acquired right to operate an online audio/video content platform including deferred tax liabilities impact	96,129,761	96,129,761
Computer software	—	4,971,310
Total cost	96,129,761	101,101,071
Less: Accumulated amortization	(1,602,163)	(12,157,392)
Intangible assets, net	<u>94,527,598</u>	<u>88,943,679</u>

The right to operate an online audio/video content platform was acquired on November 1, 2018 through an acquisition of 100% equity interests of a company for a total cash considerations of RMB 72.1 million and is owned by a consolidated VIE of the Group upon the completion of the transaction. The acquisition was accounted for as an asset acquisition rather than a business combination as what the company acquired did not meet the criteria of a business and substantially all of the fair value of the gross assets acquired was concentrated in a single asset, which met the screen test criteria to be an asset acquisition for the adopted ASU 2017-01. A deferred tax liability of RMB 24.0 million arising from the difference between the accounting basis and tax basis of the identifiable intangible asset is recognized and will be realized over 10 years which is in line with the acquired right's amortization period. The recognition of the deferred tax liability related to the intangible asset in turn increases the book basis of the asset. The acquired right to operate an online audio/video content platform with amount of RMB 96.1 million is amortized over 10 years on a straight-line basis.

Amortization expense recognized for the year ended December 31, 2019 is summarized as follows:

	Year ended December 31, 2019
Cost of revenues	9,612,976
General and administrative expenses	942,253
Total	10,555,229

The Company will record estimated amortization expenses of RMB11.2 million, RMB11.1 million, RMB10.4 million, RMB9.6 million and RMB9.6 million for the years ending December 31, 2020, 2021, 2022, 2023 and 2024, respectively.

10. Leases

The Company leases facilities under non-cancellable operating leases expiring on different dates. The terms of substantially all of these leases are three years or less. When determining the lease term, the Company includes options to extend or terminate the lease when it is reasonably certain that it will exercise that option, if any. All of the Company's leases qualify as operating leases. With the adoption of the new leasing standard, the Company has recorded a right-of-use asset and corresponding lease liability, by calculating the present value of future lease payments, discounted at 5.7%, the Company's incremental borrowing rate, over the expected term. Short-term leases (lease terms less than 12 months) expenses are recognized as incurred. Currently, the Company does not have any variable lease costs.

(a) The components of lease expenses were as follows:

	Year ended December 31, 2019
Lease cost:	
Amortization of right-of-use assets	39,693,063
Interest of lease liabilities	3,820,727
Expenses for short-term leases within 12 months	423,271
Total lease cost	43,937,061

(b) Supplemental cash flow information related to leases was as follows:

	Year ended December 31, 2019
Other information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating lease payments	45,584,621
Right-of-use assets obtained in exchange for lease obligations:	55,834,552

(c) Supplemental balance sheet information related to leases was as follows:

	Year ended December 31, 2019
Operating leases	
Operating lease right-of-use assets	69,241,754
Operating lease liabilities, current	(38,210,188)
Operating lease liabilities, non-current	(26,651,446)
Total operating lease liabilities	(64,861,634)
	As of December 31, 2019
Weighted-average remaining lease term	
Operating leases	2.2 years
Weighted-average discount rate	
Operating leases	5.7%

(d) Maturities of lease liabilities were as follows:

	As of December 31, 2019
2020	40,699,889
2021	22,240,997
2022	5,242,715
2023 and thereafter	—
Total undiscounted lease payments	68,183,601
Less: imputed interest	(3,321,967)
Total lease liabilities	64,861,634

(e) Future minimum lease payments for the Company's operating leases were as follows:

	As of December 31, 2018
2019	35,453,783
2020	21,057,299
2021	3,180,192
2022 and thereafter	—
	59,691,274

11. Tax payable

	As of	
	December 31, 2018	December 31, 2019
Value added tax	98,020,846	91,894,179
Corporate income tax	—	7,246,119
Individual income tax withholding	1,721,939	17,821,617
Urban maintenance and construction tax	1,256,633	697,134
Stamp duty	287,303	497,445
Total	101,286,721	118,156,494

The Group's revenues are subject to value-added tax at a rate of approximately 6%.

12. Accrued liabilities and other liabilities

Accrued liabilities and other current liabilities	As of	
	December 31, 2018	December 31, 2019
Accrued advertising and marketing expense	288,782,409	624,684,280
Tax surcharges and other fees ⁽¹⁾	76,151,018	134,003,155
Payables to employees related to net proceeds from share options exercised	—	18,439,722
Accrued professional service fees	6,074,086	4,695,155
Refund from depositary bank ⁽²⁾	2,597,700	2,640,471
Accrued employee welfare expense	4,709,056	1,547,431
Accrued Series B convertible redeemable preferred shares issuance cost of a subsidiary	—	435,000
Accrued Series A convertible redeemable preferred shares issuance cost of a subsidiary	126,146	—
Others	690,144	2,050,228
	<u>379,130,559</u>	<u>788,495,442</u>
Non-current		
Non-refundable incentive payment from depositary bank ⁽²⁾	9,686,219	7,212,463
Total	<u>388,816,778</u>	<u>795,707,905</u>

- (1) This balance is primarily related to a cultural development fee on the provision of advertising services in the PRC that the Group is subject to. The applicable tax rate was 3% of the net advertising revenues up until June 30, 2019, and was updated to 1.5% effective July 1, 2019.
- (2) The Company received non-refundable incentive payment of USD 1.8 million (RMB 12.5 million) from depositary bank in September 2018. The amount will be recorded ratably as other income over a 5 year arrangement period. For the year ended December 31, 2019, the Company recorded RMB 2.6 million as a reduction in general and administrative expenses.

13. Convertible Loan

On March 28, 2019, the Company entered into a convertible loan agreement with Alibaba Investment Limited (“Alibaba”), pursuant to which Alibaba advanced approximately US\$171.1 million in aggregate principal amount, which will mature on April 4, 2022 (the “Convertible Loan”). The Convertible Loan will bear interest at a rate of 3.00% per annum, which will be waived in case of conversion or payable at maturity. The Convertible Loan will be unsecured and unsubordinated and mature in three years after the drawdown, unless previously repaid or converted in accordance with their terms prior to such date.

The Convertible Loan may be converted at Alibaba’s option on or after (i) the date falling 240 calendar days after the date of the agreement, which was extended to 422 calendar days pursuant to a supplemental agreement entered into with Alibaba in October 2019 and further extended to 605 calendar days pursuant to a supplemental agreement entered into in March 2020 or (ii) upon the occurrence of an event of default (as defined in the indenture agreement) at a conversion price of US\$60.00 per ordinary share, equivalent to US\$15.00 per ADS, subject to adjustment under the terms of the indenture agreement. Management assessed that the likelihood of an event of default is remote. There was also no additional consideration that was exchanged in return for the two conversion date extensions.

The Company assessed the Convertible Loan under ASC 815 and concluded that:

- Since the conversion option is considered indexed to the Company’s own stock, bifurcation of conversion option from the Convertible Loan is not required as the scope exception prescribed in ASC 815-10-15-74 is met;
- There was no BCF attribute to the Convertible Loan as the set conversion price for the Convertible Loan was greater than the fair value of the ordinary share price at date of issuance;

Considering the above, the Company has accounted for the Convertible Loan in accordance with ASC 470 as a single instrument as a long-term liability; the value of the Convertible Loan was measured by the cash received of US\$ 171.1 million. The debt issuance cost was recorded as a reduction to the Convertible Loan and is amortized as interest expense using the effective interest method, over the term of the Convertible Loan. As of December 31, 2019, the carrying value of the Company’s Convertible Loan, including accrued interest of RMB 26.9 million, was RMB 1,218.9 million.

14. Convertible redeemable preferred shares

On September 29, 2017, the Company issued 4,945,055 shares of Series A convertible redeemable preferred shares (the “Series A Shares”) for US\$6.5520 per share for cash of US\$32,400,000.

On November 14, 2017, the Company issued 1,373,626 shares of Series A1 convertible redeemable preferred shares (the “Series A1 Shares”) for US\$7.2800 per share for cash of US\$10,000,000.

On March 4, 2018, the Company issued 5,420,144 shares of Series B1 convertible redeemable preferred shares (the “Series B1 Shares”) for US\$19.3722 per share for cash of US\$105,000,000. Subsequent to the Series B1 Closing, the investor, who is a leading provider of Internet Value-added Services, and the Company’s PRC entities entered into a cooperation agreement that the investor will promote the Company’s mobile application and will charge the Company a service fee. See (1) below for accounting treatment.

On March 8, 2018, the Company issued 3,895,728 shares of Series B2 convertible redeemable preferred shares (the “Series B2 Shares”) for US\$23.6156 per share for cash of US\$92,000,000.

On April 27, 2018, the Company issued 1,751,539 shares of Series B3 convertible redeemable preferred shares (the “Series B3 Shares”) for US\$25.9772 per share for cash of US\$45,500,000.

On September 4, 2018, the Company issued 1,450,520 shares of Series C1 convertible redeemable preferred shares (the “Series C1 Shares”) at US\$34.47 per share for total consideration of US\$50,000,000 to a third party investor (“Series C1 Investor A”). The appraised fair value of Series C1 shares is US\$36.78 per share. Concurrently, the Company entered into a cooperation agreement with Series C1 Investor A, under which the Group will provide advertising service to Series C1 Investor A. See (2) below for accounting treatment of the discount.

On September 11, 2018, the Company entered into a supplemental agreement with Series C1 Investor A, under which the number of shares subscribed by Series C1 Investor A has been reduced from 1,450,520 to 290,104. The change of numbers has been concluded by the Company as an extinguishment of mezzanine equity as a separate transaction. See (3) below for accounting treatment of the extinguishment.

On September 4, 2018, the Company issued 145,052 shares of Series C1 convertible redeemable preferred shares at US\$37.2280 per share for total consideration of US\$5,400,000 to another third party investor (“Series C1 Investor B”).

The Series A, Series A1, Series B1, Series B2, Series B3 and Series C1 shares are collectively referred to as the Preferred Shares.

Upon the Series B1 Shares issuance Closing, several terms of the Series A Shares and Series A1 Shares have been updated to be consistent with the new issued Series B1 Shares’ rights summarized as follows:

- (1) The non-cumulative dividend rate for Series A, A1 was modified from 8% to 12%;
- (2) The term of redemption requirement for Series A Shares and Series A1 Shares has been changed from six years from the date of relevant Series Closing Date to five years from the date of Series B1 Shares issuance Closing;
- (3) The percentage to calculate the liquidation amount was modified from 100% to 120% for Series A Shares and Series A1 Shares;
- (4) The definition of a Qualified IPO.

The Company evaluated the modifications in accordance with its accounting policy and concluded that they are modifications, rather than extinguishment of Preferred Shares because the Company determined that the amendment did not add, remove, significantly change a substantive contractual term or to the nature of the overall instrument. The intention of the modification was to align the redemption rights and dividends right among existing Preferred Shareholders and the incoming Preferred Shareholders.

The modifications that resulted in difference of between the fair value of the modified Series A and Series A1 Preferred Shares and the carrying value of Series A and Series A1 Preferred Shares on the modification date have been recorded as a deemed dividend of RMB 1,916,871 against retained earnings.

The key terms of the Series A, Series A1, Series B1, Series B2, Series B3 and Series C1 Shares after the modifications are as follows:

Conversion rights

Each Preferred Share shall be convertible into such number of ordinary shares at the Preferred Share-to-Ordinary Share conversion ratio equal to Preferred Share Purchase Price for such Preferred Share divided by the then-effective Conversion Price (as defined below) for such Preferred Share. The "Conversion Price" for such Preferred Share shall initially be the Preferred Share Purchase Price for such Preferred Share, resulting in an initial conversion ratio for the Preferred Shares of 1:1, and shall be subject to adjustment and readjustment from time to time, including but not limited to additional equity securities issuance, share dividends, distribution, subdivisions, redemptions, combinations, or consolidation of ordinary shares. The conversion price is also subject to adjustment in the event the Company issues additional ordinary shares at a price per share that is less than such conversion price. In such case, the conversion price shall be reduced to adjust for dilution on a weighted average basis.

Each Preferred Share may, at the option of the holder thereof, be converted at any time after the date of issuance of such Preferred Shares into Ordinary Shares based on the then-effective Conversion Price.

In addition, each share of the Series A, A1, B1, B2, B3 and C1 Shares would automatically be converted into ordinary shares of the Company (i) upon the closing of an initial public offering of the Company's shares or (ii) upon the date specified by written consent or agreement of its shareholders.

The Company determined that there were no beneficial conversion features identified for any of the Preferred Shares during any of the periods. In making this determination, the Company compared the fair value of the ordinary shares into which the Preferred Shares are convertible with the respective effective conversion price at the issuance date. In all instances, the effective conversion price was greater than the fair value of the ordinary shares. To the extent a conversion price adjustment occurred, as described above, the Company would have re-evaluated whether or not a beneficial conversion feature should be recognized.

Dividend rights

The Series C1 Preferred Shareholders shall be entitled to receive, in preference to any dividend on the ordinary shares, non-cumulative dividends for each Preferred Share at the rate equal to 12% of, as the case may be, the Series C1 Preferred Share Purchase Price, for each respective preferred shareholder, payable out of funds or assets when and as such funds or assets become legally available therefor, on parity with each other and prior and in preference to, and satisfied before, any declaration or payment of any dividend on the Series A Preferred Shares, the Series A1 Preferred Shares, the Series B1 Preferred Shares, the Series B2 Preferred Shares, the Series B3 Preferred Shares and the Ordinary Shares.

The Series B1, B2, B3 Preferred Shareholders shall be entitled to receive, in preference to any dividend on the ordinary shares, non-cumulative dividends for each Preferred Share at the rate equal to 12% of, as the case may be, the Series B1, B2, B3 Preferred Share Purchase Price, for each respective preferred shareholder, payable out of funds or assets when and as such funds or assets become legally available therefor, on parity with each other and prior and in preference to, and satisfied before, any declaration or payment of any dividend on the Series A Preferred Shares, the Series A1 Preferred Shares and the Ordinary Shares.

The Series A, A1 Preferred Shareholders shall also be entitled to receive, in preference to any dividend on the ordinary shares, non-cumulative dividends for each Preferred Share at the rate equal to 12% of, as the case may be, the Series A, A1 Preferred Share Purchase Price, for each respective preferred shareholder, payable out of funds or assets when and as such funds or assets become legally available therefor, on parity with each other and prior and in preference to, and satisfied before, any declaration or payment of any dividend on the Ordinary Shares.

Except the Exempted Dividends (as defined below), no dividend, whether in cash, in property, in shares in the Company or otherwise may be declared or paid on any other class or series of shares unless and until the Preferred Dividends are first paid in full.

Exempted Dividends means (1) a dividend payable solely in Ordinary Shares and to all shareholders of the Company on a pro rata basis, (2) the purchase, repurchase or redemption of Ordinary Shares by the Company at no more than cost from terminated employees, officers or consultants in accordance with the ESOP, or pursuant to written contractual arrangements with the Company approved by the Board (so long as such approval includes the approval of the Series A Director and the Series B1 Director), (3) the purchase, repurchase or redemption of Preferred Shares (including in connection with the conversion of such Preferred Shares into Ordinary Shares).

Voting rights

The holders of the Series A, A1, B1, B2, B3 and C1 Shares shall be entitled to such number of votes equal to the whole number of ordinary shares into which such Series, A1, B1, B2, B3 and C1 Shares are convertible.

Liquidation preference

In the event of any liquidation, dissolution or winding up of the Company, all assets and funds of the Company legally available for distribution to the shareholders shall, by reason of the shareholders' ownership of the shares, be distributed as follows:

First, the holders of the Series C1 Shares shall be entitled to receive for each such Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of the Series B1, B2, B3, A, A1 and Ordinary Shares by reason of their ownership of such shares, the amount equal to: (i) for each Series C1 Preferred Share, one hundred and twenty percent (120%) of the applicable Series C1 Issue Price, plus all accrued but unpaid dividends on such Series C1 Preferred Share.

Second, the holders of the Series B1, B2 and B3 Shares shall be entitled to receive for each such Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of the Series A and A1 Preferred Shareholders by reason of their ownership of such shares, the amount equal to one hundred percent (120%) of the applicable Series B1, B2, B3 Issue Price, plus all accrued but unpaid dividends on such Preferred Shares.

Third, the holders of the Series A Shares and Series A1 Shares shall be entitled to receive for each such Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of the Ordinary Shares by reason of their ownership of such shares, the amount equal to one hundred percent (120%) of the applicable Series A and A1 Issue Price, plus all accrued but unpaid dividends on such Preferred Shares. If the assets and funds available for distribution among the Preferred Shareholders shall be insufficient to permit the payment to such holders of the full amount, then the entire remaining assets and funds of the Company legally available for distribution to such shareholders shall be distributed ratably among the shareholders in proportion.

Fourth, if there are any assets or funds remaining after the aggregate amount have been distributed or paid in full to the applicable holders of Series A, A1, B1, B2, B3, C1 Shares, the remaining assets and funds of the Company available for distribution shall be distributed ratably among all shareholders according to the relative number of Ordinary Shares held by such holders on an as if converted basis.

A Deemed Liquidation Event shall be deemed to be any change of control event such as a liquidation, dissolution or winding up, merger and acquisition, reorganization of the Company, a sale, transfer, lease or other disposition of all or substantially all of the assets of any Group Company or the exclusive, irrevocable licensing of all or substantially all of any Group Company's intellectual property to a third party. Any proceeds, whether in cash or properties, resulting from a Deemed Liquidation Event shall be distributed in accordance with the liquidation preference above.

Redemption right

For Series A, A1, B1, B2, B3 or C1 Shares, at the written request of any Series A or Series A1 Shareholder(s) who individually or in the aggregate hold(s) at least fifty one percent (51%) of all the issued and outstanding such Preferred Shares ("Initial Redemption Notice"), the Company shall redeem all or portion of the outstanding Series A, A1, B1, B2, B3 or C1 Shares respectively held by such Shareholder(s) upon the following redemption event: (i) the Company's failure to complete a Qualified IPO within five (5) years after the date of the Series B1 Shares issuance Closing; (ii) any material breach by any Warrantor (as defined in the Series A, A1, B1, B2, B3 or Series C1 Purchase Agreement) in the Transaction Documents (as defined in the such Series Preferred Purchase Agreement, including those duly amended and restated versions from time to time) which causes a Material Adverse Effect (as defined in the such Series Preferred Purchase Agreement) on the business of the Group Companies or any holder of the Series A, A1, B1, B2, B3 or Series C1 Shares, or in the event any Warrantor gives any material misrepresentation or engages in wilful or fraudulent misconducts, which causes a Material Adverse Effect on the business of the Group Companies or any holder of the Series A, A1, B1, B2, B3 or Series C1 Preferred Shares.

In addition, the Company shall (1) promptly thereafter provide all of the other holders of Preferred Shares notice of the Initial Redemption Notice and of their right to participate in such redemption, which right is exercisable by each such holder in their own discretion by delivering a written notice (each, a "Redemption Notice") by hand or letter mail or courier service to the Company at its principal executive offices within fifteen (15) days of the giving of such notice by the Company, requesting and specifying redemption of all or part of their Preferred Shares, and (2) pay to each holder (each, a "Redeeming Preferred Shareholder") of a Preferred Share for which an Initial Redemption Notice or a Redemption Notice has been timely submitted (each, a "Redeeming Preferred Share").

The redemption price for each Series A, A1, B1, B2, B3 or Series C1 Shares shall be determined in accordance with the following formula:

$IP \times (110\%) \times N + D$, where

IP = Series A, A1, B1, B2, B3 or Series C1 Issue Price;

N = a fraction the numerator of which is the number of calendar days between date the Series A, A1, B1, B2, B3 or Series C1 Issue Date and the date on which the Redemption Price is paid and the denominator of which is 365;

D = all declared but unpaid dividends on each Series A, A1, B1, B2, B3 or Series C1 Shares up to the date of redemption, proportionally adjusted for share subdivisions, share dividends, reorganizations, reclassifications, consolidations or mergers.

Warrant

Before the issuance of Series B2 Shares, one of investors entered into a Loan and Guarantee agreement with the Company on February 12, 2018, pursuant to which the investor lent US\$5,000,000 to the VIE while the Company issued a warrant to the investor to the right to purchase 211,724 Series B2 Shares at an exercise price of US\$23.62 per share. On March 21, 2018, the investor exercised the warrant and subscribed to 211,724 Series B2 Preferred Shares. The US\$5,000,000 loan has been settled and converted to the investor's 211,724 entitled shares upon the exercise of the warrant. Given that the outstanding period of the loan and warrant was within a month, the value of the conversion feature in the loan and the warrant was determined to be immaterial.

(1) Accounting of Preferred Shares

The Company classified the Preferred Shares in the mezzanine section of the consolidated balance sheets because they were convertible at the holders' option any time after the date of issuance of such shares and were contingently redeemable upon the occurrence of certain liquidation events outside of the Company's control, including the Company's failure to complete a Qualified IPO within five years following the date of Series B1 Closing. A Qualified IPO is defined as a firm commitment underwritten public offering of the Ordinary Shares of the Company (or depositary receipts or depositary shares therefor) in the United States pursuant to an effective registration statement under the United States Securities Act of 1933, as amended or in another jurisdiction which results in the Ordinary Shares trading publicly on a recognized international securities exchange approved by the majority Preferred Shareholders, with (i) if such public offering takes place within 5 years of the Series B1 Closing, minimum pre-money valuation of US\$5,000,000,000 and minimum gross proceeds to the Company of US\$500,000,000, or (ii) if such public offering takes place within the year 2018, minimum post-money valuation of US\$3,000,000,000 and minimum gross proceeds to the Company of US\$300,000,000. The Preferred Shares are recorded initially at fair value, net of issuance costs.

For the years ended December 31, 2018 and 2019, the issuance costs incurred were RMB33.1 million and nil.

The Qualified Public Offering deadline is five years following the Closing of Series B1. As such, the failure to complete a Qualified Public Offering by March 4, 2023 would be considered the earliest redemption date for all Preferred Shares.

Based on the Company's valuation results, the Series B1 Shares were issued on March 4, 2018 at US\$19.37 per share with an 18% discount compared with the fair value at US\$22.46 per share of the Series B1 Shares on the issuance date. On March 8, 2018, the Series B2 Shares were issued at US\$23.62 per share at fair value. Although the Company entered into the cooperation agreement with the B1 investor which would expire in 2021, management concluded the terms were not advantageous in terms of prices or payment terms, and the services covered were not exclusive or unique for the Company, that service fees in the agreement were determined based on market value and that the Company could have obtained similar services with similar prices from other service suppliers. As a result, the cooperation agreement with the investors for the Series B1 Shares were accounted for separately from the issuance of the Series B1 Shares. The Company also determined that the conversion price was higher than the estimated fair value of the ordinary shares on the issuance date and as such that there was no beneficial conversion feature embedded in the issuance of the Series B1 Shares. Accordingly the Company did not separately account for the discount on the issuance price of Series B1 Shares.

The Company recognized accretion to the respective redemption value of the Preferred Shares over the period starting from issuance date to the earliest redemption date according to the redemption price calculation described above except for Series C1 issued to Series C1 investor A, the related accounting treatment was described in (2) Accounting of discount in Series C1 convertible redeemable preferred shares insurance price below. Preferred shares are denominated in USD and the reporting currency of the Company is RMB. Therefore, foreign currency translation adjustments arising from the fluctuation of the exchange rate between USD and RMB are recorded as a separate component of shareholders' deficit on the consolidated financial statement.

When the preferred shareholders converted their *preferred shares* to ordinary shares upon completion of the IPO in September 2018, the Company calculated the accretion value of the preferred share through the IPO date and the difference between the carrying value of the preferred shares on the IPO date and the paid-in capital of ordinary share converted into were recognized in the additional paid-in capital.

(2) Accounting of the discount offered to Series C1 Investor A

As mentioned above, the per share cash consideration of US\$34.47 received from Series C1 Investor A was lower than the appraised fair value of US\$36.78 per share. The discount between the fair value and cash consideration was offered since to Series C1 Investor A has entered into a cooperation agreement with the Company and is going to be a future customer of the Company. Therefore, the discount of US\$3.35 million (RMB 22.8 million) has been accounted for as upfront incentive payment to customer. The upfront incentive payment is recorded as a reduction in revenue during the service period in which the Company will provide advertising service to Series C1 Investor A. As of December 31, 2018, the carrying value of incentive payment had not changed, as the Company did not begin providing advertising service to that investor until March of 2019. As of December 31, 2019, the carrying value of the incentive payment was reduced to nil as the Company has provided the full amount of advertising services to the investor during the year.

(3) Accounting of the extinguishment of mezzanine equity related to Series C1 Investor A

As mentioned above, the Company assessed and concluded that the reduction of shares committed from 1,450,520 to 290,104 is an extinguishment of mezzanine equity. The extinguishment of the preferred shares was recorded at fair value on repurchase day. A gain, which was the difference of US\$2.68 million (RMB 18.3 million) between the excess of the fair value of the consideration over the carrying value of preferred shares upon the repurchase date, was recorded in accumulated deficit.

(4) Agreement for issuance of Series C2 Shares

On August 27, 2018, the Company entered into a share subscription agreement with a subsidiary of Shanghai Dongfang Newspaper Co., Ltd., commonly known as “The Paper”, a leading online news service provider in China. The Paper is a subsidiary of Shanghai United Media Group, which is a wholly state-owned enterprise.

Pursuant to the share subscription agreement, the Company agreed to issue 1,480,123 Series C2 convertible redeemable preferred shares (or ordinary shares once the Company completes its initial public offering) (“Series C2 Shares”) to The Paper and enter into certain business and strategic cooperation between The Paper and the Group. In particular, the completion of the Series C2 share subscription was subject to regulatory approvals from relevant PRC government authorities. Since the share subscription agreement did not represent a firm commitment to issue shares until the regulatory approval is obtained, the Company did not recognize the issuance of ordinary shares until September 2019. In September 2019, the aforementioned share subscription was approved by the relevant PRC government authorities and as the Company was listed in September 2018, the Class A shares were issued. Refer to Note 3 – Significant equity transactions and acquisitions.

The Company's convertible redeemable preferred shares activities for the years ended December 31, 2018 and 2019 are summarized below:

	Series A Shares		Series A1 Shares		Series B1 Shares		Series B2 Shares		Series B3 Shares		Series C1 Shares	
	Number of shares	Amount (RMB)	Number of shares	Amount (RMB)	Number of shares	Amount (RMB)	Number of shares	Amount (RMB)	Number of shares	Amount (RMB)	Number of shares	Amount (RMB)
Balances as of January 1, 2018	4,945,055	210,478,110	1,373,626	63,416,581	—	—	—	—	—	—	—	—
Issuance of convertible redeemable preferred shares, net of issuance costs.	—	—	—	—	5,420,144	651,736,522	3,895,728	569,316,830	1,751,539	282,249,969	1,595,572	400,521,762
Repurchase of convertible redeemable preferred shares	—	—	—	—	—	—	—	—	—	—	(1,160,416)	(291,005,729)
Foreign exchange impacts	—	10,300,700	—	3,134,288	—	52,030,049	—	47,260,953	—	22,452,981	—	287,512
Accretion on convertible redeemable preferred shares to redemption value	—	15,718,213	—	4,840,875	—	37,001,459	—	31,800,587	—	12,312,158	—	133,451
Conversion to ordinary shares upon IPO	(4,945,055)	(236,497,023)	(1,373,626)	(71,391,744)	(5,420,144)	(740,768,030)	(3,895,728)	(648,378,370)	(1,751,539)	(317,015,108)	(435,156)	(109,936,996)
Balances as of December 31, 2018 and 2019	—	—	—	—	—	—	—	—	—	—	—	—

15. Ordinary Share

On July 17, 2017, Qutoutiao Inc. was incorporated as Limited Liability Company with authorized share capital of US\$50,000 divided into 50,000 shares with par value US\$1.00 each. On September 1, 2017, the authorized share capital of US\$50,000, which represented 50,000 issued shares, was subdivided into 500,000,000 shares. As of December 31, 2017, the authorized ordinary shares are 493,681,319 shares, of which 50,000,000 shares were issued and 40,000,000 shares were outstanding, and the authorized, issued and outstanding Series A and A1 convertible redeemable preferred shares are 4,945,055 shares and 1,373,626 shares respectively.

In November 2017, a shareholder of the Company sold certain ordinary shares to third party investors at US\$7.28 per share. The sale of ordinary shares is a transaction amongst shareholders and did not impact the Group's consolidated financial statements.

In January 2018, the founders entered into Share Restriction Deeds with the Company such that a total of 15,937,500 ordinary shares of the Company held by the founders became restricted and will vest over periods from 24 months to 34 months. Prior to the end of the vesting periods, all the remaining restricted shares shall vest immediately and no longer constitute restricted shares upon a Deemed Liquidation Event or IPO of the Company. In the event that the founder voluntarily and unilaterally terminates his employment/service contract with any applicable Group entities or his employment or service relationship is terminated by any applicable Group entities for cause as stated in the Deed, the related founder shall sell to the Company, and the Company shall repurchase from the founder, all of the restricted shares (not vested shares) at a price of US\$0.0001 per share. For accounting purposes, this transaction has been reflected retrospectively similar to a reverse stock split and presented in the balance sheet as of December 31, 2017 and statement of shareholders' deficit as a reduction of the numbers of issued and outstanding ordinary shares. Upon the execution of the Share Restriction Deeds in January 2018, the total 15,937,500 ordinary shares were presented as an increase of the numbers of issued ordinary shares, with the grant to be recognized as share-based compensation over the vesting periods at their then fair value on January 3, 2018 (Note 14). Upon the completion of the Company's IPO in September 2018, 15,937,500 ordinary shares were all vested.

In February 2018, the Company established a trust to hold 10,000,000 of the Company's issued shares. These ordinary shares were contributed by the founder and held in trust for the benefit of the employees who are under the 2017 Plan to be issued based on the discretion of the board of directors of the Company. The ordinary shares issued to the trust are accounted for as treasury shares of the Company and presented as such for all periods presented. As of December 31, 2019, 2,031,500 granted shares have been exercised and were issued from treasury shares. The trust does not hold any other assets or liabilities as at December 31, 2018 and 2019, nor earn any income nor incur any expenses for the years ended December 31, 2018 and 2019.

From January to March 2018, shareholders of the Company sold certain ordinary shares to third party investors at about US\$ 23.62 per share. Except for the sale of ordinary share to existing shareholders which resulted in share-based compensation of RMB 1.4 million, the sale of ordinary shares is a transaction amongst shareholders and did not impact the Group's consolidated financial statements.

In September 2018, the Company completed its initial public offering on the NASDAQ Global Market of 13,800,000 American Depositary Shares ("ADS") (including 1,800,000 ADSs sold upon the full exercise of the underwriters' over-allotment option) (every four ADS represents one Class A ordinary share, for a total ordinary shares offering of 3,450,000 shares), at a price of US\$7.00 per ADS for a total offering size of approximately US\$96.6 million. The net proceeds raised from the IPO amounted to approximately RMB 590.9 million (US\$85.9 million) after deducting underwriting discounts and commissions and other offering expenses.

Upon the completion of the IPO, all classes of preferred shares of the Company were converted and designated as Class A ordinary shares on a one-for-one basis. 34,248,442 ordinary shares, including the vesting of 15,937,500 ordinary owned by the founders that became subsequently restricted on January 3, 2018, were designated as Class B ordinary share on a one-for-one basis. All the remaining ordinary shares were designated as Class A ordinary shares on a one-for-one basis. In respect of all matters subject to shareholders' vote, each holder of Class A ordinary share is entitled to one and each holder of Class B ordinary share is entitled to ten votes.

16. Share-based compensation

(a) Share option plan

In 2016, Jifen's controlling shareholder authorized grants of incentive awards owned by him to the employees, non-employee directors, officers and consultants. The incentive awards provide for the issuance of up to 20% of the equity interests in Jifen, or equivalent to 10,000,000 ordinary shares of the Company (after adjustment to give effect to the recapitalization described below to reflect the exchange of two Jifen shares for one ordinary share of the Company).

In 2016 and 2017, Jifen granted options to the employees of Jifen and its subsidiaries to purchase 5,969,427 and 1,642,745 shares, respectively (after adjustment to give effect to the recapitalization described below to reflect the exchange of two Jifen shares for one ordinary share of the Company). The options can be exercised within 10 years from the grant date. These options granted are vested upon satisfaction of service condition, which is generally satisfied over four years.

In 2016 and 2017, Jifen granted options to the employees of companies under common control of the founder to purchase 1,654,082 and 233,746 shares, respectively (after adjustment to give effect to the recapitalization described below to reflect the exchange of two Jifen shares for one ordinary share of the Company). The options can be exercised within 10 years from the grant date. The fair value of these options are recognized as dividends to founder in full at grant date. Note that the companies under common control of the founder are providing administrative services to Jifen and Jifen pays a fee charged at market rates for the services received, so no compensation expense is reflected for these grants.

In 2016, Jifen granted options to third party consultants to purchase 500,000 shares (after adjustment to give effect to the recapitalization described below to reflect the exchange of two Jifen shares for one ordinary share of the Company). The options were vested immediately upon the grant as the related services have been completed upon the grant dates.

As part of the restructuring in 2017, in February 2018, the Board of Directors of the Company approved the 2017 Equity Incentive Plan, which assumed Jifen's obligations and duties under the options granted by Jifen from 2016 to 2017. As a result, the options granted by Jifen were replaced with options of the Company. Such new options replaced the options granted under Jifen's existing options in its entirety by exchanging of two options granted by Jifen for one option of the Company while maintaining their respective terms and vesting schedules unchanged. This replacement represents a modification of the awards under the accounting guidance, but no incremental compensation cost is required to be recognized because there was no change in fair value of the awards as measured immediately before and after the modification.

In February 2018, the board of the directors of the Company approved a 2018 Equity incentive plan. Under this plan, the Company is authorized to issue 2,964,141 ordinary shares of the Company.

In January 2019, the board of the directors of the Company approved a 2019 Equity incentive plan. The equity incentive plan replaced the 2017 equity incentive plan and 2018 equity incentive plan that the Company previously adopted in their entirety and assumed the awards previously granted under these two plans.

Share-based compensation expense related to the option awards granted to the employees amounted to approximately RMB3.4 million and RMB77.3 million and RMB272.0 million for the years ended December 31, 2017, 2018 and 2019.

Share-based awards related to the option awards granted to the employees of companies under common control of the founder were measured at fair value at the grant dates and amounts of RMB4.4 million, RMB6.8 million and nil million was recognized as dividends distributed to the founder in 2017, in 2018 and in 2019, respectively. In 2018 and 2019 some employees of companies under common control of the founder resigned and joined the Group as employees. The related unvested options granted were not modified in connection with the change in status, but future service is still necessary to earn the award over the remaining periods. Accordingly, the share-based compensation expense related to the unvested options were measured as if the related unvested options were newly granted at the date of the change and recognized over the remaining vesting periods. On the date of transfer, total share-based compensation expense measured at fair value amounted to RMB73.2 million and RMB7.5 million for the years ended December 31, 2018 and 2019, respectively. These expenses are recognized over the remaining vesting periods.

The following table summarizes the share option activity for the years ended December 31, 2017, 2018 and 2019 and all option amounts and exercise prices have been adjusted for the 2017 restructure:

	Number of options	Weighted Average Exercise Price RMB	Weighted Average Remaining Contractual Life In Years	Aggregate Intrinsic Value RMB'000	Weighted Average Grant Date Fair Value RMB
Outstanding at January 1, 2017	8,123,509	0.0007	9.5	42,321	0.35
Granted	1,876,491	0.0007			19.19
Outstanding at December 31, 2017	10,000,000	0.0007	8.7	525,086	3.89
Granted	2,893,020	0.0007			130.51
Exercised	(500,000)	0.0007			
Forfeited	(217,437)	0.0007			
Outstanding at December 31, 2018	12,175,583	0.0007	8.1	1,939,500	33.95
Granted	3,538,204	0.0007			270.11
Exercised	(2,197,104)	0.0007			
Forfeited	(2,170,302)	0.0007			
Outstanding at December 31, 2019	11,346,381	0.0007	7.7	1,079,661	96.29
Vested and expected to vest at December 31, 2019	9,949,890	0.0007	7.6	946,779	89.35
Exercisable at December 31, 2019	6,246,735	0.0007	7.1	594,406	46.72

The aggregate intrinsic value is calculated as the difference between the exercise price of the options and the estimated fair value of the underlying shares of RMB52.51, RMB159.29 and RMB95.20(US\$13.70) at December 31, 2017, 2018 and 2019.

The total fair value of share options vested during the years ended December 31, 2017, 2018 and 2019 was RMB0.7 million, RMB17.0 million and RMB326.5 million respectively. The total intrinsic value of options exercised during the years ended December 31, 2017, 2018 and 2019 were nil, nil and RMB428.3 million, respectively.

As of December 31, 2019, there was RMB801.5 million of unrecognized share-based compensation expense related to share options granted, which were expected to be recognized over a weighted-average vesting period of 0.5 to 4.0 years, respectively. To the extent the actual forfeiture rate is different from the Company's estimate, the actual share-based compensation related to these awards may be different from the expectation.

The binomial option pricing model is used to determine the fair value of the share options granted to employees and non-employees. The fair values of share options granted during the years ended December 31, 2017, 2018 and 2019.

	Options Granted in the year ended December 31, 2017	Options Granted in the year ended December 31, 2018	Options Granted in the year ended December 31, 2019
Expected volatility	51.61%~52.41%	50.71%~51.25%	49.92%~50.65%
Risk-free interest rate	3.28%~3.62%	2.83%~3.15%	1.80%~2.52%
Exercise multiple	2.8	2.8	2.8
Expected dividend yield	0%	0%	0%
Contractual term	10	10	10
Expected forfeiture rate (post-vesting)	0%	0~20%	0-20%
Fair value of the common share on the date of option grant (RMB)	8.44~23.98	122.52~153.23	94.96~310.64

Notes:

- (i) The risk-free interest rate of periods within the contractual life of the share option is based on the market yield of the Chinese sovereign bond/US government bond with a maturity life equal to the expected life to expiration.

- (ii) The Company has no history or expectation of paying dividends on its ordinary shares.
- (iii) Expected volatility is estimated based on the average of historical volatilities of the comparable companies in the same industry as at the valuation dates.

(b) Restricted shares to founders with service conditions

On January 3, 2018, the founders entered into Share Restriction Deeds with the Company such that a total of 15,937,500 ordinary shares of the Company held by the founders became restricted and will vest over periods from 24 months to 34 months starting January 2018. Prior to the end of the vesting periods, all the remaining restricted shares shall vest immediately and no longer constitute restricted shares upon a Deemed Liquidation Event or IPO of the Company. In the event that the founder voluntarily and unilaterally terminates his employment/service contract with any applicable Group entities or his employment or service relationship is terminated by any applicable Group entities for cause as stated in the Deed, the related founder shall sell to the Company, and the Company shall repurchase from the founder, all of the restricted shares (not vested shares) at a price of US\$0.0001 per share. This transaction has been reflected retrospectively similar to a reverse stock split, with a grant of the 15,937,500 restricted shares recognized in January 2018 at their fair value. The grant is being treated as share-based compensation over the vesting periods, and the estimated grant date fair value of the 15,937,500 ordinary shares approximated to at RMB 864.7 million (US\$128.1 million). Share-based compensation expense of RMB 215.0 million (US\$33.1 million) were recorded as share-based compensation expense through the completion of IPO. Upon the completion of IPO in September, 2018 which was prior to the end of the vesting periods, the entire remaining unrecognized compensation expenses approximating RMB 649.7 million (US\$95.0 million) was expensed immediately.

17. Employee benefits

The full-time employees of the Company's subsidiaries and VIEs that are incorporated in the PRC are entitled to staff welfare benefits including medical insurance, basic pensions, unemployment insurance, work injury insurance, maternity insurance and housing funds. These companies are required to contribute to these benefits based on certain percentages of the employees' salaries in accordance with the relevant regulations and charge the amount contributed to these benefits to the consolidated statements of comprehensive loss. The total amounts charged to the consolidated statements of comprehensive loss for such employee benefits amounted to RMB 7.4 million, RMB 58.1 million and RMB 144.7 million for the years ended December 31, 2017, 2018 and 2019, respectively. The PRC government is responsible for the welfare and medical benefits and ultimate pension liability to these employees.

18. Income Taxes

(a) Cayman Islands

Under the current tax laws of Cayman Islands, the Company is not subject to income, corporation or capital gains tax, and no withholding tax is imposed upon the payment of dividends.

(b) Hong Kong Profits Tax

One of the Company's subsidiaries incorporated in Hong Kong is subject to Hong Kong profit tax at the rate of 8.25% for profit of up to HK\$2.0 million and 16.5% for the remainder of taxable income. Dividends income received from subsidiaries in China are not subject to Hong Kong profits tax.

(c) PRC Enterprise Income Tax ("EIT")

On March 16, 2007, the National People's Congress of the PRC enacted an Enterprise Income Tax Law ("EIT Law"), under which Foreign Investment Enterprises ("FIEs") and domestic companies would be subject to EIT at a uniform rate of 25%. The EIT law became effective on January 1, 2008.

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose "de facto management body" is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The implementing Rules of the EIT Law merely define the location of the "de facto management body" as "the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located."

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by a FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company incorporated, does not have such tax treaty with China. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by a FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% if the immediate holding company in Hong Kong owns directly at least 25% of the shares of the FIE and could be recognized as a Beneficial Owner of the dividend from PRC tax perspective.

Jifen obtained in 2016 its HNTE certificate with a valid period of three years. Therefore, Jifen is eligible to enjoy a preferential tax rate of 15% from 2016 to 2018 to the extent it has taxable income under the EIT Law, as long as it maintains the HNTE qualification and duly conducts relevant EIT filing procedures with the relevant tax authority. The HNTE certificate was renewed in 2019 and is valid for another three years (from 2019 to 2021). Jifen also obtained a software company certificate in 2017. Pursuant to such certificate, Jifen qualifies for a tax holiday during which it is entitled to an exemption from enterprise income tax for two years commencing from its first profit-making year of operation and a 50% reduction of enterprise income tax for the following three years. However Jifen has not yet enjoyed the above-mentioned preferential tax treatments due to its loss position and as such there is no impact of these tax holidays on earnings or earnings per share.

Reconciliation of the differences between statutory audit rate and the effective tax rate

A reconciliation between the effective income tax rate and the PRC statutory income tax rate is as follows:

	Year ended December 31,		
	2017	2018	2019
	%	%	%
PRC Statutory income tax rates	25.0%	25.0%	25.0%
Change in valuation allowance	(25.6%)	(15.3%)	(23.2%)
Permanent book — tax difference	1.6%	(9.9%)	(2.0%)
Difference in EIT rates of certain subsidiaries	(1.0%)	0.2%	0.0%
Total	0.0%	0.0%	(0.2%)

Loss from domestic and foreign components before income tax expense (benefit)

The loss before income tax expenses (benefit) for domestic and foreign components' are as follows:

	Year ended		
	December 31, 2017	December 31, 2018	December 31, 2019
Domestic	87,465,046	998,299,456	2,404,676,422
Foreign	7,294,643	947,947,297	279,748,549
Total	94,759,689	1,946,246,753	2,684,424,971

Composition of income tax expense (benefit)

The current and deferred portions of income tax expense (benefit) included in the consolidated statements of comprehensive loss are as follows:

	Year ended		
	December 31, 2017	December 31, 2018	December 31, 2019
Current income tax expense	—	—	7,246,119
Deferred income tax benefit	—	(400,541)	(2,403,243)
Income tax expense (benefit)	—	(400,541)	4,842,876

Deferred tax assets and liabilities

The following table sets forth the significant components of the deferred tax assets and deferred tax liabilities:

	As of	
	December 31, 2018	December 31, 2019
Deductible temporary difference to accruals and others	158,576,042	442,696,181
Tax losses carried forward	167,760,191	542,743,772
Less: Valuation allowance	(326,336,233)	(985,439,953)
Total of deferred tax assets	—	—
Taxable temporary difference related to acquired right to operate an online audio/video content platform	23,631,899	21,228,656
Total of deferred tax liabilities	23,631,899	21,228,656

Deferred tax liability of RMB 21.2 million represents the difference between the accounting basis and tax basis of the acquired right to operate an online audio/video content platform (Note 9) and will be realized over 10 years which is in line with the acquired right's amortization period.

As of December 31, 2017, 2018 and 2019, the PRC entities of the Group had tax loss carryforwards of approximately RMB 92.2 million, RMB 675.5 million and RMB 2,372.1 million respectively, which can be carried forward to offset taxable income. The carryforwards period for net operating losses under the EIT Law is five years. The net operating loss carry forward of the Group will start to expire in 2021 for the amount of RMB 367,528 if not utilized. The remaining net operating loss carryforwards will expire in varying amounts between 2021 and 2025. Other than the expiration, there are no other limitations or restrictions upon the Group's ability to use these operating loss carryforwards. There is no expiration for the advertising expenses carryforwards.

Valuation allowance is provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group considered factors including future taxable income exclusive of reversing temporary differences and tax loss carry forwards. Valuation allowance was provided for net operating loss carry forward because it was more likely than not that such deferred tax assets will not be realized due to lack of profitable history to support the Group's estimate of its future taxable income. If events occur in the future that allow the Group to realize part or all of its deferred income tax, an adjustment to the valuation allowances will result in a decrease in tax expense when those events occur.

As of December 31, 2018 and 2019, valuation allowances of RMB 326.3 million and RMB 985.4 million were provided because it was more likely than not that the Group will not be able to utilize certain tax losses carry forwards and other deferred tax assets generated by its subsidiaries and Affiliated Entities. If events occur in the future that allow the Group to realize more of its deferred tax assets than the presently recorded amount, an adjustment to the valuation allowances will increase income when those events occur.

Movement of valuation allowance is as follows:

	Year ended		
	December 31, 2017	December 31, 2018	December 31, 2019
Beginning balance	3,496,764	27,776,443	326,336,233
Current year additions	24,279,679	298,559,790	665,361,186
Current year reversals	—	—	(6,257,466)
Ending balance	27,776,443	326,336,233	985,439,953

19. Other Operating Income

The Chinese tax bureau implemented a new tax rule which states that for the period between April 1, 2019 to December 31, 2021, companies from selected service industries (i.e. postal services, telecommunication services, modern services and lifestyle services) qualify for, an additional 10 percent super deduction of input VAT in addition to the existing, deductible input VAT. For the year ended December 31, 2019, the Company obtained the relevant certificate and recorded a benefit from the super deduction of RMB 30.3 million in other operating income.

20. Redeemable non-controlling interests and non-controlling interests

(a) Redeemable non-controlling interests

In November 2018, Fun literature, one of the Company's wholly owned subsidiaries, entered into preferred share purchase agreements with certain third party investors to issue 3,763,440 shares of series A redeemable convertible preferred shares (Fun Series A Preferred Shares) at the price of US\$3.72 per share for an aggregate issuance price of US\$14.0 million (RMB 97.1 million). The Fun Series A Preferred Shares on an as-if-converted basis represented approximately 7% of the aggregate issued and outstanding share capital of Fun literature on the closing date, with the Company holding the remaining 93%.

In March 2019, Fun Literature entered into an additional preferred share agreement with a new third party investor to issue 1,097,212 series A redeemable preferred shares at the price of US\$3.72 per share for an aggregate issuance price of US\$4.0 million (RMB27.5 million). After the issuance, the Fun Series A Preferred Shares on an as-if-converted basis represented approximately 9% of the aggregate issued and outstanding share capital of Fun literature on the closing date, with the Company holding the remaining 91%.

Pursuant to the preferred share agreement, the Fun Series A preferred shareholders have the right to convert all or any portion of their preferred shareholdings into ordinary shares of Fun literature at the initial conversion ratio of 1:1 at any time after the date of issuance of the preferred shares, and the conversion ratio is subject to adjustment for dilution, including but not limited to stock splits, stock dividends and recapitalization. In addition, the Fun Series A Preferred Shares will automatically convert into the Fun Literature's ordinary shares upon the occurrence of a qualified initial public offering (as defined in the share purchase agreement), at the then effective and applicable conversion price.

The other main rights, preferences and privileges of Fun Preferred Shares are as follows:

Dividend rights

If the board of Fun literature declares dividend, the Investors have the same rights as the ordinary shareholders.

Liquidation preferences

In the event of any liquidation, dissolution or winding up of Fun literature, either voluntarily or involuntarily, the Fun preferred shareholders rank pari passu with the ordinary shareholders.

Redemption rights

The Fun preferred shareholders have the right to require Fun literature to purchase all the shares from the Fun preferred shareholders within five years after the closing of the issuance by the holders in the event that (i) a qualified initial public offering has not occurred, or (ii) any material breach of representations and warranties, covenants or obligations made or borne by the Company that cause material adverse effect on any Fun preferred shareholders, or (iii) any the Company engages in willful or fraudulent misconducts that cause material adverse effect on any Fun preferred shareholders. The redemption need to be done within 60 days from the date on which the Fun preferred shareholders raise their written request. The redemption price equals initial investment plus 10% annual compound interests.

Voting rights

The Fun preferred shareholders have the number of votes as equal to the number of shares they hold.

In September 2019, Fun Literature issued 8,794,903 shares of Series B redeemable convertible preferred shares ("Fun Series B Preferred Shares") each to CMC Capital and the Company for US\$5.69 per share for cash consideration of US\$50,000,000 from each of them.

In addition to the same preferential rights specified for the Fun Series A preferred shareholders as described above, the Fun Series B preferred shareholders are entitled to (1) a conversion price adjustment down if certain operating metrics are not met around mid 2020 (2) put option to Fun Literature’s parent company (“the Company”) to purchase at the initial investment plus any declared or accrued but unpaid dividends in the event that a certain business milestone is not met by June 30, 2020, and (3) put option whereas both the Fun Series A and B preferred shareholders have the right to require Fun Literature’s parent company to purchase all the shares from them upon (i) an unsuccessful IPO within 5 years starting from the Fun Series B Preferred Shares issuance date or (ii) any material adverse effect caused by Fun Literature Limited or the Company (The preferred shares put option redemption price equals the initial investment plus 4% annual simple interest rate for both Fun Series A and B Preferred Shares).

Upon the Fun Series B Preferred Shares issuance, the earliest redemption date for the Fun Series A Preferred Shares has been extended to five years from the closing of the Fun Series B Preferred Shares issuance. The Company assessed the impact of the amendment and concluded that the amendment represented a modification rather than an extinguishment of the preferred shares. The difference of the fair value for the Fun Series A Preferred Shares before and after the modification is not material.

Accounting for redeemable non-controlling interests

Since the Fun Series A and B Preferred Shares are redeemable at a determinable price on a determinable date, at the option of the holder, or upon occurrence of an event that is not solely within the control of Fun Literature, the Fun Series A and B Preferred Shares are accounted for as redeemable non-controlling interests in the Group’s consolidated balance sheets.

Subsequently, the redeemable non-controlling interests should be carried at the higher of (1) the carrying amount after the attribution of net income of the Company (2) the expected redemption value. The Company accretes for the difference between the initial carrying value and the ultimate redemption price using the effective interest rate method (10% annual compound interests) from the issuance dates to the earliest possible redemption date, which is five years from the Fun Series B Preferred Shares issuance.

For the other preferential rights described above including the conversion price adjustment and the Fun Series A and B preferred shareholders’ put options to the Company, the Company concluded that these embedded features do not need to be bifurcated from their host contract as they are either clearly and closely related to the equity host or they do not meet the definition of a derivative.

The Company’s redeemable non-controlling interests activities for the years ended in December 31, 2018 and 2019 are summarized as follows:

	Year ended	
	December 31, 2018	December 31, 2019
Beginning balance	—	96,936,855
Issuance of Fun Preferred Shares	97,019,860	380,259,607
Foreign exchange impact	(1,061,206)	(1,899,929)
Accretion to redemption value of redeemable non-controlling interests	978,201	20,548,032
Ending balance	<u>96,936,855</u>	<u>495,844,565</u>

(b) Non-controlling interests

Non-controlling interests mainly represent the Group’s overseas subsidiary’s cumulative results of operations and changes in deficit attributable to non-controlling shareholders. The subsidiary was set up by the group and the non-controlling shareholders in May 2018 with nominal capital injection and the Group and non-controlling shareholders own 73.34% and 26.66% equity interests in that subsidiary, respectively.

21. Related Party transactions

For the years ended December 31, 2017, 2018 and 2019, the transactions and balance amount due to/from related parties was as follows:

Transaction amount with related parties

	Year ended		
	December 31, 2017	December 31, 2018	December 31, 2019
Services provided by the Group			
Agent and platform service provided to a related party ⁽²⁾	—	29,597,143	—
Advertising and marketing service provided to related parties ⁽³⁾	—	17,447,475	473,215,790
	Year ended		
	December 31, 2017	December 31, 2018	December 31, 2019
Services received by the Group			
Received from a related party ⁽¹⁾	5,000,000	—	—
Service fee charged from a related party ⁽⁴⁾	16,788,160	—	—
Advertisement costs charged from a related party ⁽⁵⁾	—	—	35,605,180
Gaming cost sharing charged from a related party ⁽⁶⁾	—	—	6,806,424
Advertising Service fee charged from related parties ⁽⁷⁾	—	15,815,201	3,284,223
iCloud server and other service fee charged from a related party ⁽⁸⁾	—	13,875,839	—

In July 2019, the Company invested RMB3.0 million in a company which the founder's controlled entity has significant influence in. The investment is measured using the measurement alternative recorded at cost less any impairment since it does not have a readily determinable fair value.

Balance amount with related parties

	As of	
	December 31, 2018	December 31, 2019
Amount due from related parties ⁽³⁾	—	278,155,878
Amount due to related parties ^{(5)& (6)}	—	3,436,586

- (1) Amount received from a related party represented cash prepaid to a related party for a cooperation of a potential business project. However, as the project was canceled, the money was refunded to the Company in 2017.
- (2) The Group provided agent and platform service between the advertising customers and a company in which the founder of the Company was a member of key management by facilitating the advertising customers to display their advertisements. The founder was no longer a member of management of that company as of September 30, 2018.
- (3) For the year ended December 31, 2018, the service fee charged to related parties consisted of: the advertising and marketing service of RMB 4.5 million provided to a company in which the founder of the Company was a member of key management (the founder was no longer a member of management of that company as of September 30, 2018), and the advertising service of RMB 12.9 million provided to Series B1 shareholder through September 2018 (After the IPO in September 2018, the Series B1 shareholder has no right to nominate the board member of the Company and has only 1.5% voting power of the Company and no ability to exercise significant influence. As a result, the Series B1 shareholder was no longer a related party of the Company after September 2018).

For the year ended December 31, 2019, the service fee of RMB473.2 million charged to related parties represents advertising and marketing services provided to companies under the common control of the founder, to help promote these companies' online applications, which were developed in late 2018.

- (4) The service fee charged from related parties represented the costs charged from a company under common control of the founder which provided the Group with financial accounting, office space sharing and other IT and administrative support services.
- (5) For the year ended December 31, 2019, the Group entered into a CPM (cost per impression) arrangement with a media platform under the common control of the founder for the Group's customer's advertisement placement. The total service fee charged from the related party amounted to RMB 35.6 million for the year ended December 31, 2019.
- (6) For the year ended December 31, 2019, the Group entered into a game cooperation agreement with a game developing company which the founder's controlled entity has significant influence over. The Company is the principal in the arrangement. The total service fee of RMB6.8 million represents the amount paid to the game developing company in relation to the arrangement.
- (7) For the year ended December 31, 2018, the Group entered into a cooperation agreement with Series B1 shareholder to promote the Company's mobile application, and the cooperation agreement requires the Company to prepay a total service fee of RMB 31.5 million which will be recognized as expense over 3 years. For the year ended December 31, 2018, total service fee recognized as expense amounted to RMB 15.8 million. After the IPO in September 2018, the Series B1 shareholder has no right to nominate the board member of the Company and has only 1.5% voting power of the Company and no ability to exercise significant influence. As a result, the Series B1 shareholder was no longer a related party of the Company after September 2018. For the year ended December 31, 2019, the service fee charged from related parties represented the expense charged from a company under common control of the founder which provided the Group advertising and marketing services.
- (8) The service fee mainly represented cloud server and short message service fees charged from Series B1 shareholder through September 2018. After the IPO in September 2018, the Series B1 shareholder has no right to nominate the board member of the Company and has only 1.5% voting power of the Company and no ability to exercise significant influence. As a result, the Series B1 shareholder was no longer a related party of the Company after September 2018.

22. Basic and diluted net loss per share

(a) Basic and diluted net loss per share

Basic loss per share and diluted loss per share have been calculated in accordance with ASC 260 on computation of earnings per share for the years ended December 31, 2017, 2018 and 2019 as follows:

	Year ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2019
Numerator:			
Net loss attributable to Qutoutiao Inc.	(94,759,689)	(1,942,571,687)	(2,688,680,705)
Accretion on Series A convertible redeemable preferred shares redemption value	(5,213,802)	(15,718,213)	—
Accretion on Series A1 convertible redeemable preferred shares redemption value	(798,981)	(4,840,875)	—
Accretion on Series B1 convertible redeemable preferred shares redemption value	—	(37,001,459)	—
Accretion on Series B2 convertible redeemable preferred shares redemption value	—	(31,800,587)	—
Accretion on Series B3 convertible redeemable preferred shares redemption value	—	(12,312,158)	—
Accretion on Series C1 convertible redeemable preferred shares redemption value	—	(133,451)	—
Deemed dividend to preferred shareholders (Note 14)	—	(1,916,871)	—
Accretion on redemption value of Series A convertible redeemable preferred shares of a subsidiary (Note 20)	—	(978,201)	(12,171,842)
Accretion on redemption value of Series B convertible redeemable preferred shares of a subsidiary (Note 20)	—	—	(8,376,190)
Gains on repurchase of convertible redeemable preferred shares (Note 14)	—	18,332,152	—
Net loss attributable to ordinary shareholders-Basic and diluted	<u>(100,772,472)</u>	<u>(2,028,941,350)</u>	<u>(2,709,228,737)</u>
Denominator:			
Denominator for basic and diluted loss per share Weighted-average ordinary shares outstanding			
Basic and diluted (Note)	25,542,031	38,507,184	68,749,981
Basic and diluted loss per share	<u>(3.95)</u>	<u>(52.69)</u>	<u>(39.41)</u>
Denominator for basic and diluted loss per ADS Weighted-average ADS outstanding			
Basic and diluted (Note)	102,168,124	154,028,736	274,999,924
Basic and diluted loss per ADS	<u>(0.99)</u>	<u>(13.17)</u>	<u>(9.85)</u>

Note:

- As disclosed in Note 16 for restricted shares, a total of 15,937,500 ordinary shares subject to certain vesting restrictions are excluded from the issued and outstanding shares as of December 31, 2017 and are likewise excluded from the weighted average outstanding ordinary shares for basic loss per share calculation.
- Options exercisable for a minimal exercise price are included in the denominator of basic loss per share calculation once there are no further vesting conditions or contingencies associated with them, as they are considered contingently issuable shares. Accordingly, the weighted average number of shares of 1,479,531 (5,918,125 ADSs), 3,506,712 (14,026,848 ADSs), and 5,329,287 (21,317,146 ADSs) related to these options, for which the exercise price is RMB0.0007 per share, are included in the denominator for the computation of basic EPS for the years ended December 31, 2017, 2018 and 2019, respectively.

For the years ended December 31, 2017, 2018 and 2019, assumed conversion of the Preferred Shares have not been reflected in the dilutive calculations pursuant to ASC 260, "Earnings Per Share," due to the anti-dilutive effect as a result of the Group's net loss. The effects of all other outstanding share options and restricted shares granted to the founders have also been excluded from the computation of diluted loss per share for the years ended December 31, 2017, 2018 and 2019 due to their anti-dilutive effect.

The following potential ordinary shares were excluded from the computation of diluted net loss per ordinary share for the periods presented because including them would have had an anti-dilutive effect:

	Year ended		
	December 31, 2017	December 31, 2018	December 31, 2019
Preferred shares — weighted average	1,425,137	10,134,756	—
Share options — weighted average	7,016,694	6,350,735	4,119,918
Restricted shares — weighted average	—	6,976,785	—

23. Commitments and contingencies

(a) Content fee

The Group has entered into non-cancelable agreements for the use of contents owned by certain content providers. As of December 31, 2019, future minimum payments with respect to these agreements consist of the following:

	RMB	US\$ (Note 2(e))
Years Ending December 31,		
2020	162,994,545	23,412,701
2021	66,730,220	9,585,196
2022	—	—

(b) Capital and other commitments

As of December 31, 2019, future minimum payments under non-cancellable capital expenditure of the following:

	RMB	US\$ (Note 2(e))
Years Ending December 31,		
2020	53,808,767	7,729,146
2021	448,000	64,351

(c) Litigation

In the ordinary course of the business, the Group is subject to periodic legal or administrative proceedings. In relation to such matters, the Company currently believes that there are no existing claims or proceedings that are likely to have a material adverse effect on its financial position, results of operations or cash flows, within the next twelve months, or the outcome of these matters is currently not determinable. There are many uncertainties associated with any litigation, and these actions or other third-party claims against the Company may cause the Company to incur costly litigation and/or substantial settlement charges. If any of those events were to occur, the Company's business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from the Company's estimates, which could result in the need to adjust the liability and record additional expenses.

Shanghai Jifen was named as the defendant in a lawsuit filed in the People's Court of Jiading District in Shanghai in December 2019 on contractual dispute regarding certain advertising placement agreement between Shanghai Jifen and the plaintiff, Shanghai Wenji Culture Communications Co., Ltd. At the request of the plaintiff, the court issued a preliminary order to freeze the assets of Shanghai Jifen. Accordingly, RMB18.5 million (US\$2.6 million) of cash was frozen and recorded as restricted cash as of December 31, 2019.

The plaintiff withdrew the original lawsuit and filed it again in the Shanghai No.2 Intermediate People's Court on January 20, 2020, and sought a total payment of RMB103.2 million (US\$14.9 million). As a result of this withdrawal, the RMB18.5 million restricted cash has been unfrozen as of the date of this annual report. However, at the request of the plaintiff, Shanghai No. 2 Intermediate People's Court adopted preservation measures to freeze certain amount of Shanghai Jifen's deposit and the equity interest held by Shanghai Jifen in several of its subsidiaries.

The Company has recorded the related marketing expenses under the agreement in our financial statements for fiscal year 2019, and believe we have meritorious defenses to the plaintiff's claim. No loss contingency was accrued as of December 31, 2019, since it is not probable that a liability has been incurred and the amount of loss cannot be reasonably estimated. The Company is

also involved in another immaterial litigation matter which resulted in an additional RMB9.4 million (US\$1.4 million) of cash being frozen and recorded as restricted cash as of December 31, 2019. No loss contingency was accrued as of December 31, 2019, since it is not probable that a liability has been incurred related to that litigation matter and the top end of the range of loss is not material.

24. Restricted net assets

Relevant PRC laws and regulations permit payments of dividends by the Group's subsidiary and the VIEs incorporated in the PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Group's subsidiary and the VIEs in the PRC are required to annually appropriate 10% of their net after-tax income to the statutory general reserve fund prior to payment of any dividends, unless such reserve funds have reached 50% of their respective registered capital. As a result of these and other restrictions under PRC laws and regulations, the Group's subsidiary and the VIEs subsidiary incorporated in the PRC are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances. There are no significant differences between US GAAP and PRC accounting standards in connection with the reported net assets of the legally owned subsidiary in the PRC and the VIEs. Even though the Company currently does not require any such dividends, loans or advances from the PRC entities for working capital and other funding purposes, the Company may in the future require additional cash resources from them due to changes in business conditions, to fund future acquisitions and development, or merely to declare and pay dividends or distributions to our shareholders. Except for the above, there is no other restriction on use of proceeds generated by the Group's subsidiary and the VIEs to satisfy any obligations of the Company.

Since the Group has a consolidated shareholders' deficit, its net asset base for purposes of calculating the proportionate share of restricted net assets of consolidated subsidiaries should be zero. Therefore, the restrictions placed on the net assets of the Company's PRC subsidiaries with positive equity would result in the 25 percent threshold being exceeded and a corresponding requirement to provide parent company financial information (See Additional Information: Condensed Financial Statements of Parent Company).

25. Subsequent events

- (a) Recently, an outbreak of a novel strain of coronavirus was reported in Wuhan, China and has since spread throughout China and to other countries. The outbreak of the coronavirus, if persists or intensifies, could materially and adversely affect the Company's business, results of operations and financial condition. The Company's operations have been, and may continue to be, impacted by measures taken by national and regional Chinese government to contain coronavirus, including extension of lunar new year holiday, travel restrictions, closures and quarantines. The Company's business operations could be disrupted if any of the employees is suspected of being infected with coronavirus, since it could require the employees to be quarantined and/or the Company's offices to be shut down for disinfection. The Company may be short on workforce if a large number of the employees are diagnosed with coronavirus or are required to be self-isolated. The Company's business could also be impacted if any of the advertising customers or suppliers is affected by the coronavirus, which may result in suspension of the services, reduction in the Company's advertising and marketing revenues, or slower collection of accounts receivable and additional allowances for doubtful accounts.

In addition, the coronavirus could adversely affect national and regional economy in China as well as global economy and financial markets, which could cause economic downturn or financial crisis. The Company's business, results of operations and financial condition could be adversely affected to the extent that the coronavirus harms the Chinese and global economy in general.

The Company has been closely monitoring the extent to which the coronavirus impacts the Company's business, results of operations and financial condition. The Company currently expect a growth in our revenues in the first quarter of 2020 on a year-over-year basis, and the outbreak has not had a material impact on the first quarter 2020 financial results. The outbreak has slowed down and may continue to affect the Company's growth speed.

- (b) In January 2020, one of the Company's wholly owned subsidiaries subscribed to 1,500 non-redeemable Class C participating shares of a segregated portfolio in an investment fund at US\$10,000 per share totalling US\$15.0 million. The fund's segregated portfolio for this class pursues multiple strategies to diversify risks, reduce volatility and look for capital appreciation for investments into a range of financial products, instruments and securities. The investment cannot be redeemed for two years after subscription and the directors of the fund can extend the non-redemption period for another year following the two years. As the segregated portfolio calculates net asset value per share with the measurement principles of Topic 946, the Company accounts the investment at fair value on each reporting date by estimating the fair value of the investment in the segregated portfolio using the net asset value per share of the investments as a practical

expedient per ASC 820-10-35-59 and reflects the changes in fair value in the consolidated statements of comprehensive income/loss.

ADDITIONAL INFORMATION: CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Rules 12-04(a) and 4-08(e)(3) of Regulation S-X require condensed financial information as to the financial position, cash flows and results of operations of a parent company as of and for the same periods for which the audited consolidated financial statements have been presented when the restricted net assets of the consolidated and unconsolidated subsidiaries together exceed 25% of consolidated net assets as of the end of the most recently completed fiscal year.

The following condensed financial statements of the Parent Company have been prepared using the same accounting policies as set out in the Company's consolidated financial statements except that the Parent Company used the equity method to account for its investment in its subsidiaries and VIEs. Such investment is presented on the separate condensed balance sheets of the Parent Company as "Payables to subsidiaries and VIEs". The Parent Company, its subsidiaries and VIEs were included in the consolidated financial statements whereby the inter-company balances and transactions were eliminated upon consolidation. The Parent Company's share of income from its subsidiaries and VIEs is reported as share of income from subsidiaries and VIEs in the condensed financial statements.

The Parent Company is a Cayman Islands company and, therefore, is not subjected to income taxes for all years presented. The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

As of December 31, 2019, there were no material commitments or contingencies, significant provisions for long-term obligations or guarantees of the Company, except for those which have been separately disclosed in the consolidated financial statements, if any.

As the Group's business was operated through Jifen VIE prior to the Parent Company being incorporated in 2017, no Parent Company financial information of 2016 is presented. The consolidated financial statements have been prepared as if the equity structure of the Parent Company had been in existence throughout the periods, but 100% of consolidated net assets and all of results of operations for the year ended December 31, 2016 were restricted.

Condensed Financial Information of the Parent Company

BALANCE SHEETS

	December 31, 2018	December 31, 2019	
	RMB	RMB	US\$(Note2(e))
ASSETS			
Current assets:			
Cash and cash equivalents	2,023,415,810	148,279,138	21,298,965
Short-term investments	—	498,100,680	71,547,686
Prepayments and other current assets	29,631,942	8,030,839	1,153,558
Total current assets	2,053,047,752	654,410,657	94,000,209
Other non-current assets	—	6,251,505	897,974
Total non-current assets	—	6,251,505	897,974
Total assets	2,053,047,752	660,662,162	94,898,183
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' DEFICIT			
Current liabilities:			
Accrued expenses and other current liabilities	5,558,005	2,640,434	379,275
Non-current liabilities:			
Convertible loan	—	1,218,905,676	175,084,845
Other non-current liabilities	9,686,219	7,212,463	1,036,005
Payables to subsidiaries and VIEs	523,296,223	133,385,543	19,159,635
Total non-current liabilities	532,982,442	1,359,503,682	195,280,485
Total liabilities	538,540,447	1,362,144,116	195,659,760
Shareholders' equity (deficit):			
Class A ordinary shares (US\$0.0001 par value, 50,000,000 shares authorized as of December 31, 2018 and 2019; 37,022,806 shares and 40,812,245 issued as of December 31, 2018 and 2019, 27,522,806 shares and 32,176,825 shares outstanding as of December 31, 2018 and 2019)	16,292	20,260	2,910
Class B ordinary shares (US\$0.0001 par value; 34,248,442 shares authorized as of December 31, 2018 and 2019; 34,248,442 shares and 32,937,193 shares issued and outstanding as of December 31, 2018 and 2019)	25,255	24,391	3,504
Additional paid-in capital	3,684,130,058	4,321,100,861	620,687,302
Treasury stock (US\$0.0001 par value; 9,500,000 and 8,635,420 shares as of December 31, 2018 and December 31, 2019, respectively)	—	(142,228,779)	(20,429,886)
Accumulated other comprehensive loss	(16,428,875)	(17,934,525)	(2,576,132)
Accumulated deficit	(2,153,235,425)	(4,862,464,162)	(698,449,275)
Total shareholders' equity (deficit)	1,514,507,305	(701,481,954)	(100,761,577)
Total liabilities and shareholders' equity	2,053,047,752	660,662,162	94,898,183

STATEMENTS OF COMPREHENSIVE LOSS

	<u>2017</u>	<u>2018</u>	<u>2019</u>	
	RMB	RMB	RMB	US\$(Note 2 (e))
Operating expenses:				
General and administrative	(3,933,590)	(959,590,151)	(287,026,788)	(41,228,818)
Total operating expenses	<u>(3,933,590)</u>	<u>(959,590,151)</u>	<u>(287,026,788)</u>	<u>(41,228,818)</u>
Loss from operations	<u>(3,933,590)</u>	<u>(959,590,151)</u>	<u>(287,026,788)</u>	<u>(41,228,818)</u>
Investment income	36,082	3,098,150	—	—
Interest income	471	23,805,861	44,271,057	6,359,139
Interest expense	—	—	(26,878,316)	(3,860,829)
Loss from subsidiaries and VIEs	<u>(47,242,850)</u>	<u>(1,010,863,748)</u>	<u>(2,439,594,690)</u>	<u>(350,425,851)</u>
Loss before provision for income taxes	<u>(51,139,887)</u>	<u>(1,943,549,888)</u>	<u>(2,709,228,737)</u>	<u>(389,156,359)</u>
Provision for income taxes	—	—	—	—
Net loss	<u>(51,139,887)</u>	<u>(1,943,549,888)</u>	<u>(2,709,228,737)</u>	<u>(389,156,359)</u>
Preferred share redemption value accretion	(6,012,783)	(101,806,743)	—	—
Gains on repurchase of convertible redeemable preferred Shares	—	18,332,152	—	—
Deemed dividend to preferred shareholders	—	(1,916,871)	—	—
Net loss attributable to ordinary shareholders	<u>(575,152,670)</u>	<u>(2,028,941,350)</u>	<u>(2,709,228,737)</u>	<u>(389,156,359)</u>
Net loss	<u>(51,139,887)</u>	<u>(1,943,549,888)</u>	<u>(2,709,228,737)</u>	<u>(389,156,359)</u>
Foreign currency translation adjustment, net of nil tax	24,651	(16,453,526)	(1,505,650)	(216,273)
Comprehensive loss	<u>(51,115,236)</u>	<u>(1,960,003,414)</u>	<u>(2,710,734,387)</u>	<u>(389,372,632)</u>

STATEMENTS OF CASH FLOWS

	<u>2018</u>	<u>2019</u>	
	RMB	RMB	US\$(Note 2 (e))
Cash flows provided by/(used in) operating activities	23,710,900	39,182,532	5,628,219
Cash flows used in investing activities	(591,572,091)	(3,327,606,050)	(477,980,702)
Cash flows provided by financing activities	2,206,005,176	1,397,381,828	200,721,340
Effect of exchange rate changes on cash	118,146,408	15,905,018	2,284,613
Net increase in cash and cash equivalents	<u>1,756,290,393</u>	<u>(1,875,136,672)</u>	<u>(269,346,530)</u>
Cash and cash equivalents, beginning of year	267,125,417	2,023,415,810	290,645,495
Cash and cash equivalents, end of year	<u>2,023,415,810</u>	<u>148,279,138</u>	<u>21,298,965</u>

Note: In the Company's statements of comprehensive loss, accretion to redemption value of Series A and B convertible redeemable preferred shares of a subsidiary amounted to RMB978,201 and RMB20.5 million was treated as the subsidiary's cost and accordingly was included in the loss of subsidiaries and VIEs in the Company's statements of comprehensive loss for the years ended December 31, 2018 and 2019, respectively.

**Description of rights of each class of securities
registered under Section 12 of the Securities Exchange Act of 1934 (the “Exchange Act”)**

American Depositary Shares (“ADSs”), every four of which represent one Class A ordinary share of Qutoutiao Inc. (“we,” “us,” “our company,” or “our”), are listed and traded on the on the Nasdaq Global Select Market and, in connection with this listing (but not for trading), the Class A ordinary shares are registered under Section 12(b) of the Exchange Act. This exhibit contains a description of the rights of (i) the holders of Class A ordinary shares and (ii) the holders of ADSs. Class A ordinary shares underlying the ADSs are held by The Bank of New York Mellon, as depositary, and holders of ADSs will not be treated as holders of Class A ordinary shares.

Description of Class A Ordinary Shares

The following is a summary of material provisions of our currently effective sixth amended and restated memorandum of association (the “Memorandum and Articles of Association”) as well as the Companies Law (as amended) of the Cayman Islands (the “Companies Law”) insofar as they relate to the material terms of our class A ordinary shares. As it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire Memorandum and Articles of Association, which has been filed with the Securities and Exchange Commission (the “SEC”) as an exhibit to our Registration Statement on Form F-1 (File No. 333-226913).

Type and Class of Securities (Item 9.A.5 of Form 20-F)

The par value of Class A ordinary share is US\$0.0001 per share. The number of Class A ordinary shares that had been issued as of December 31, 2019 is provided on the cover of the annual report on Form 20-F for the fiscal year ended December 31, 2019. All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their ordinary shares.

Preemptive rights (Item 9.A.3 of Form 20-F)

Our shareholders do not have preemptive rights.

Limitations or Qualifications (Item 9.A.6 of Form 20-F)

We have a dual-class share structure which consists of Class A ordinary shares and Class B ordinary shares. In respect of all matters upon which the ordinary shares are entitled to vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to ten (10) votes, voting together as one class. Due to the super voting power of Class B ordinary share holder, the voting power of the Class A ordinary shares may be limited.

Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)

Not applicable.

Rights of Class A Ordinary Shares (Item 10.B.3 of Form 20-F)

Dividends

The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law, our articles of association and the common law of the Cayman Islands.

Voting Rights

In respect of all matters upon which the ordinary shares are entitled to vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to ten (10) votes, voting together as one class. Voting at any meeting of shareholders is by show of hands unless a poll is demanded.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of votes attached to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of votes cast attached to the ordinary shares. A special resolution will be required for important matters such as a change of name or making changes to the Memorandum and Articles of Association.

Conversion

Each Class B ordinary share is convertible into one Class A ordinary share at any time at the option of the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder to any person or entity which is not an affiliate of such holder, each of such Class B ordinary shares shall be converted into one Class A ordinary share in accordance with the Memorandum and Articles of Association.

Transfer of Ordinary Shares

Subject to the restrictions set out in our Memorandum and Articles of Association as set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in writing and in any usual or common form or such other form as approved by our directors. Such instrument of transfer shall be executed by or on behalf of the transferor and, if in respect of any nil or partly paid up share or if so required by our directors, shall also be executed on behalf of the transferee and shall be accompanied by the certificate (if any) of the shares to which it relates and such other evidence as our directors may reasonably require to show the right of the transferor to make the transfer.

However, our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which our company has a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate (if any) for the shares to which it relates and such other evidence as the board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four; and
- a fee of such maximum sum as NASDAQ may determine to be payable, or such lesser sum as the board of directors may from time to time require, is paid to us in respect thereof.

Liquidation

On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of ordinary shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares on a *pro rata* basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

Calls on Ordinary Shares and Forfeiture of Ordinary Shares

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their ordinary shares. The ordinary shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption of Ordinary Shares

Subject to the provisions of the Companies Law and other applicable law, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders, on such terms and in such manner, including out of capital, as may be determined by the board of directors.

General Meetings of Shareholders

Shareholders' meetings may be convened by a majority of our board of directors. Advance notice of at least seven calendar days is required for the convening of our annual general shareholders' meeting and any other general meeting of our shareholders. A quorum required for a meeting of shareholders consists of the holders of a not less than one-third of all shares in issue present in person or by proxy.

Inspection of Books and Records

Holders of our ordinary shares will have a general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records.

Requirements to Change the Rights of Holders of Class A Ordinary Shares (Item 10.B.4 of Form 20-F)

Variations of Rights of Shares

If at any time, our share capital is divided into different classes of shares, the rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied with the consent in writing of the holders of not less than two-thirds of the shares of that class, or the sanction of a resolution passed at a general meeting of the holders of the shares of that class by a majority of two-thirds of the votes cast at such a meeting. Consequently, the rights of any class of shares cannot be detrimentally altered without a simple majority of the vote of all of the shares in that class. The rights conferred upon the holders of the shares or any class of shares shall not, unless otherwise expressly provided by the terms of issue of such shares, be deemed to be varied by the creation, redesignation, or issue of shares ranking *pari passu* with such shares.

Limitations on the Rights to Own Class A Ordinary Shares (Item 10.B.6 of Form 20-F)

There are no limitations under the laws of the Cayman Islands or under the Memorandum and Articles of Association that limit the right of non-resident or foreign owners to hold or vote Class A ordinary shares, other than anti-takeover provisions contained in the Memorandum and Articles of Association to limit the ability of others to acquire control of our company or cause our company to engage in change-of-control transactions.

Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)

Anti-Takeover Provisions in the Memorandum and Articles of Association

Some provisions of the Memorandum and Articles of Association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under the Memorandum and Articles of Association, as amended and restated from time to time, for what they believe in good faith to be in the best interests of our company.

Ownership Threshold (Item 10.B.8 of Form 20-F)

There are no provisions under Cayman Islands law applicable to the Company, or under the Memorandum and Articles of Association, governing the ownership threshold above which shareholder ownership must be disclosed.

Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

The Companies Law is modeled after that of England and Wales but does not follow recent statutory enactments in England. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the State of Delaware.

Mergers and Similar Arrangements

A merger of two or more constituent companies under Cayman Islands law requires a plan of merger or consolidation to be approved by the directors of each constituent company and authorization by a special resolution of the members of each constituent company.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders. For this purpose a subsidiary is a company of which at least ninety percent (90%) of the issued shares entitled to vote are owned by the parent company.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain circumstances, a dissentient shareholder of a Cayman constituent company is entitled to payment of the fair value of his shares upon dissenting to a merger or consolidation. The exercise of appraisal rights will preclude the exercise of any other rights save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must, in addition, represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting *bona fide* without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

When a takeover offer is made and accepted by holders of 90% of the shares within four months, the offer or may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An

objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' Suits

In principle, we will normally be the proper plaintiff and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, there are exceptions to the foregoing principle, including when:

- a company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and
- those who control the company are perpetrating a "fraud on the minority."

Indemnification of Directors and Executive Officers and Limitation of Liability

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. The Memorandum and Articles of Association permit indemnification of officers and directors for all actions, proceedings, charges, liabilities losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from dishonesty, wilful default or fraud which may attach to such directors or officers as determined by a court of competent jurisdiction. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we have entered into indemnification agreements with our directors and senior executive officers that provide such persons with additional indemnification beyond that provided in the Memorandum and Articles of Association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Anti-Takeover Provisions in the Memorandum and Articles of Association

Some provisions of the Memorandum and Articles of Association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under the Memorandum and Articles of Association, as amended and restated from time to time, for what they believe in good faith to be in the best interests of our company.

Directors' Fiduciary Duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform

himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company — a duty to act *bona fide* in the best interests of the company, a duty not to make a profit based on his or her position as director (unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Shareholder Action by Written Consent

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law and the Memorandum and Articles of Association provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

Shareholder Proposals

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Cayman Islands law does not allow our shareholders to requisition a shareholders' meeting. However, under the Memorandum and Articles of Association, members holding not less than one third of the paid-up capital may requisition a meeting. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings.

Cumulative Voting

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. The Memorandum and Articles of Association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote,

unless the certificate of incorporation provides otherwise. Under the Memorandum and Articles of Association, directors may be removed by ordinary resolution.

Transactions with Interested Shareholders

The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an “interested shareholder” for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target’s outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target’s board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into *bona fide* in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding Up

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation’s outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Under the Companies Law of the Cayman Islands and the Memorandum and Articles of Association, our company may be dissolved, liquidated or wound up by the vote of holders of two-thirds of our shares voting at a meeting or the unanimous written resolution of all shareholders.

Variation of Rights of Shares

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and the Memorandum and Articles of Association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class only with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

Amendment of Governing Documents

Under the Delaware General Corporation Law, a corporation’s governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by Cayman Islands law, the Memorandum and Articles of Association may only be amended by special resolution or the unanimous written resolution of all shareholders.

Rights of Non-Resident or Foreign Shareholders

There are no limitations imposed by the Memorandum and Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in the Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

Directors' Power to Issue Shares

Subject to applicable law, our board of directors is empowered to issue or allot shares or grant options and warrants with or without preferred, deferred, qualified or other special rights or restrictions.

Exempted Company

We are an exempted company with limited liability incorporated under the Companies Law. The Companies Law in the Cayman Islands distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company's register of members is not open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue no par value;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company. We are subject to reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. We currently intend to continue complying with the NASDAQ Global Select Market rules in lieu of following home country practice. The NASDAQ Global Select Market rules require that every company listed on the NASDAQ Global Select Market hold an annual general meeting of shareholders. In addition, the Memorandum and Articles of Association allow directors to call extraordinary general meeting of shareholders pursuant to the procedures set forth in our articles.

Changes in Capital (Item 10.B.10 of Form 20-F)

We may from time to time by ordinary resolution:

- increase our share capital by such sum as the resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as we in general meeting may determine;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;

- by subdivision of its existing shares or any of them divide the whole or any part of our share capital into shares of smaller amount than is fixed by the Memorandum and Articles of Association; or
- cancel any shares that at the date of the passing of the resolution have not been taken or agreed to be taken by any person.

We may by special resolution reduce our share capital or any capital redemption reserve fund in any manner permitted by law.

Debt Securities (Item 12.A of Form 20-F)

Not applicable.

Warrants and Rights (Item 12.B of Form 20-F)

Not applicable.

Other Securities (Item 12.C of Form 20-F)

Not applicable.

Description of American Depositary Shares (Item 12.D.1 and 12.D.2 of Form 20-F)

General

The Bank of New York Mellon, as depositary, will register and deliver American Depositary Shares, also referred to as ADSs. Every four ADSs will represent one Class A ordinary share (or a right to receive one Class A ordinary share) deposited with The Hongkong and Shanghai Banking Corporation Limited, as custodian for the depositary in Hong Kong. Each ADS will also represent any other securities, cash or other property which may be held by the depositary. The deposited shares together with any other securities, cash or other property held by the depositary are referred to as the deposited securities.

The depositary's office at which the ADSs will be administered and its principal executive office are located at 240 Greenwich Street, New York, New York 10286.

You may hold ADSs either (A) directly (i) by having an American Depositary Receipt, also referred to as an ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (ii) by having uncertificated ADSs registered in your name, or (B) indirectly by holding a security entitlement in ADSs through your broker or other financial institution that is a direct or indirect participant in The Depository Trust Company, also called DTC. If you hold ADSs directly, you are a registered ADS holder, also referred to as an ADS holder. This description assumes you are an ADS holder. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Registered holders of uncertificated ADSs will receive statements from the depositary confirming their holdings.

As an ADS holder, we will not treat you as one of our shareholders and you will not have shareholder rights. Cayman Islands law governs shareholder rights. The depositary will be the holder of the shares underlying your ADSs. As a registered holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depositary, ADS holders and all other persons indirectly or beneficially holding ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire deposit agreement and the form of ADR

which contains the terms of your ADSs. The deposit agreement has been filed with the SEC as an exhibit to a Registration Statement on Form F-6 (File No. 333-227181) for our company. The form of ADR is on file with the SEC (as a prospectus) and was filed on September 4, 2018.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay or distribute to ADS holders the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, upon payment or deduction of its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.

- *Cash.* The depositary will convert any cash dividend or other cash distribution we pay on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.
- *Shares.* The depositary may distribute additional ADSs representing any shares we distribute as a dividend or free distribution. The depositary will only distribute whole ADSs. It will sell shares which would require it to deliver a fraction of an ADS (or ADSs representing those shares) and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADSs, the outstanding ADSs will also represent the new shares. The depositary may sell a portion of the distributed shares (or ADSs representing those shares) sufficient to pay its fees and expenses in connection with that distribution.
- *Rights to purchase additional shares.* If we offer holders of our securities any rights to subscribe for additional shares or any other rights, the depositary may (i) exercise those rights on behalf of ADS holders, (ii) distribute those rights to ADS holders or (iii) sell those rights and distribute the net proceeds to ADS holders, in each case after deduction or upon payment of its fees and expenses. To the extent the depositary does not do any of those things, it will allow the rights to lapse. In that case, you will receive no value for them. The depositary will exercise or distribute rights only if we ask it to and provide satisfactory assurances to the depositary that it is legal to do so. If the depositary will exercise rights, it will purchase the securities to which the rights relate and distribute those securities or, in the case of shares, new ADSs representing the new shares, to subscribing ADS holders, but only if ADS holders have paid the exercise price to the depositary. U.S. securities laws may restrict the ability of the depositary to distribute rights or ADSs or other securities issued on exercise of rights to all or certain ADS holders, and the securities distributed may be subject to restrictions on transfer.
- *Other Distributions.* The depositary will send to ADS holders anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property. However, the depositary is not required to distribute any securities (other than ADSs) to ADS holders unless it receives satisfactory evidence from us that it is legal to make that distribution. The depositary may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution. U.S. securities laws may restrict the ability of the depositary to distribute securities to all or certain ADS holders, and the securities distributed may be subject to restrictions on transfer.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. *This means that you may not receive the*

distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.

Deposit, Withdrawal and Cancellation

How are ADSs issued?

The depository will deliver ADSs if you or your broker deposits shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depository will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons that made the deposit.

How can ADS holders withdraw the deposited securities?

You may surrender your ADSs to the depository for the purpose of withdrawal. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depository will deliver the shares and any other deposited securities underlying the ADSs to the ADS holder or a person the ADS holder designates at the office of the custodian. Or, at your request, risk and expense, the depository will deliver the deposited securities at its office, if feasible. However, the depository is not required to accept surrender of ADSs to the extent it would require delivery of a fraction of a deposited share or other security. The depository may charge you a fee and its expenses for instructing the custodian regarding delivery of deposited securities.

How do ADS holders interchange between certificated ADSs and uncertificated ADSs?

You may surrender your ADR to the depository for the purpose of exchanging your ADR for uncertificated ADSs. The depository will cancel that ADR and will send to the ADS holder a statement confirming that the ADS holder is the registered holder of uncertificated ADSs. Upon receipt by the depository of a proper instruction from a registered holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depository will execute and deliver to the ADS holder an ADR evidencing those ADSs.

Voting Rights

How do you vote?

ADS holders may instruct the depository how to vote the number of deposited shares their ADSs represent. If we request the depository to solicit your voting instructions (and we are not required to do so), the depository will notify you of a shareholders' meeting and send or make voting materials available to you. Those materials will describe the matters to be voted on and explain how ADS holders may instruct the depository how to vote. For instructions to be valid, they must reach the depository by a date set by the depository. The depository will try, as far as practical, subject to the laws of the Cayman Islands and the provisions of the Memorandum and Articles of Association or similar documents, to vote or to have its agents vote the shares or other deposited securities as instructed by ADS holders. If we do not request the depository to solicit your voting instructions, you can still send voting instructions, and, in that case, the depository may try to vote as you instruct, but it is not required to do so.

Except by instructing the depository as described above, you won't be able to exercise voting rights unless you surrender your ADSs and withdraw the shares. However, you may not know about the meeting enough in advance to withdraw the shares. In any event, the depository will not exercise any discretion in voting deposited securities and it will only vote or attempt to vote as instructed.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote your shares. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. *This means that you may not be able to exercise voting rights and there may be nothing you can do if your shares are not voted as you requested.*

In order to give you a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to Deposited Securities, if we request the Depositary to act, we agree to give the depositary notice of any such meeting and details concerning the matters to be voted upon at least 30 days in advance of the meeting date.

Fees and Expenses

See “Item 12. Description of Securities other than Equity Securities—American Depositary Shares—Depositary Fees and Charges” in the annual report on Form 20-F for the fiscal year ended December 31, 2019.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until those taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your American Depositary Shares to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.

Tender and Exchange Offers; Redemption, Replacement or Cancellation of Deposited Securities

The depositary will not tender deposited securities in any voluntary tender or exchange offer unless instructed to do by an ADS holder surrendering ADSs and subject to any conditions or procedures the depositary may establish.

If deposited securities are redeemed for cash in a transaction that is mandatory for the depositary as a holder of deposited securities, the depositary will call for surrender of a corresponding number of ADSs and distribute the net redemption money to the holders of called ADSs upon surrender of those ADSs.

If there is any change in the deposited securities such as a sub-division, combination or other reclassification, or any merger, consolidation, recapitalization or reorganization affecting the issuer of deposited securities in which the depositary receives new securities in exchange for or in lieu of the old deposited securities, the depositary will hold those replacement securities as deposited securities under the deposit agreement. However, if the depositary decides it would not be lawful and practical to hold the replacement securities because those securities could not be distributed to ADS holders or for any other reason, the depositary may instead sell the replacement securities and distribute the net proceeds upon surrender of the ADSs.

If there is a replacement of the deposited securities and the depositary will continue to hold the replacement securities, the depositary may distribute new ADSs representing the new deposited securities or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

If there are no deposited securities underlying ADSs, including if the deposited securities are cancelled, or if the deposited securities underlying ADSs have become apparently worthless, the depositary may call for surrender of those ADSs or cancel those ADSs upon notice to the ADS holders.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the ADRs without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. *At the*

time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.

How may the deposit agreement be terminated?

The depositary will initiate termination of the deposit agreement if we instruct it to do so. The depositary may initiate termination of the deposit agreement if

- 60 days have passed since the depositary told us it wants to resign but a successor depositary has not been appointed and accepted its appointment;
- we delist the ADSs from an exchange on which they were listed and do not list the ADSs on another exchange;
- we appear to be insolvent or enter insolvency proceedings;
- all or substantially all the value of the deposited securities has been distributed either in cash or in the form of securities;
- there are no deposited securities underlying the ADSs or the underlying deposited securities have become apparently worthless; or
- there has been a replacement of deposited securities.

If the deposit agreement will terminate, the depositary will notify ADS holders at least 90 days before the termination date. At any time after the termination date, the depositary may sell the deposited securities. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, unsegregated and without liability for interest, for the pro rata benefit of the ADS holders that have not surrendered their ADSs. Normally, the depositary will sell as soon as practicable after the termination date.

After the termination date and before the depositary sells, ADS holders can still surrender their ADSs and receive delivery of deposited securities, except that the depositary may refuse to accept a surrender for the purpose of withdrawing deposited securities or reverse previously accepted surrenders of that kind if it would interfere with the selling process. The depositary may refuse to accept a surrender for the purpose of withdrawing sale proceeds until all the deposited securities have been sold. The depositary will continue to collect distributions on deposited securities, but, after the termination date, the depositary is not required to register any transfer of ADSs or distribute any dividends or other distributions on deposited securities to the ADSs holder (until they surrender their ADSs) or give any notices or perform any other duties under the deposit agreement except as described in this paragraph.

Limitations on Obligations and Liability to ADR Holders

Limits on our Obligations and the Obligations of the Depositary; Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith, and the depositary will not be a fiduciary or have any fiduciary duty to holders of ADSs;
- are not liable if we are or it is prevented or delayed by law or by events or circumstances beyond our or its ability to prevent or counteract with reasonable care or effort from performing our or its obligations under the deposit agreement;
- are not liable if we or it exercises discretion permitted under the deposit agreement;

- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement, or for any special, consequential or punitive damages for any breach of the terms of the deposit agreement, or for any;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other person;
- may rely upon any documents we believe or it believes in good faith to be genuine and to have been signed or presented by the proper person;
- are not liable for the acts or omissions of any securities depository, clearing agency or settlement system; and
- the depository has no duty to make any determination or provide any information as to our tax status, or any liability for any tax consequences that may be incurred by ADS holders as a result of owning or holding ADSs or be liable for the inability or failure of an ADS holder to obtain the benefit of a foreign tax credit, reduced rate of withholding or refund of amounts withheld in respect of tax or any other tax benefit.

In the deposit agreement, we and the depository agree to indemnify each other under certain circumstances.

Requirements for Depository Actions

Before the depository will deliver or register a transfer of ADSs, make a distribution on ADSs, or permit withdrawal of shares, the depository may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depository may refuse to deliver ADSs or register transfers of ADSs when the transfer books of the depository or our transfer books are closed or at any time if the depository or we think it advisable to do so.

Your Right to Receive the Shares Underlying your ADSs

ADS holders have the right to cancel their ADSs and withdraw the underlying shares at any time except:

- when temporary delays arise because: (i) the depository has closed its transfer books or we have closed our transfer books; (ii) the transfer of shares is blocked to permit voting at a shareholders' meeting; or (iii) we are paying a dividend on our shares;
- when you owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Direct Registration System

In the deposit agreement, all parties to the deposit agreement acknowledge that the Direct Registration System, also referred to as DRS, and Profile Modification System, also referred to as Profile, will apply to the ADSs. DRS is a system administered by DTC that facilitates interchange between registered holding of uncertificated ADSs and holding of security entitlements in ADSs through DTC and a DTC participant. Profile is feature of DRS that allows a DTC participant, claiming to act on behalf of a registered holder of uncertificated ADSs, to direct the depository to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depository of prior authorization from the ADS holder to register that transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties to the deposit agreement understand that the depository will not determine whether the DTC participant that is claiming to be acting on behalf of an ADS holder in requesting registration of transfer and delivery as described in the paragraph above has the actual authority to act on behalf of the ADS holder (notwithstanding any requirements under the Uniform Commercial Code). In the deposit agreement, the parties agree that the depository's reliance on and compliance with instructions received by the depository through the DRS/Profile system and in accordance with the deposit agreement will not constitute negligence or bad faith on the part of the depository.

Shareholder communications; inspection of register of holders of ADSs

The depository will make available for your inspection at its office all communications that it receives from us as a holder of deposited securities that we make generally available to holders of deposited securities. The depository will send you copies of those communications or otherwise make those communications available to you if we ask it to. You have a right to inspect the register of holders of ADSs, but not for the purpose of contacting those holders about a matter unrelated to our business or the ADSs.

Certain identified information has been excluded from this exhibit pursuant to Item 601(b)(10) of Regulation S-K because it is both (i) not material and (ii) would likely cause competitive harm to our company if publicly disclosed. Such excluded information has been marked with [***].

SERIES B PREFERRED SHARE PURCHASE AGREEMENT

THIS SERIES B PREFERRED SHARE PURCHASE AGREEMENT (this “Agreement”) is made and entered into on September 24, 2019 (the “Execution Date”) by and among:

1. **Fun Literature Limited**, an exempted company duly incorporated and validly existing under the Laws of the Cayman Islands (the “Company”),
2. **Fun Literature (HK) Limited**, a private company limited by shares duly incorporated and validly existing under the Laws of Hong Kong (the “HK Company”),
3. **Shanghai Zhicao Information Technology Co., Ltd.** (上海智巢信息科技股份有限公司), a limited liability company duly incorporated and validly existing under the Laws of PRC (the “WFOE”),
4. **Shanghai Big Rhinoceros Horn Information Technology Co., Ltd.** (上海大犀牛角信息科技股份有限公司), a limited liability company duly incorporated and validly existing under the Laws of PRC (the “Domestic Company”),
5. **Qutoutiao Inc.**, an exempted company duly incorporated and validly existing under the Laws of the Cayman Islands and listed on the NASDAQ Global Market under the symbol “QTT” (the “Parent Company”), and
6. **CMC Rocket Holdings Limited**, an exempted company duly incorporated and validly existing under the Laws of the Cayman Islands (“CMC”, together with the Parent Company (with respect to the Series B Preferred Shares to be allotted and issued to it pursuant to the terms hereunder), the “Series B Investors” and each a “Series B Investor”).

Each of the parties listed above is referred to herein individually as a “Party” and collectively as the “Parties”.

RECITALS

- A. As of the Execution Date, (i) the Company owns one hundred percent (100%) of the equity interest in the HK Company, which in turn owns one hundred percent (100%) of the equity interest in the WFOE; and (ii) the WFOE Controls the Domestic Company by a Captive Structure.
 - B. The Domestic Company and the WFOE are engaged in the Business (as defined below). The Company seeks expansion of capital to grow the Business and, correspondingly, seeks to secure an investment from the Series B Investors, on the terms and subject to the conditions set forth herein.
-

- C. The Series B Investors wish to invest in the Company by subscribing for [***] Series B Preferred Shares in aggregate to be issued by the Company at the Closing pursuant to the terms and subject to the conditions of this Agreement.
- D. The Company wishes to issue and sell [***] Series B Preferred Shares in aggregate to the Series B Investors at the Closing pursuant to the terms and subject to the conditions of this Agreement.
- E. The Parties desire to enter into this Agreement and make the respective representations, warranties, covenants and agreements set forth herein on the terms and conditions set forth herein.

WITNESSETH

NOW, THEREFORE, in consideration of the foregoing recitals, the mutual promises hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties intending to be legally bound hereto hereby agree as follows:

1. Definitions.

1.1 The following terms shall have the meanings ascribed to them below:

“Accounting Standards” means generally accepted accounting principles in the United States or PRC, as applicable, applied on a consistent basis.

“Action” means any charge, claim, action, complaint, petition, investigation, appeal, suit, litigation, hearing, audit, grievance, inquiry or other proceeding, whether administrative, civil, regulatory or criminal, whether at law or in equity, or otherwise under any applicable Law, and whether or not before any mediator, arbitrator or Governmental Authority.

“Affiliate” means, with respect to a Person, any other Person that, directly or indirectly, Controls, is Controlled by or is under common Control with such Person. In the case of CMC, the term “Affiliate” also includes (a) any shareholder of CMC, (b) any of such shareholder’s or CMC’s general partners, (c) the fund manager managing such shareholder or CMC (and general partners and key officers who Controls, or acts as a position of fund partner of, CMC or its Affiliates thereof) and other funds managed by such fund manager, and (d) trusts Controlled by or for the benefit of any such Person referred to in (a), (b) or (c). For the avoidance of doubt, CMC shall not be deemed to be an Affiliate of any Group Company.

“AMR” means the State Administration for Market Regulation of the PRC and its competent local counterparts or, with respect to the issuance of any business license or filing or registration to be effected by or with the State Administration of Market Regulation, any Governmental Authority which is similarly competent to issue such business license or accept such filing or registration under the Laws of the PRC.

“Ancillary Agreements” means, collectively, the Shareholders Agreement, the Management Rights Letter, and the Indemnification Agreement, each as defined herein.

□□2014□37□]) issued by SAFE on July 4, 2014, and any applicable Laws of the PRC in force from time to time which operate to restate, amend or repeal the aforesaid SAFE Circular or any part thereof.

“Code” means the United States Internal Revenue Code of 1986, as amended.

“Company Bank Account” means the bank account of the Company, the details of which will be set out in the wire instruction provided by the Company to the Series B Investors in writing at least five (5) Business Days prior to the Closing Date.

“Company Owned IP” means all Intellectual Property owned by, purported to be owned by, or exclusively licensed to, the Group Companies.

“Company Registered IP” means all Intellectual Property for which registrations are owned by or held in the name of, or for which applications have been made in the name of, any Group Company.

“Consent” means any consent, approval, authorization, release, waiver, permit, grant, franchise, concession, agreement, license, exemption or order of, registration, certificate, declaration or filing with, or report or notice to, any Person, including any Governmental Authority.

“Contract” means, as to any Person, any contract, agreement, undertaking, understanding, indenture, note, bond, loan, instrument, lease, mortgage, deed of trust, franchise, license, commitment, purchase order, and other legally binding arrangement, whether written or oral.

“Control” of a given Person means the power or authority, whether exercised or not, to direct the business, management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by Contract or otherwise; *provided*, that such power or authority shall conclusively be presumed to exist upon possession of beneficial ownership or power to direct the vote of more than fifty percent (50%) of the votes entitled to be cast at a meeting of the members or shareholders of such Person or power to control the composition of a majority of the board of directors of such Person. The terms “Controlled” and “Controlling” have meanings correlative to the foregoing.

“Control Documents” means the following contracts collectively: (a) the Exclusive Technology and Consulting Service Agreement (□□□□□□□□□□) entered into by and between the WFOE and the Domestic Company on December 4, 2018, (b) the Exclusive Option Agreement (□□□□□□□□) entered into by and among the WFOE, the Domestic Company and the equity holders of the Domestic Company on December 4, 2018, (c) the Voting Rights Proxy Agreement (□□□□□□□□) entered into by and between WFOE and the equity holders of the Domestic Company on December 4, 2018, (d) the Loan Agreement (□□□□) entered into by and between WFOE and the equity holders of the Domestic Company on December 4, 2018, and (e) the Share Pledge Agreement (□□□□□□□□) entered into by and among the WFOE, the Domestic Company and the equity holders of the Domestic Company on December 4, 2018.

“Conversion Shares” means Ordinary Shares issuable upon conversion of any Series B Preferred Shares.

“Disclosed” means truly, fairly, specifically and accurately disclosed in the Disclosure Schedule or other written form received by CMC from the Company during the six-month period preceding the date of this Agreement including the Financial Statements (as defined below) and other financial and operational data, in a manner that, the matter disclosed is reasonably apparent from the terms of the document and the relevance to the Warrantors’ representations and warranties of the information disclosed ought reasonably to be appreciated by the Series B Investors.

“Disclosure Schedule” means the disclosure schedule (attached hereto as Exhibit E) delivered by the Warrantors to the Series B Investors as of the date hereof.

“Equity Securities” means, with respect to any Person that is a legal entity, any and all shares of capital stock, membership interests, units, profits interests, ownership interests, equity interests, registered capital, and other equity securities of such Person, and any right, warrant, option, call, commitment, conversion privilege, preemptive right or other right to acquire any of the foregoing, or security convertible into, exchangeable or exercisable for any of the foregoing, or any Contract providing for the acquisition of any of the foregoing.

“FCPA” means Foreign Corrupt Practices Act of the United States of America, as amended from time to time.

“Governmental Authority” means any government of any nation, federation, province or state or any other political subdivision thereof, any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission or instrumentality of the PRC, the Cayman Islands, Hong Kong or any other country, or any political subdivision thereof, any court, tribunal or arbitrator, and any self-regulatory organization or the governing body of any stock exchange.

“Governmental Order” means any applicable order, ruling, decision, verdict, decree, writ, subpoena, mandate, precept, command, directive, consent, approval, award, judgment, injunction or other similar determination or finding by, before or under the supervision of any Governmental Authority.

“Group Company” means each of the Company, the HK Company, the WFOE, the Domestic Company, together with each Subsidiary of any of the foregoing, and “Group” refers to all of Group Companies collectively.

“Hong Kong” means the Hong Kong Special Administrative Region of the People's Republic of China.

“Indebtedness” of any Person means, without duplication, each of the following of such Person: (a) the principal, accreted value, accrued and unpaid interest, prepayment and redemption premiums or penalties (if any), unpaid fees or expenses and other monetary obligations in respect of (i) indebtedness of such Person for money borrowed and (ii) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable, (b) all

obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than trade payables entered into in the Ordinary Course of Business), (c) all reimbursement or payment obligations with respect to letters of credit, surety bonds and other similar instruments, (d) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced that are incurred in connection with the acquisition of properties, assets or businesses, (e) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to any property or assets acquired with the proceeds of such indebtedness (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property), (f) all obligations that are capitalized in accordance with Accounting Standards, (g) all obligations under banker's acceptance, letter of credit or similar facilities, (h) all obligations to purchase, redeem, retire, defease or otherwise acquire for value any Equity Securities of such Person, (i) all obligations in respect of any interest rate swap, hedge or cap agreement, and (j) all guarantees issued in respect of the Indebtedness referred to in clauses (a) through (j) above of any other Person, but only to the extent of the Indebtedness guaranteed.

“Indemnifiable Loss” means, with respect to any Person, any action, claim, cost, damage, diminution in value, disbursement, expense, Liability, loss, obligation, penalty or settlement imposed on or otherwise incurred or suffered by such Person, including without limitation, reasonable legal, accounting and other professional fees and expenses incurred in the investigation, collection, prosecution and defense of claims and amounts paid in settlement by such Person by reason of the indemnification.

“Intellectual Property” means any and all (a) patents, patent rights and applications therefor and reissues, reexaminations, continuations, continuations-in-part, divisions, and patent term extensions thereof, (b) inventions (whether patentable or not), discoveries, improvements, concepts, innovations and industrial models, (c) registered and unregistered copyrights, copyright registrations and applications, mask works and registrations and applications therefor, author's rights and works of authorship (including artwork, software, computer programs, source code, object code and executable code, firmware, development tools, files, records and data, and related documentation), (d) URLs, web sites, web pages and any part thereof, (e) technical information, know-how, trade secrets, drawings, designs, design protocols, specifications, proprietary data, customer lists, databases, proprietary processes, technology, formulae, and algorithms and other intellectual property, (f) trade names, trade dress, trademarks, domain names, service marks, logos, business names, and registrations and applications therefor, and (g) the goodwill symbolized or represented by the foregoing.

“Key Employees” means all key employees of the Group Companies with positions of president, chief executive officer, chief financial officer, chief operating officer, chief technical officer, and the list of all key employees of the Group Companies as of the date hereof is provided in Schedule III attached hereto.

“the knowledge of the Warrantors” or similar expression includes, without limitation, the knowledge, information and belief of the Warrantors and their respective directors and senior management personnel, and is deemed to include the knowledge, information and belief which such persons would have if each of them had made all reasonable enquiries.

“Law” or “Laws” means any and all provisions of any applicable constitution, treaty, statute, law, regulation, ordinance, code, rule, or rule of common law, any governmental approval, concession, grant, franchise, license, agreement, directive, requirement, or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority, in each case as amended, and any and all applicable Governmental Orders.

“Liabilities” means, with respect to any Person, all debts, obligations, liabilities owed by such Person of any nature, whether directly or indirectly, accrued or unaccrued, absolute or contingent, known or unknown, liquidated or unliquidated, and whether due or to become due, including those arising under any Law, Governmental Order, legal proceeding or Contract and including all costs and expenses relating thereto.

“Lien” means any mortgage, pledge, claim, security interest, defect, charge, easement, encumbrance, lease, covenant, security interest, lien, option, pledge, rights of others, or restriction (whether on voting, sale, transfer, disposition or otherwise), whether imposed by any Contract, Law, Governmental Order, legal proceeding or otherwise and including all costs and expenses relating thereto.

“Material Adverse Effect” means any (a) event, occurrence, fact, condition, change or development that has had, has, or could reasonably be expected to have, individually or collectively, a material adverse effect on the business, prospects, results of operations, financial conditions of the Group taken as a whole (including without limitation, cessation of business operations or suspension of content updating by any Group Company for three (3) months due to violation of any applicable Laws), (b) material impairment of the ability of any Party (other than the Series B Investors) to perform the material obligations of such Party under any Transaction Documents, or (c) material impairment of the validity or enforceability of this Agreement or any other Transaction Document against any Party hereto or thereto (other than the Series B Investors). Notwithstanding the foregoing, (i) changes in applicable Laws affecting the entire online literature industry resulting in a majority of the entities engaged in the Business in the PRC being required to suspend its operations (including suspend the updating of content on its application or platform) and (ii) the suspension of content updates imposed by the Governmental Authority on the “” application for the period from July 16, 2019 to October 15 2019 shall not constitute a Material Adverse Effect.

“Memorandum and Articles” means the second amended and restated memorandum and articles of association of the Company attached hereto as Exhibits B, to be adopted in accordance with applicable Law on or prior to the Closing.

“MOFCOM” means the Ministry of Commerce of the PRC or, with respect to any matter to be submitted for examination and approval by the Ministry of Commerce, any Governmental Authority which is similarly competent to examine and approve such matter under the Laws of the PRC.

“Money Laundering Laws” shall mean, all applicable anti-money laundering Laws of all jurisdictions in which a Group Company conducts its business, the rules and regulations thereunder, including all anti-money laundering Laws of the PRC, Hong Kong, the U.S., the Cayman Islands, and the United Kingdom.

“Public Software” means any Software that contains, or is derived in any manner (in whole or in part) from, any software that is distributed as free software, open source software (e.g., Linux) or similar licensing or distribution models, including, without limitation, software licensed or distributed under any of the following licenses or distribution models, or licenses or distribution models similar to any of the following: (a) GNU’s General Public License (GPL) or Lesser/Library GPL (LGPL), (b) the Artistic License (e.g., PERL), (c) the Mozilla Public License, (d) the Netscape Public License, (e) the Sun Community Source License (SCSL), (f) the Sun Industry Standards License (SISL), (g) the BSD License, and (h) the Apache License.

“Related Party” means any Affiliate, officer, director, supervisory board member, employee, or holder of any Equity Security of any Group Company, and any Affiliate or Associate of any of the foregoing.

“Sanctions Laws” shall mean all economic or financial sanctions Laws, measures or embargoes administered or enforced by the United States (including all sanctions administered by OFAC, and its “Specially Designated Nationals and Blocked Persons” lists), the Cayman Islands, the PRC, Hong Kong, the European Union, the United Nations, the United Kingdom or any other relevant sanctions Governmental Authority.

“SAFE” means the State Administration of Foreign Exchange of the PRC.

“SAFE Rules and Regulations” means collectively, the Circular 37 and any other applicable SAFE rules and regulations.

“Securities Act” means the U.S. Securities Act of 1933, as amended and interpreted from time to time.

“Series A Preferred Shares” means the Series A Preferred Shares of the Company, par value US\$0.0001 per share, with the rights and privileges as set forth in the Memorandum and Articles.

“Series B Preferred Shares” means the Series B Preferred Shares of the Company, par value US\$0.0001 per share, with the rights and privileges as set forth in the Memorandum and Articles.

“Shareholders Agreement” means the Amended and Restated Shareholders Agreement to be entered into by and among the parties named therein on or prior to the Closing, which shall be in the form attached hereto as Exhibit C.

“Social Insurance” means any form of social insurance required under applicable Laws, including without limitation, the PRC national and local contributions for pensions, medical insurance, unemployment insurance, work-related injury insurance, pregnancy benefits, and housing accumulation funds.

“Software” means any and all (a) computer programs, including any and all software implementations of algorithms, models and methodologies, including all source code and executable code, whether embodied in software, firmware or otherwise, documentation, development tools, designs, files, verilog files, RTL files, HDL, VHDL, net lists, records, data and mask works; and (b) databases and compilations, including

any and all data and collections of data, whether machine readable or otherwise, and all rights therein.

“Subsidiary” means, with respect to any given Person, any other Person that is Controlled directly or indirectly by such given Person.

“Tax” means (a) in the PRC: (i) any national, provincial, municipal, or local taxes, charges, fees, levies, or other assessments, including, without limitation, all net income (including enterprise income tax and individual income withholding tax), turnover (including value-added tax, business tax, and consumption tax), resource (including urban and township land use tax), special purpose (including land value-added tax, urban maintenance and construction tax, and additional education fees), property (including urban real estate tax and land use fees), documentation (including stamp duty and deed tax), filing, recording, social insurance (including pension, medical, unemployment, housing, and other social insurance withholding), tariffs (including import duty and import value-added tax), and estimated and provisional taxes, charges, fees, levies, or other assessments of any kind whatsoever, (ii) all interest, penalties (administrative, civil or criminal), or additional amounts imposed by any Governmental Authority in connection with any item described in clause (i) above, and (iii) any form of transferee Liability imposed by any Governmental Authority in connection with any item described in clauses (i) and (ii) above, and (b) in any jurisdiction other than the PRC: all similar Liabilities as described in clause (a)(i) and (b)(ii) above.

“Tax Return” means any return, report or statement showing Taxes, used to pay Taxes, or required to be filed with respect to any Tax (including any elections, declarations, schedules or attachments thereto, and any amendment thereof), including any information return, claim for refund, amended return or declaration of estimated or provisional Tax.

“Transaction Documents” means this Agreement, the Ancillary Agreements, the Memorandum and Articles, and each of the other agreements and documents otherwise required in connection with implementing the transactions contemplated by any of the foregoing.

“U.S.” means the United States of America.

“US\$” means the lawful currency of the United States of America.

“U.S. real property holding corporation” has the meaning as defined in the Code.

“Warrantors” means, collectively, the Group Companies and the Parent Company.

1.2 Other Defined Terms. The following terms shall have the meanings defined for such terms in the Sections set forth below:

Agreement	Preamble
Arbitration Notice	Section 9.4(a)
Breach	Section 8.1
Closing	Section 2.2(a)

Closing Date	Section 2.2(a)
CMC	Preamble
Company	Preamble
Company IP	Section 3.19(a)
Confidential Information	Section 9.9(a)
Disclosing Party	Section 9.9(c)
Dispute	Section 9.4(a)
Domestic Company	Preamble
Financial Statements	Section 3.13
Further Transfer of Business	Section 7.4
HK Company	Preamble
HKIAC	Section 9.4(b)
Indemnification Agreement	Section 5.7
Indemnitees	Section 8.1
Licenses	Section 3.19(e)
Management Rights Letter	Section 5.10
Material Contracts	Section 3.12
Parent Company	Preamble
Party/Parties	Preamble
Proceeds	Section 2.5
Representatives	Section 3.16(a)
Required Governmental Consents	Section 3.8(c)
Series B Director	Section 5.8
Series B Investor(s)	Preamble
Statement Date	Section 3.13
Subscription Shares	Section 2.1
Subscription Price	Section 2.1
UNCITRAL Rules	Section 9.4(b)
WFOE	Preamble

2. Purchase and Sale of Shares.

2.1 Sale and Issuance of the Shares. Subject to the terms and conditions of this Agreement, at the Closing (as defined below), each Series B Investor agrees to, severally but not jointly, subscribe for and purchase from the Company, and the Company agrees to issue and sell to such Series B Investor, that number of Series B Preferred Shares set forth opposite such Series B Investor's name in the second column of the table of Schedule I (the "Subscription Shares") attached hereto at an aggregate purchase price set out opposite such Series B Investor's name in the third column of the table of Schedule I (the "Subscription Price").

2.2 Closing.

- (a) The consummation of the sale and issuance of the Subscription Shares pursuant to Section 2.1 (the "Closing", and the date of the Closing, the "Closing Date") shall take place remotely via the exchange of documents and signatures as soon as practicable, but in no event later than seven (7) Business Days after all closing conditions specified in Section 5 and Section 6 (other than conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of

such conditions at the Closing) hereof have been waived or satisfied in accordance with this Agreement, or at such other time and place as the Company and the Series B Investors shall mutually agree in writing.

- (b) The capitalization table of the Company immediately prior to and after the Closing is shown on Schedule II attached hereto.

2.3 Deliverables by the Company at the Closing. At the Closing, prior to the fulfillment of the payment obligation of each Series B Investor, in addition to any items the delivery of which is made an express condition to such Series B Investor's obligations at the Closing pursuant to Section 5, the Company shall deliver or cause to be delivered to such Series B Investor:

- (a) a copy of the updated register of members of the Company as of the Closing Date, certified by the registered agent of the Company, reflecting the issuance to such Series B Investor of the Subscription Shares at the Closing pursuant to Section 2.1;
- (b) in the case of CMC, a copy of the updated register of directors of the Company as of the Closing Date, certified by the registered agent of the Company, evidencing the appointment of the Series B Director;
- (c) a copy of one or more share certificates issued in the name of such Series B Investor, signed by a director of the Company, representing the Subscription Shares subscribed for by such Series B Investor pursuant to Section 2.1; and as soon as possible but in any event no later than the tenth (10th) Business Day following the full payment of the Subscription Price by such Series B Investor, the Company shall deliver to such Series B Investor the original copy(ies) of such share certificates duly executed in accordance with the Memorandum and Articles;
- (d) scanned copies of the board resolutions and the shareholders' resolutions of each Group Company duly passed, approving the transactions contemplated under the Transaction Documents; in particular, the board resolutions and the shareholders' resolutions of the Company shall approve (i) the adoption of the Memorandum and Articles, (ii) the execution, delivery and performance of the Transaction Documents, (iii) the issuance of the Subscription Shares to such Series B Investor, and (iv) the appointment of the Series B Director;
- (e) scanned copies of the board resolutions of the Parent Company duly passed, approving the transactions contemplated under the Transaction Documents; and;
- (f) a copy of a certificate of good standing of the Company issued by the Registrar of Companies in the Cayman Islands and dated no earlier than ten (10) Business Days prior to the Closing.

2.4 Deliverables by the Series B Investors at Closing. At the Closing, subject to the satisfaction or waiver of all the conditions set forth in Section 5 below in accordance with this Agreement, CMC shall pay its Subscription Price for its

Subscription Shares by wire transfer of immediately available funds in U.S. dollars to the Company Bank Account. The Parent Company shall pay its Subscription Price for its Subscription Shares by wire transfer of immediately available funds in U.S. dollars to the Company Bank Account as soon as possible after Closing and in any event no later than October 7, 2019.

2.5 Use of Proceeds. Subject to the terms of this Agreement, the Company shall use the proceeds from the issuance and sale of the Subscription Shares (the “Proceeds”) for purpose of business expansion, capital expenditures and general working capital needs of the Group Companies. The Proceeds from CMC’s subscription of Series B Preferred Shares shall not be used in the payment of any debts or obligations of any Group Company (except those occurred in the Ordinary Course of Business) or its Subsidiaries or in the repurchase or cancellation of securities held by any shareholders of the Group Companies or for any other purpose (unless otherwise approved by the Board or in accordance with any Transaction Document). None of the Group Companies or other Warrantors or their Affiliates may, directly or indirectly, use, lend or contribute the Proceeds from the Series B Investors for or to, or otherwise make such Proceeds available to, any Subsidiary, joint venture partner or any other Person for the purpose of funding or facilitating any activities or business of or with any Person towards any sales or operations in Cuba, Iran, Libya, Syria, the Democratic People’s Republic of Korea, the Crimea region of Ukraine, or any other country sanctioned by OFAC from time to time or for the purpose of funding any operations or financing any investments in, or make any payments to, any Person targeted by or subject to any Sanctions Laws. The use of the Proceeds must be in full compliance with and shall not result in the breach of the Sanctions Laws by any Group Company or any officer, employee, director, agent, Affiliate or Person acting on behalf of any Group Companies. The Company hereby agrees to CMC that it shall not transfer, remit from the Company Bank Account, use or otherwise dispose of the proceeds from CMC’s subscription of Series B Preferred Shares until and unless the Parent Company has paid the Subscription Price for all its Subscription Shares in full in accordance with this Agreement.

3. Representations and Warranties of the Warrantors. Subject to such exceptions as Disclosed, each of the Warrantors jointly and severally represents and warrants to CMC that each of the statements contained in this Section 3 is true and complete as of the date of this Agreement, and that each of such statements shall be true and complete on and as of the Closing Date, with the same effect as if made on and as of the Closing Date.

3.1 Organization, Good Standing and Qualification. Each Group Company has been duly organized, validly existing and in good standing (or equivalent status in the relevant jurisdiction) under, and by virtue of, the Laws of the place of its incorporation or establishment and has all requisite power and authority to own its properties and assets and to carry on its business as now or proposed to be conducted, and to perform each of its obligations under the Transaction Documents to which it is a party. Each Group Company is qualified to do business and in good standing (or equivalent status in the relevant jurisdiction) in each jurisdiction. Each Group Company that is a PRC entity has a valid

business license issued by the AMR or other relevant Governmental Authorities (a true and complete copy of which has been delivered to CMC), and has, since its establishment, carried on its business in compliance with the business scope set forth in its business license.

3.2 Capitalization and Voting Rights.

(a) **Company.** [***]

(b) **No Other Securities.** Except for (i) the conversion privileges of the Subscription Shares, (ii) certain rights provided in the Charter Documents of the Company as currently in effect, (iii) certain rights provided in the Memorandum and Articles, the Shareholders Agreement and the Control Documents from and after the Closing, (iv) the outstanding Equity Securities set forth in Section 3.2(a) of the Disclosure Schedule, (x) there are no and at the Closing there shall be no other authorized or outstanding Equity Securities of any Group Company; (y) no Equity Securities of any Group Company are subject to any preemptive rights, rights of first refusal (except to the extent provided by applicable PRC Laws) or other rights to purchase such Equity Securities or any other rights with respect to such Equity Securities, and (z) no Group Company is a party to or subject to any Contract that affects or relates to the voting or giving of written consents with respect to, or the right to cause the redemption, or repurchase of, any Equity Security of such Group Company. Except as set forth in the Shareholders Agreement (from and after the Closing), the Company has not granted any registration rights or information rights to any other Person, nor is the Company obliged to list, any of the Equity Securities of any Group Companies on any securities exchange. Except as contemplated under the Transaction Documents, there are no voting or similar agreements which relate to the share capital or registered capital of any Group Company. There are no outstanding options, warrants, rights (including conversion or preemptive rights and rights of first refusal or similar rights) or agreements, orally or in writing, to purchase or acquire from the Company any Ordinary Share or Preferred Share, or any securities convertible into or exchangeable for Ordinary Share or Preferred Share. No share plan, share purchase, share option or other agreement or understanding between the Company and any holder of any securities or rights exercisable or convertible for securities provides for acceleration or other changes in the vesting provisions or other terms of such agreement or understanding as the result of the occurrence of any event.

(c) **Issuance and Status.** All presently outstanding Equity Securities of each Group Company were duly and validly issued (or subscribed for) in compliance with all applicable Laws, preemptive rights of any Person, and applicable Contracts. All share capital or registered capital, as the case may be, of each Group Company have been duly and validly issued and nonassessable, and are and as of the Closing shall be free of any and all Liens (except for any restrictions on transfer under the Ancillary Agreements and applicable Laws). Except as contemplated under the

Transaction Documents, there are no (i) resolutions pending to increase the share capital or registered capital of any Group Company or cause the liquidation, winding up, or dissolution of any Group Company, nor has any distress, execution or other process been levied against any Group Company, (ii) dividends which have accrued or been declared but are unpaid by any Group Company, (iii) obligations, contingent or otherwise, of any Group Company to repurchase, redeem, or otherwise acquire any Equity Securities, or (iv) outstanding or authorized equity appreciation, phantom equity, equity plans or similar rights with respect to any Group Company. All dividends (if any) or distributions (if any) declared, made or paid by each Group Company, and all repurchases and redemptions of Equity Securities of each Group Company (if any), have been declared, made, paid, repurchased or redeemed, as applicable, in accordance with its Charter Documents and all applicable Laws.

- (d) **Title.** Each Group Company is the sole record and beneficial holder of all of the Equity Securities set forth opposite its name on Section 3.2(a) of the Disclosure Schedule, free and clear of all Liens of any kind other than those arising under applicable Law.

3.3 Corporate Structure; Subsidiaries. Section 3.3 of the Disclosure Schedule sets forth a complete structure chart showing the Group Companies, as currently contemplated at the Closing, and indicating the ownership and Control relationships among all Group Companies, as currently contemplated or a description of such structure with such ownership and Control relationships, the nature of the legal entity which each Group Company constitutes, as currently contemplated at the Closing, the jurisdiction in which each Group Company is organized, and each jurisdiction in which each Group Company is required to be qualified or licensed to do business as a foreign Person as currently contemplated at the Closing. No Group Company owns or Controls, or has ever owned or Controlled, directly or indirectly, any Equity Security, interest or share in company, corporation, partnership, trust, joint venture, association, or other Person other than the Group Companies or is or was a participant in any joint venture, partnership or similar arrangement. No Group Company is obligated to make any investment in or capital contribution in or on behalf of any Person other than the Group Companies. The Company was formed solely to acquire and hold the equity interests in the HK Company and the HK Company will be formed solely to acquire and hold the equity interests in the WFOE. The registered capital of each of the WFOE and the Domestic Company has been or will be fully paid as required under its Charter Documents. The Company has not engaged in any other business and has not incurred any Liability since its formation. The Domestic Company and the WFOE are engaged in the Business and have no other business. The Company's interest in the Domestic Company is held through the WFOE through the Control Documents and is held free and clear of Liens.

3.4 Due Authorization. Each Warrantor has all requisite power and authority to execute and deliver the Transaction Documents to which it is a party and to carry out and perform its obligations thereunder. All action on the part of each party to the Transaction Documents (other than CMC) (and, as applicable, its

officers, directors and shareholders) necessary for the authorization, execution and delivery of the Transaction Documents, the performance of all obligations of each such party, and, in the case of the Company, the authorization, issuance (or reservation for issuance), sale and delivery of the Subscription Shares and the Conversion Shares, has been taken or will be taken prior to the Closing. Each Transaction Document has been or will be duly executed and delivered by each party thereto (other than CMC) and constitutes valid and legally binding obligations of such party, enforceable against such party in accordance with its terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other Laws of general application affecting enforcement of creditors' rights generally, and (b) as limited by Laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

- 3.5 Valid Issuance of Shares.** The Subscription Shares, when issued, delivered and paid for in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, fully paid and non-assessable, free from any Liens (except for any restrictions on transfer under applicable Laws and under the Ancillary Agreements (if applicable)). The Conversion Shares have been reserved for issuance and, upon issuance in accordance with the terms of the Memorandum and Articles, will be duly and validly issued, fully paid and non-assessable, free from any Liens (except for any restrictions on transfer under applicable securities Laws and under the Ancillary Agreements (if applicable)). The issuance of the Subscription Shares and the Conversion Shares is not and will not be subject to any preemptive rights, rights of first refusal or similar rights.
- 3.6 Consents; No Conflicts.** All Consents from or with any Governmental Authority or any other Person required in connection with the valid execution, delivery and performance of the Transaction Documents, and the consummation of the transactions contemplated by the Transaction Documents, in any case on the part of any party thereto (other than CMC) have been duly obtained or completed (as applicable) and are in full force and effect. The execution, delivery and performance of each Transaction Document by each party thereto (other than CMC) do not, and the consummation by such party of the transactions contemplated thereby will not, (a) result in any violation of, be in conflict with, or constitute a default under, require any Consent under, or give any Person rights of termination, amendment, acceleration or cancellation under, with or without the passage of time or the giving of notice, any Governmental Order, any provision of the Charter Documents of any Group Company, any applicable Laws (including without limitation, Order No. 10 and the SAFE Rules and Regulations), or any Material Contract, (b) result in any termination, modification, cancellation, or suspension of any material right of, or any augmentation or acceleration of any material obligation of, any Group Company (including without limitation, any Indebtedness of such Group Company), or (c) result in the creation of any Lien upon any of the material properties or assets of any Group Company other than Permitted Liens.
- 3.7 Offering.** Subject in part to the accuracy of each Series B Investor's representations set forth in Section 4 of this Agreement, the offer, sale and

issuance of the Subscription Shares to each Series B Investor are, and the issuance of the Conversion Shares will be, exempt from the qualification, registration and prospectus delivery requirements of the Securities Act and any other applicable securities Laws.

3.8 Compliance with Laws; Consents.

- (a) Each Group Company is, and has been, in compliance with all applicable Laws in all material aspects. No event has occurred and no circumstance exists that (with or without notice or lapse of time) (i) may constitute or result in a violation by any Group Company, or a failure on the part of such entity to comply with, any applicable Laws in any material aspect, or (ii) may give rise to any obligation on the part of any Group Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature in any material aspect. None of the Group Companies has received any notice from any Governmental Authority regarding any of the foregoing. None of the Group Companies is, to the knowledge of the Warrantors, under investigation with respect to a violation of any Law.
- (b) To the best knowledge of the Warrantors, neither the Captive Structure nor the Control Documents (individually or when taken together), violate any applicable Laws (including without limitation, SAFE Rules and Regulations, Order No. 10 and any other applicable PRC Laws).
- (c) All Consents from or with the relevant Governmental Authority required in respect of the due and proper establishment and operations of each Group Company as now conducted, including but not limited to the Consents from or with MOFCOM, AMR, SAFE, the Ministry of Information Industry, the Ministry of Culture, Press and Publication Administration, any Tax bureau, customs authorities, and product registration authorities, and the local counterpart thereof, as applicable (or any predecessors thereof, as applicable) (collectively, the “Required Governmental Consents”), shall have been duly obtained or completed in accordance with all applicable Laws.
- (d) No Required Governmental Consent contains any materially burdensome restrictions or conditions, and each Required Governmental Consent is in full force and effect and will remain in full force and effect upon the consummation of the transactions contemplated hereby. None of the Group Companies is in default under any Required Governmental Consent. There is no reason to believe that any Required Governmental Consent which is subject to periodic renewal will not be granted or renewed. None of the Group Companies has received any letter or other communication from any Governmental Authority threatening or providing notice of revocation of any Required Governmental Consent issued to such Group Company or the need for compliance or remedial actions in respect of the activities carried out directly or indirectly by such Group Company.

- (e) Each Group Company has adopted and maintained stringent content control mechanisms, including by retaining and providing training to a sufficient number of dedicated personnel, to moderate the user-generated online content of the Group to ensure compliance with the applicable Laws and safeguard the reputation of the Business.

3.9 Tax Matters.

- (a) All Tax Returns required to be filed on or prior to the date hereof with respect to each Group Company has been duly and timely filed by such entity within the requisite period and completed on a proper basis in accordance with the applicable Laws, and are up to date and correct. All Taxes owed by each Group Company (whether or not shown on every Tax Return) have been paid in full or provision for the payment thereof have been made, except such Taxes, if any, as are being contested in good faith and as to which adequate reserves (determined in accordance with the Accounting Standards) have been provided in the audited financial statements. No deficiencies for any Taxes with respect to any Tax Returns have been asserted in writing by, and no notice of any pending action with respect to such Tax Returns has been received from, any Tax authority, and no dispute relating to any Tax Returns with any such Tax authority is outstanding or contemplated. Each Group Company has timely paid all Taxes owed by it which are due and payable (whether or not shown on any Tax Return) and withheld and remitted to the appropriate Governmental Authority all Taxes which it is obligated to withhold and remit from amounts owing to any employee, creditor, customer or third party.
- (b) No audit of any Tax Return of each Group Company and no formal investigation with respect to any such Tax Return by any Tax authority is currently in progress and no Group Company has waived any statute of limitations with respect to any Taxes, or agreed to any extension of time with respect to an assessment or deficiency for such Taxes.
- (c) No written claim has been made by a Governmental Authority in a jurisdiction where the Group does not file Tax Returns that any Group Company is or may be subject to Taxation by that jurisdiction.
- (d) No Group Company has been the subject of any examination or investigation by any Tax authority relating to the conduct of its business or the payment or withholding of Taxes that has not been resolved or is currently the subject of any examination or investigation by any Tax authority relating to the conduct of its business or the payment or withholding of Taxes.
- (e) No Group Company is or has ever been a PFIC or CFC or a U.S. real property holding corporation. No Group Company anticipates that it will become a PFIC or CFC or a U. S. real property holding corporation for the current Taxable year or any future Taxable year.

- 3.10 Charter Documents; Books and Records.** The Charter Documents of each Group Company is in the form provided to CMC. Each Group Company has been in compliance with its Charter Documents in all material respects, and each Group Company maintains its books of accounts and records in the usual, regular and ordinary manner, on a basis consistent with prior practice. The register of members and directors (if applicable) of each Group Company is correct, there has been no notice of any proceedings to rectify any such register, and there are no circumstances which might lead to any application for its rectification. All documents required to be filed by each Group Company with the applicable Governmental Authority in respect of the relevant jurisdiction in which the relevant Group Companies is being incorporated have been properly made up and filed.
- 3.11 Actions.** There is no Action pending or to the Warrantors' knowledge threatened against or affecting any Group Company or any of its officers, directors or Key Employees with respect to its businesses or proposed business activities, or any officers, directors or Key Employees of any Group Company in connection with such Person's respective relationship with such Group Company. Without limiting the generality of the foregoing, there are no Actions pending against any of the Group Companies or, to the knowledge of the Warrantors, threatened against any of the Group Companies, relating to the use by any employee of any Group Company of any information, technology or techniques allegedly proprietary to any of their former employers, clients or other parties. There is no judgment or award unsatisfied against any Group Company, nor is there any Governmental Order in effect and binding on any Group Company or their respective assets or properties. There is no Action pending by any Group Company against any third party nor does any Group Company intend to commence any such Action. No Governmental Authority has at any time challenged or questioned the legal right of any Group Company to conduct its business as presently being conducted.
- 3.12 Material Contracts.** Section 3.12 of the Disclosure Schedule contains a list of Material Contracts. "Material Contracts" means, collectively, a Contract to which a Group Company, or any of their properties or assets is bound or currently subject to that (a) involves outstanding obligations (contingent or otherwise) or outstanding payments in excess of RMB10,000,000, (b) involves Intellectual Property that is material to a Group Company or the Business (other than generally-available "off-the-shelf" shrink-wrap software licenses obtained by the Group on non-exclusive and non-negotiated terms), including without limitation, the Licenses, (c) restricts the ability of a Group Company to compete or to conduct or engage in any business or activity or in any territory, (d) relates to the sale, issuance, grant, exercise, award, purchase, repurchase or redemption of any Equity Securities, (e) involves any provisions providing for exclusivity, "change in Control", "most favored nations", rights of first refusal or first negotiation or similar rights, or grants a power of attorney, agency or similar authority, (f) is with a Related Party, (g) involves outstanding Indebtedness over RMB10,000,000, an extension of credit, a guaranty, surety or assumption of any obligation or any secondary or contingent Liabilities, deed of trust, or the grant of a Lien, (h) involves the lease, license, sale, use, disposition or acquisition of all or substantially all of the assets of a business, (i) involves the waiver,

compromise, or settlement of any dispute, claim, litigation or arbitration over RMB1,000,000, (j) involves the ownership or lease of, title to, use of, or any leasehold or other interest in, any real or personal property (except for personal property leases in the Ordinary Course of Business and involving payments of less than RMB1,000,000), including without limitation, the leases, (k) involves the establishment, contribution to, or operation of a partnership, joint venture, alliance or similar entity, or involving a sharing of profits or losses (including joint development and joint marketing Contracts), or any investment in, loan to or acquisition or sale of the securities, equity interests or assets of any Person, (l) is with a Governmental Authority, state-owned enterprise, or sole-source supplier of any material product or service (other than utilities), or (m) is a Benefit Plan, or a collective bargaining agreement or is with any labor union or other representatives of the employees. All the Material Contracts are valid, binding and enforceable obligations of the relevant Group Company, and the performance of which does not violate any applicable Laws. Each of the Group Companies that is a party to a Material Contract has duly performed all of its obligations under such Material Contract to the extent that such obligations to perform have accrued, and no material breach of default, alleged material breach or alleged material default, or event which would (with the passage of time, notice or both) constitute a material breach or default thereunder by such Group Company, or the Warrantors, there is no existing material default or breach by any other party thereto. No Group Company has received any notice or claim or allegation of default or breach thereof from any party thereto. No Group Company has given notice (whether or not written) that it intends to terminate a Material Contract or that any other party thereto has breached, violated or defaulted under any Material Contract.

3.13 Financial Statement. The Group have delivered the unaudited management accounts of the Group Companies from June 1, 2018 to May 31, 2019 (the “Statement Date”) (collectively, the “Financial Statements”) to CMC. The Financial Statements (a) have been prepared in accordance with the books and records of the Group, (b) fairly present in all material respects the financial condition and position of the Group as of the dates indicated therein and the results of operations and cash flows of the Group for the periods indicated therein, and (c) were prepared in accordance with the applicable Accounting Standards applied on a consistent basis throughout the periods involved. The Group Companies have good and marketable title to all assets set forth on the balance sheets of the respective Financial Statements, except for such assets as have been spent, sold or transferred in the Ordinary Course of Business since their respective dates. None of the Group Companies is a guarantor or indemnitor of any Indebtedness of any other Person. Each Group Company maintains and will continue to maintain a standard system of accounting established and administered in accordance with generally accepted accounting principles as required in the jurisdiction where it is incorporated.

3.14 Activities Since Statement Date. Except as contemplated by the Transaction Documents or otherwise Disclosed, since the Statement Date, with respect to any Group Company, there has not been:

- (a) any change in the assets, Liabilities, financial condition or operating results of such Group Company from that reflected in the Financial Statements, except changes in the Ordinary Course of Business that have not been, in the aggregate, materially adverse;
- (b) any change in the contingent obligations of such Group Company by way of guarantee, endorsement, indemnity, warranty or otherwise;
- (c) any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the assets, properties, financial condition, operating results, prospects or business of such Group Company (as presently conducted and as presently proposed to be conducted);
- (d) any waiver of a valuable right or of a debt;
- (e) any satisfaction or discharge of any Lien or payment of any obligation by such Group Company, except such satisfaction, discharge or payment made in the Ordinary Course of Business;
- (f) any change or amendment to a material Contract or arrangement by which such Group Company or any of its assets or properties is bound or subject, except for changes or amendments which are made in the Ordinary Course of Business;
- (g) any material change in any compensation arrangement or agreement with any employee or director;
- (h) any sale, assignment or transfer of any proprietary assets or other material intangible assets of such Group Company;
- (i) any resignation or termination of any key officer or employee of such Group Company, including any Key Employee;
- (j) any mortgage, pledge, transfer of a security interest in, or Lien created by such Group Company, any Key Employee, with respect to any of such Group Company's properties or assets, except Liens for Taxes not yet due or payable;
- (k) any debt, obligation, or Liability incurred, assumed or guaranteed by such Group Company individually in excess of US\$500,000 or in excess of US\$1,000,000 in the aggregate, unless incurred in the Ordinary Course of Business of the Group Company or otherwise approved by CMC in writing;
- (l) any declaration, setting aside or payment or other distribution in respect of any of such Group Company's share capital, or any direct or indirect redemption, purchase or other acquisition of any of such share capital by such Group Company;
- (m) any failure to conduct business in the ordinary course, consistent with such Group Company's reasonably prudent past practices;

- (n) any transactions or Contracts with, or loans or financing to, any of its officers, directors or employees, or any members of their immediate families, or any entity Controlled by any of such individuals;
- (o) any other event or condition of any character which could reasonably be expected to have a Material Adverse Effect; or
- (p) any agreement or commitment by such Group Company to do any of the things described in this Section 3.14.

3.15 Liabilities. Except as Disclosed in the Financial Statements, no Group Company has incurred any Indebtedness, obligation, or Liability (whether accrued, absolute, contingent or otherwise, and whether due or to become due) that it has directly or indirectly created, incurred, assumed, or guaranteed, or with respect to which any Group Company has otherwise become directly or indirectly liable except for trade or business Liabilities incurred in the Ordinary Course of Business.

3.16 Anti-Bribery, Anti-Corruption, Anti-Money Laundering and Sanctions; Absence of Government Interests.

- (a) Each Warrantor and its Affiliates and its respective directors, officers, managers, employees, agents or any other Person acting for or on behalf of the foregoing (collectively, the “Representatives”) are and have been in compliance with all applicable Anti-Corruption Laws. Furthermore, no Public Official (x) holds an ownership or other economic interest, direct or indirect, in any of the Group Companies or in the contractual relationship formed by this Agreement, or (y) serves as an officer, director or employee of any Group Company. Without limiting the foregoing, neither any Group Company nor any Representative has, directly or indirectly, offered, authorized, promised, condoned, participated in, consummated, or received notice of any allegation of:
 - (i) the making of any gift or payment of anything of value to any Public Official by any Person to obtain any improper advantage, affect or influence any act or decision of any such Public Official, or assist any Group Company in obtaining or retaining business for, or with, or directing business to, any Person, or
 - (ii) the taking of any action by any Person which (i) would violate the FCPA, if taken by an entity subject to the FCPA, (ii) would violate the U.K. Bribery Act, if taken by an entity subject to the U.K. Bribery Act, or (iii) could reasonably be expected to constitute a violation of any applicable Anti-Corruption Laws, or
 - (iii) the making of any false or fictitious entries in the books or records of any Group Company by any Person, or
 - (iv) the using of any assets of any Group Company for the establishment of any unlawful or unrecorded fund of monies or

other assets, or the making of any unlawful or undisclosed payment.

- (b) No Group Company or any of its Representatives has ever been found by a Governmental Authority to have violated any Anti-Corruption Laws or securities Law or is subject to any indictment or any government investigation with respect to Anti-Corruption Laws. None of the beneficial owners of any share or other interest in any Group Company or the current or former representatives of any Group Company are or were Public Officials.
- (c) The operations of each Group Company are and have been conducted at all times in compliance with applicable Money Laundering Laws. No action, suit, or proceeding by or before any Governmental Authority involving any Group Company with respect to Money Laundering Laws is pending or threatened.
- (d) No Group Company or any of its Representatives is a Prohibited Person, and no Prohibited Person will be given an offer to become an employee, officer, consultant or director of any Group Company. No Group Company has conducted or agreed to conduct any business, or entered into or agreed to enter into any transaction with a Prohibited Person.

3.17 **Title; Properties.**

- (a) **Title; Personal Property.** Each Group Company has good and valid title to all of its respective assets, whether tangible or intangible, in each case free and clear of all Liens, other than Permitted Liens. All leases of real or personal property to which a Group Company is a party are fully effective and afford the Group Company valid leasehold possession of the real or personal property that is the subject of the lease. All machinery, vehicles, equipment and other tangible personal property owned or leased by a Group Company are in good condition and repair (reasonable wear and tear excepted). There are no facilities, services, assets or properties which are used in connection with the business of the Group and which are shared with any other Person that is not a Group Company.
- (b) **Real Property.** No Group Company owns or has legal or equitable title or other right or interest in any real property other than as held pursuant to leases. There is no material claim asserted or, to the knowledge of the Warrantors, threatened in writing by any Person regarding the lessor's ownership of the property demised pursuant to each lease. Each lease is in compliance with applicable Laws, including with respect to the ownership and operation of property and conduct of business as now conducted by the applicable Group Company which is a party to such lease. Each Group Company which is party to a lease has accepted possession of the property demised pursuant to the lease and is in actual possession thereof and has not sublet, assigned or hypothecated its leasehold interest. No Group Company uses any real property in the conduct of its business except insofar as it has secured a lease with

respect thereto. The leasehold interests under the leases held by each Group Company are adequate for the conduct of the business of such Group Company as currently conducted.

3.18 Related Party Transactions. Other than as set forth in Section 3.18 of the Disclosure Schedule, no Related Party has any Contract, understanding, or proposed transaction with, or is indebted to, any Group Company or has any direct or indirect interest in any Group Company other than as set forth in Section 3.2(a) of the Disclosure Schedule, nor is any Group Company indebted (or committed to make loans or extend or guarantee credit) to any Related Party (other than for accrued salaries, reimbursable expenses or other standard employee benefits). Each Contract with a Related Party is on terms and conditions as favorable to the applicable Group Company as would have been obtainable by it at the time in a comparable arm's-length transaction with an unrelated party. No Related Party has any direct or indirect ownership interest in any Person (other than a Group Company) with which a Group Company is Affiliated or with which a Group Company has a business relationship, or any Person (other than a Group Company) that directly or indirectly competes with any Group Company (except that a Related Party may have a passive investment of less than 1% of the stock of any publicly traded company that engages in the foregoing). No Related Party has any interest, either directly or indirectly, in (i) any Person which purchases from or sells, licenses or furnishes to a Group Company any goods, property, intellectual or other property rights or services or (ii) any Contract to which a Group Company is a party or by which it may be bound or affected. To the Warrantors' best knowledge, no officer or director of a Group Company has any direct or indirect ownership interest in any Person with which a Group Company or any Key Employee has a business relationship, or any Person that competes with a Group Company.

3.19 Intellectual Property Rights.

- (a) **Company IP.** Except as Disclosed in Section 3.19(a) of the Disclosure Schedule, each Group Company owns or otherwise has sufficient rights (including but not limited to the rights of development, maintenance, licensing and sale) to or otherwise has the licenses to use all Intellectual Property necessary and sufficient to conduct its Business as currently conducted and proposed to be conducted by such Group Company ("Company IP") without any known conflict with or known infringement of the rights of any other Person.
- (b) **IP Ownership.** Except as Disclosed in Section 3.19(b) of the Disclosure Schedule, all Company Registered IP is owned by and registered or applied for solely in the name of a Group Company, is valid and subsisting and has not been abandoned, and all necessary registration, maintenance and renewal fees with respect thereto and currently due have been satisfied. No Group Company or any of its employees, officers or directors has taken any actions or failed to take any actions that would cause any Company Owned IP to be invalid, unenforceable or not subsisting. No funding or facilities of a Governmental Authority or a university, college, other educational institution or research center was used in the development of any material Company Owned IP. No

material Company Owned IP is the subject of any Lien, license or other Contract granting rights therein to any other Person. No Group Company is or has been a member or promoter of, or contributor to, any industry standards bodies, patent pooling organizations or similar organizations that could require or obligate a Group Company to grant or offer to any Person any license or right to any material Company Owned IP. No Company Owned IP is subject to any proceeding or outstanding Governmental Order or settlement agreement or stipulation that (a) restricts in any manner the use, transfer or licensing thereof, or the making, using, sale, or offering for sale of any Group Company's products or services, by any Group Company, or (b) may affect the validity, use or enforceability of such Company Owned IP. The Parent Company has assigned and transferred to a Group Company any and all of its Intellectual Property related to the Business. No Group Company has (i) transferred or assigned any Company IP; (ii) authorized the joint ownership of, any Company IP; or (iii) permitted the rights of any Group Company in any Company IP to lapse or enter the public domain.

- (c) **Infringement, Misappropriation and Claims.** No Group Company has violated, infringed or misappropriated any Intellectual Property of any other Person, nor has any Group Company received any written notice alleging any of the foregoing. To the knowledge of each of the Warrantors, no Person has violated, infringed or misappropriated any Company IP of any Group Company, and no Group Company has given any written notice to any other Person alleging any of the foregoing. No Person has challenged the ownership or use of any Company IP by a Group Company. No Group Company has agreed to indemnify any Person for any infringement, violation or misappropriation of any Intellectual Property by such Person.
- (d) **Assignments and Prior IP.** Except as Disclosed in Section 3.19(d) of the Disclosure Schedule, all inventions and know-how conceived by employees of a Group Company related to the business of such Group Company are currently owned exclusively by a Group Company. All employees, contractors, agents and consultants of a Group Company who are or were involved in the creation of any Intellectual Property for such Group Company have executed an assignment of inventions agreement that vests in a Group Company exclusive ownership of all right, title and interest in and to such Intellectual Property, to the extent not already provided by Law. All employee inventors of Company Owned IP have received reasonable reward and remuneration from a Group Company for his/her service inventions or service technology achievements in accordance with the applicable PRC Laws. It will not be necessary to utilize any Intellectual Property of any such Persons made prior to their employment by a Group Company and none of such Intellectual Property has been utilized by any Group Company, except for those that are exclusively owned by a Group Company. None of the employees, consultants or independent contractors, currently or previously employed or otherwise engaged by any Group Company, (i) is in violation of any current or prior confidentiality, non-competition or

non-solicitation obligations to such Group Company or to any other Persons, including former employers, or (ii) is obligated under any Contract, or subject to any Governmental Order, that would interfere with the use of his or her best efforts to promote the interests of the Group Companies or that would conflict with the business of such Group Company as presently conducted.

- (e) **Licenses.** Section 3.19(e) of the Disclosure Schedule contains a complete and accurate list of the Licenses. The “Licenses” means, collectively, (i) all licenses, sublicenses, and other Contracts to which any Group Company is a party and pursuant to which any third party is authorized to use, exercise or receive any benefit from any material Company IP, and (ii) all licenses, sublicenses and other Contracts to which any Group Company is a party and pursuant to which such Group Company is authorized to use, exercise, or receive any benefit from any material Intellectual Property of another Person, in each case except for (1) agreements involving “off-the-shelf” commercially available software, and (2) non-exclusive licenses to customers of the Business in the Ordinary Course of Business consistent with past practice. The Group Companies have paid all license and royalty fees required to be paid under the Licenses.
- (f) **Protection of IP.** Each Group Company has taken all reasonable and appropriate steps to protect, maintain and safeguard Company IP and made all applicable filings, registrations and payments of fees in connection with the foregoing. Without limiting the foregoing, all current and former officers, employees, consultants and independent contractors of any Group Company and all suppliers, customers, distributors, and other third parties having access to any Company IP have executed and delivered to such Group Company an agreement requiring the protection of such Company IP. To the extent that any Company IP has been developed or created independently or jointly by an independent contractor or other third party for any Group Company, or is incorporated into any products or services of any Group Company, such Group Company has a written agreement with such independent contractor or third party and has thereby obtained ownership of, and is the exclusive owner of all such independent contractor’s or third party’s Intellectual Property in such work, material or invention by operation of law or valid assignment.
- (g) **No Public Software.** No Public Software forms part of any product or service provided by any Group Company or was or is used in connection with the development of any product or service provided by any Group Company or is incorporated into, in whole or in part, or has been distributed with, in whole or in part, any product or service provided by any Group Company. No Software included in any Company Owned IP has been or is being distributed, in whole or in part, or was used, or is being used in conjunction with any Public Software in a manner which would require that such Software be disclosed or distributed in source code form or made available at no charge.

3.20 Labor and Employment Matters.

- (a) Each Group Company has, in all material respects, complied with applicable Laws related to labor or employment, including provisions thereof relating to wages, hours, working conditions, benefits, retirement, social welfare, equal opportunity and collective bargaining. There is not pending or threatened, and there has not been since the incorporation of each Group Company, any Action relating to the violation or alleged violation of any applicable Laws by such Group Company related to labor or employment, including any charge or complaint filed by an employee with any Governmental Authority or any Group Company.
- (b) Section 3.20(b) of the Disclosure Schedule contains a true and complete list of each Benefit Plan currently or previously adopted, maintained, or contributed to by any Group Company or under which any Group Company has any Liability or under which any employee or former employee of any Group Company has any present or future right to benefits. Except for required contributions or benefit accruals for the current plan year, no Liability has been or is expected to be incurred by any Group Companies under or pursuant to any applicable Laws relating to any Benefit Plan or individual employment compensation agreement, and, no event, transaction or condition has occurred or exists that would result in any such Liability to any Group Companies. Each of the Benefit Plans listed in Section 3.20(b) of the Disclosure Schedule is and has at all times been in compliance with all applicable Laws (including without limitation, SAFE Rules and Regulations, if applicable), and all contributions to, and payments for each such Benefit Plan have been timely made. There are no pending or threatened Actions involving any Benefit Plan listed in Section 3.20(b) of the Disclosure Schedule (except for claims for benefits payable in the normal operation of any Benefit Plan). Each Group Company maintains, and has fully funded, each Benefit Plan and any other labor-related plans that it is required by Law or by Contract to maintain. Each Group Company is, in all material respects, in compliance with all Laws and Contracts relating to its provision of any form of Social Insurance, and has paid, or made provision for the payment of, all Social Insurance contributions required under applicable Laws and Contracts.
- (c) There has not been, and there is not now pending or, to the knowledge of the Warrantors, threatened, any strike, union organization activity, lockout, slowdown, picketing, or work stoppage or any unfair labor practice charge against any Group Company. No Group Company is bound by or subject to (and none of their assets or properties is bound by or subject to) any written or oral Contract, commitment or arrangement with any labor union or any collective bargaining agreements.
- (d) Schedule III enumerates each Key Employee, along with each such individual's title. Each such individual is currently devoting all of his or her business time to the conduct of the business of the applicable

Group Company. To the knowledge of the Warrantors, no such individual is subject to any covenant restricting him/her from working for any Group Company. No such individual is obligated under, or in violation of any term of, any Contract or any Governmental Order relating to the right of any such individual to be employed by, or to contract with, such Group Company. No Group Company has received any notice alleging that any such violation has occurred. No such individual is currently working or plans to work for any other Person that competes with any Group Company, whether or not such individual is or will be compensated by such Person. No such individual or any group of employees of any Group Company has given any notice of an intent to terminate their employment with any Group Company, nor does any Group Company have a present intention to terminate the employment of any such individual or any group of employees.

- 3.21 Insurance.** Section 3.21 of the Disclosure Schedule sets forth all material insurance policies and bonds maintained by each Group Company. There is no material claim pending thereunder as to which coverage has been questioned, denied or disputed. All premiums due and payable under all such policies and bonds have been timely paid, and each Group Company is otherwise in compliance in all material respects with the terms of such policies and bonds. All such policies and bonds are in full force and effect.
- 3.22 Entire Business.** No Group Company provides any facilities, operational services, assets or properties to any other entity which is not a Group Company. Each material asset used by any Group Company is: (a) legally and beneficially owned solely by the relevant Group Company free from any Lien; (b) not subject to any finance lease or hire purchase agreement or sale on deferred, credit or conditional terms; and (c) where capable of possession, in the possession or under the Control of the relevant Group Company. Except as Disclosed in Section 3.22 of the Disclosure Schedule, the Parent Company and its Subsidiaries other than the Group Companies (if applicable) shall have transferred to the Domestic Company all the Contracts, assets, Intellectual Property, and other items necessary or desirable for effective operation of the Business. The Domestic Company has obtained all the necessary Consent as required or requested by applicable Laws and the competent Governmental Authority to effect such transfer, including without limitation, change of the registration of the owner of Intellectual Property. The Group has all assets, properties and rights of every type and description, whether real or personal, tangible or intangible, that are required to conduct the Business in the Ordinary Course of Business.
- 3.23 Bankruptcy, Insolvency, Winding Up Etc.** No proceedings have commenced or are pending for the bankruptcy, insolvency, winding up, liquidation or reorganization of any Group Company and no Group Company is bankrupt or insolvent. Each Group Company is able to pay its debts as they fall due and has sufficient assets to repay all of its debts.
- 3.24 Foreign Exchange.** The Warrantors and any PRC domestic resident who has any beneficial interest in the Company or in any offshore holding company which holds any beneficial interest in the Company has obtained all necessary

Consents from and made all necessary filings and registrations with SAFE in connection with the establishment or control of the Company or the relevant holding company (as the case may be). No other Consents are required to be obtained from and no other filings or registrations are required to be made with SAFE to enable any PRC Group Company to remit dividends or other forms of profits outside of the PRC to the Company in a freely convertible foreign currency.

3.25 Control Documents.

- (a) Each party to the Control Documents has the legal right, power and authority (corporate and other) to enter into and perform its obligations under each Control Document to which it is a party and has taken all necessary corporate action to authorize the execution, delivery and performance of, and has authorized, executed and delivered, each Control Document to which it is a party. Each executed Control Document constitutes a valid and legally binding obligation of the parties named therein enforceable in accordance with its terms. Each Control Document is in proper legal form under PRC applicable Laws for the enforcement thereof against each of the parties thereto in the PRC without further action by any of them.
- (b) The execution and delivery by each party named in each Control Document, and the performance by such party of its obligations thereunder and the consummation by it of the transactions contemplated therein will not (i) result in any violation of, be in conflict with, or constitute a default under, with or without the passage of time or the giving of notice, any provision of its corporate documents as in effect at the date hereof, any applicable Laws, or any contract to which a Group Company is a party or by which a Group Company is bound, (ii) accelerate, or constitute an event entitling any Person to accelerate, the maturity of any Indebtedness or other Liability of any Group Company or to increase the rate of interest presently in effect with respect to any Indebtedness of any Group Company, or (iii) result in the creation of any Lien upon any of the properties or assets of any Group Company.
- (c) All Consents required in connection with the Control Documents have been made or unconditionally obtained in writing, and no such Consent has been withdrawn or is subject to any condition precedent, which has not been fulfilled or performed.
- (d) Each Control Document is in full force and effect and no party to any Control Document is in breach or default in the performance or observance of any of the terms or provisions of such Control Document. None of the parties to any Control Document has sent or received any communication regarding termination of or intention not to renew any Control Document, and no such termination or nonrenewal has been threatened by any of the parties thereto.

3.26 No Brokers. No Group Company has any Contract with any broker, finder or similar agent with respect to the transactions contemplated by this Agreement

or by any of the Transaction Documents, or has incurred any Liability for any brokerage fees, agents' fees, commissions or finders' fees in connection with any of the Transaction Documents or the consummation of the transactions contemplated therein.

3.27 No General Solicitation. Neither any Group Company, nor any of its officers, directors, employees, agents, stockholders or partners has either directly or indirectly, including through a broker or finder (a) engaged in any general solicitation, or (b) published any advertisement in connection with the offer and sale of the Subscription Shares.

3.28 Disclosure. The Company has provided CMC with all the information that CMC has requested for deciding whether to consummate the transactions contemplated under the Transaction Documents. No representation or warranty by the Warrantors in this Agreement and no information or materials provided by the Warrantors to CMC in connection with the negotiation or execution of this Agreement or any agreement contemplated hereby contains any untrue statement of a material fact, or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they are made, not misleading. Except as set forth in this Agreement or the Disclosure Schedule, there is no fact that the Company has not Disclosed to CMC in writing and of which any of its officers, directors or executive employees has knowledge and that has had or would reasonably be expected to have any Material Adverse Effect.

4. Representations and Warranties of the Series B Investors. Each Series B Investor hereby, severally but not jointly, represents and warrants to the Company that:

4.1 Authorization. Such Series B Investor has all requisite power and authority to execute and deliver the Transaction Documents to which it is a party and to carry out and perform its obligations thereunder. All action on the part of such Series B Investor necessary for the authorization, execution and delivery of the Transaction Documents to which it is a party, has been taken or will be taken prior to the Closing. Each Transaction Document has been duly executed and delivered by such Series B Investor (to the extent such Series B Investor is a party), enforceable against such Series B Investor in accordance with its terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other Laws of general application affecting enforcement of creditors' rights generally, and (b) as limited by Laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

4.2 Restricted Securities. Such Series B Investor understands that the Subscription Shares and the Conversion Shares are restricted securities within the meaning of Rule 144 under the Securities Act; that the Subscription Shares and the Conversion Shares are not registered or listed publicly and must be held indefinitely unless they are subsequently registered or listed publicly or an exemption from such registration or listing is available.

4.3 No Brokers. Such Series B Investor doesn't have any Contract with any broker, finder or similar agent with respect to the transactions contemplated by this Agreement or by any of the Transaction Documents, nor have incurred any

Liability for any brokerage fees, agents' fees, commissions or finders' fees in connection with any of the Transaction Documents or the consummation of the transactions contemplated therein. The Subscription Shares are purchased for such Series B Investor's own account.

4.4 Legitimate Source of Investment Funds. The funds used by such Series B Investor to pay its Subscription Price are legally and legitimately acquired by such Series B Investor which shall not violate any applicable Laws, including without limitation the Sanction Laws, Money Laundering Laws, and Anti-Corruption Laws.

5. Conditions of the Series B Investors' Obligations at the Closing. The obligations of each Series B Investor to consummate the Closing under Section 2 of this Agreement are subject to the fulfillment, to the satisfaction of such Series B Investor on or prior to the Closing, or waiver in writing by such Series B Investor, of the following conditions (for the avoidance of doubt, those conditions that are specific to CMC shall not be conditions to the Parent Company's obligation to consummate the Closing):

5.1 Representations and Warranties. Each of the representations and warranties of the Warrantors contained in Section 3 shall have been true, correct, complete and not misleading in all material respects when made and shall be true, correct, complete and not misleading in all material respects on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the Closing Date, except in either case for those representations and warranties that address matters only as of a particular date, which representations will have been true and complete as of such particular date.

5.2 Performance. Each Warrantor shall have performed and complied with all covenants, agreements, obligations and conditions contained in the Transaction Documents that are required to be performed or complied with by it, on or prior to the Closing.

5.3 Authorizations. All Consents of any competent Governmental Authority or of any other Person that are required to be obtained by any Warrantor in connection with the consummation of the transactions that are required to be consummated prior to the Closing as contemplated by the Transaction Documents (including but not limited to those related to the lawful issuance and sale of the Subscription Shares, and any waivers of notice requirements, rights of first refusal, preemptive rights, put or call rights) shall have been duly obtained and effective as of the Closing, and evidence thereof shall have been delivered to such Series B Investor.

5.4 Proceedings and Documents. All corporate and other proceedings in connection with the transactions to be completed at the Closing and all documents incident thereto, including without limitation written Consents from all of the then current holders of equity interests of each Group Company and the Parent Company, as applicable, with respect to this Agreement and the other Transaction Documents and the transactions contemplated hereby and thereby, shall have been completed in form and substance satisfactory to such Series B

Investor, and such Series B Investor shall have received all such counterpart copies of such documents as it may reasonably request.

- 5.5 Memorandum and Articles.** The Memorandum and Articles, in the form attached hereto as Exhibit B, shall have been duly adopted by all necessary action of the Board of Directors and/or the members of the Company (which Memorandum and Articles shall have been duly filed with the appropriate authority(ies) of the Cayman Islands within five (5) Business Days after the Closing), and such adoption shall have become effective prior to the Closing with no alternation or amendment as of the Closing, and reasonable evidence thereof shall have been delivered to such Series B Investor. The Charter Documents of each of the other Group Companies shall be in the form and substance reasonably satisfactory to such Series B Investor.
- 5.6 Transaction Documents.** Each of the parties to the Transaction Documents, other than such Series B Investor, shall have executed and delivered such Transaction Documents to such Series B Investor.
- 5.7 Indemnification Agreement.** The Company shall have delivered to CMC a copy of indemnification agreement between the Company, CMC and the Series B Director (the “Indemnification Agreement”) duly executed by the Company in form and substance attached hereto as Exhibit D.
- 5.8 Board of Directors.** Subject to the provisions provided in the Shareholders Agreement and the Memorandum and Articles, the Company shall have taken all necessary corporate action such that immediately following the Closing the board of directors of the Company shall have five (5) members, CMC shall have appointed one (1) member to the Board (the “Series B Director”).
- 5.9 Employment Agreement; Confidentiality, Non-compete and Invention Assignment Agreement.** The Domestic Company and each Key Employee shall have entered into an employment agreement and a confidentiality, non-compete and invention assignment agreement or an employment agreement containing confidentiality, non-compete and invention assignment provisions in a form reasonably satisfactory to such Series B Investor, and reasonable evidence thereof shall have been delivered to such Series B Investor.
- 5.10 Management Rights Letter.** The Company shall have delivered to CMC a copy of the management rights letter between the Company and CMC duly executed by the Company (the “Management Rights Letter”) duly executed by the Company in form and substance attached hereto as Exhibit A.
- 5.11 Control Document.** Each Control Document shall have been prepared, reasonably negotiated and duly executed and delivered by the parties thereto in compliance with all applicable Laws.
- 5.12 No Material Adverse Effect.** There shall have been no Material Adverse Effect since the Execution Date.
- 5.13 Due Diligence.** CMC shall have completed their business, legal, financial and tax due diligence of the Group Companies to its satisfaction.

- 5.14 Closing Certificate.** The chief executive officer of the Company shall have executed and delivered to such Series B Investor at the Closing a certificate dated as of the Closing (a) stating that the conditions specified in this Section 5 have been fulfilled as of the Closing; (b) all corporate and other proceedings in connection with the transactions to be completed at the Closing and all documents incident thereto, including without limitation written Consent from all of the then current holders of equity interests of each Group Company, as applicable, with respect to this Agreement and the other Transaction Documents and the transactions contemplated hereby and thereby, shall have been completed, and each Group Company and the Parent Company shall have delivered to such Series B Investor all such counterpart copies of such documents as such Series B Investor may reasonably request; and (c) attaching thereto (i) the Charter Documents of the Group Companies as then in effect, and (ii) copies of all resolutions approved by the shareholders (as applicable) and board of directors of each Group Company related to the transactions contemplated under the Transaction Documents.
- 5.15 Approval by Investment Committee.** CMC shall have received Consent, if required, by its investment committee for entering into the transactions contemplated under the Transaction Documents after making all commercially reasonable efforts to seek such approval from its investment committee.
- 5.16 PRC Legal Opinion.** CMC shall have received legal opinion from the PRC counsel for the Company dated as of the date of the Closing, in the form and substance satisfactory to CMC.
- 5.17 Parent Company's Confirmation.** CMC shall have received the Company's written confirmation that all conditions precedent to the Parent Company's consummation of the Closing have been satisfied and that the subscription of Series B Preferred Shares by the Parent Company will be consummated concurrently with the Closing, in accordance with the provisions herein.
- 5.18 Related Party Loans.** The relevant Group Company and the relevant Related Parties shall enter into loan agreements in substance and form satisfactory to CMC with copies thereof provided to CMC.
- 6. Conditions of the Company's Obligations at Closing.** The obligations of the Company to consummate the Closing under Section 2 of this Agreement with each Series B Investor, unless otherwise waived in writing by the Company, are subject to the fulfillment on or prior to the Closing of each of the following conditions:
- 6.1 Representations and Warranties.** The representations and warranties of such Series B Investor contained in Section 4 shall have been true, correct, complete and not misleading in all material respects when made and shall be true, correct, complete and not misleading in all material respects on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the date of the Closing, except in either case for those representations and warranties that address matters only as of a particular date, which representations will have been true and complete as of such particular date.

6.2 Performance. Such Series B Investor shall have performed and complied with all covenants, agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by such Series B Investor on or prior to the Closing.

7. Covenants.

7.1 Executory Period Covenants.

- (a) At all times during the period commencing from the Execution Date and continuing until the earlier to occur of the termination of this Agreement and the Closing Date, (i) none of the Warrantors, without the prior written consent of each Series B Investor, shall take any action which (A) would render any of the representations or warranties made by the Warrantors in this Agreement untrue in any material respect if given with reference to the facts and circumstances then existing or (B) would result in any of the covenants contained in this Agreement becoming incapable of performance, and (ii) the Warrantors shall give each Series B Investor notice of any event, condition or circumstance occurring prior to the Closing Date that would constitute a breach of any representation or warranty of any Warrantors, if such representation or warranty were made as at any date from the Execution Date until the Closing Date, or that would constitute a breach of any terms and conditions contained in this Agreement, as soon as practicable after becoming aware thereof.
- (b) At all times during the period commencing from Execution Date and continuing until the earlier to occur of the termination of this Agreement and the Closing Date, unless each Series B Investor otherwise approves in writing, the Company shall not (and the Warrantors shall not permit any of the Group Companies to) take any action or do anything which would require the consent of the Majority Series B Holders (as defined in the Shareholders Agreement) or the Series B Director pursuant to the Shareholders Agreement had the Closing occurred.

7.2 Equity Pledge. The Warrantors shall, as soon as practicable after Closing but in any event before the consummation of an initial public offering of the Company, duly complete the registration of all equity pledges contemplated in the Control Documents with the competent Governmental Authority, *provided, however,* that such registration of equity pledges will not adversely affect the Group Companies' application for or maintenance of permits and licenses required under the applicable Laws for the operation of the Business.

7.3 Permits. The Domestic Company shall use its best effort, and the Warrantors shall use its best effort to cause the Domestic Company, as soon as practical after Closing, to obtain, and thereafter maintain in full force and effect, all Consents necessary or desirable for conducting the Business if and as required by applicable Laws and the competent Governmental Authority. In particular, the Domestic Company shall, within three (3) months from the Domestic Company being legally eligible and practically feasible for obtaining the Permit for Online Publication Service (□□□□□□□□□□), apply for such permit in accordance with applicable Laws.

- 7.4 Further Transfer of Business.** The Warrantors shall cause each of the Parent Company and its Subsidiaries (as applicable) to transfer to the Domestic Company (a) as soon as practicable after Closing and in any event no later than three (3) months from Closing, all the Contracts, assets, Intellectual Property, and other items necessary for the effective operation of the Business which are not duly transferred prior to the Closing (other than the employees), and (b) as soon as practicable after Closing, all the employees (including the Key Employees) necessary for the effective operation of the Business which are not duly transferred prior to the Closing, in each of the foregoing cases, in a manner sufficient for the Domestic Company to independently engage in the Business (“Further Transfer of Business”). The Domestic Company shall obtain all the necessary registration or Consent as required by applicable Laws and the competent Governmental Authority to effect such Further Transfer of Business, including without limitation, change of the registration of the owner of Intellectual Property.
- 7.5 Trademark Registrations.** As soon as practicable after Closing, the Group Companies shall complete the trademark registration for the trademarks “□□□□” and “” in all categories necessary for the effective operation of the Business (including without limitation category 9 and category 16) with the competent trademark authority in the PRC, the evidence of which shall be promptly provided to each Series B Investor.
- 7.6 Compliance of Laws.** Each Group Company shall, and each of the other Warrantors shall cause the Group Companies to, at its own expenses, procure necessary permits and Consents with respect to their conducting of Business, and to comply with, in all material respects, all applicable Laws of the jurisdiction of its incorporation as well as all requirements of the competent Governmental Authorities with respect to their conducting of Business, on a continuing basis, including but not limited to applicable PRC Laws relating to its business, personal information/data privacy and protection, Intellectual Property, anti-monopoly, Taxation, employment, social welfare and benefits and foreign exchange, telecommunication, advertising, provision of news information service (if applicable), provision of audio and video program (if applicable), and any similar statute or law, rule, regulation, official policy, administrative and procedural requirements interpretation or pronouncement of any Governmental Authority. Each Group Company shall, and each of the other Warrantors shall cause the Group Companies to, adopt and maintain stringent content control mechanisms, including by retaining and providing training to a sufficient number of dedicated personnel, to moderate the user-generated online content of the Group to ensure compliance with the applicable Laws and to safeguard the reputation of the Business.
- 7.7 Conversion Shares.** The Company covenants to at all times reserve sufficient Ordinary Shares or, if the reservation is insufficient, to take all actions necessary to authorize such additional Ordinary Shares, for issuance upon conversion of all Preferred Shares under the Transaction Documents.
- 7.8 Anti-Corruption, Anti-Money Laundering, and Sanctions Compliance.** The Company covenants that it shall not and shall not permit any of its

Subsidiaries or Affiliates or any of its or their respective Representatives to promise, authorize or make any payment to, or otherwise contribute any item of value to, directly or indirectly, to any third party, including any Public Official, in each case, in violation of the applicable Anti-Corruption Laws. The Company further represents that it shall and shall cause each of its Subsidiaries and Affiliates to cease all of its or their respective activities, as well as remediate any actions taken by the Company, its Subsidiaries or Affiliates, or any of their respective Representatives in violation of the applicable Anti-Corruption Laws. The Company further represents that it shall and shall cause each of its Subsidiaries and Affiliates to, as soon as reasonable practicable, adopt and maintain systems of internal controls (including, but not limited to, an adequate anti-corruption compliance program, accounting systems, purchasing systems and billing systems) that are sufficient to provide reasonable assurances that violations of the applicable Anti-Corruption Laws will be prevented, detected and deterred. The Company shall, and the Warrantors shall procure that the operations of each Group Company shall, conduct their respective business in compliance with applicable Money Laundering Laws. The Company shall, and the Warrantors shall procure that none of the Group Companies will engage, directly or indirectly, in any other activities that would result in a violation of any of the Sanctions Laws by any Person, including the Series B Investors. The Company agrees to promptly notify the Series B Investors upon the Company receiving notification of investigations, inquiries, or proceedings, initiated by Governmental Authorities regarding potential violations of Anti-Corruption Laws, Money Laundering Laws, and Sanctions Laws.

7.9 Employment Agreement; Confidentiality, Non-compete and Invention Assignment Agreement. The Group Companies shall cause all of their respective existing and future employees to enter into an employment agreement and a confidentiality, non-solicitation and invention assignment agreement or an employment agreement containing confidentiality, non-solicitation and invention assignment provisions and shall cause all of their respective future key employees to enter into an employment agreement and a confidentiality, non-compete, non-solicitation and invention assignment agreement or an employment agreement containing confidentiality, non-compete, non-solicitation and invention assignment provisions, *provided* that the terms and conditions of such form agreements shall remain substantially the same as those reviewed and acknowledged by each Series B Investor prior to its subscription for the Company's Series B Preferred Shares.

7.10 Other Issues in the Disclosure Schedule. As soon as practicable after Closing, the Warrantors shall, in a commercially reasonable manner, resolve the other issues which are Disclosed in the Disclosure Schedule.

8. Indemnity.

8.1 In the event of any breach, non-performance of or violation of, or inaccuracy or misrepresentation in, any representation, warranty, covenant, undertaking or agreement, made by the Warrantors, contained herein or any of the other Transaction Documents (a "Breach"), each of the Warrantors hereby agrees to jointly and severally indemnify and hold harmless CMC, and its employees, Affiliates, Associates, partners, members, stockholders, directors, officers,

agents, representatives, and assigns (each, an “Indemnitee” and collectively, the “Indemnitees”), from and against any and all Indemnifiable Losses suffered by any Indemnitee, directly resulting from, or arising out of, or otherwise in connection with any Breach.

8.2 Without prejudice to the other sections under this Section 8, the Warrantors shall, jointly and severally, indemnify and keep indemnified the Indemnitees at all times and hold them harmless against any and all Indemnifiable Losses directly resulting from, or arising out of, or otherwise in connection with any claim for Tax concerning material breach of Tax Laws which has been made or may hereafter be made against the Domestic Company and any other Group Company wholly or partly in respect of or in consequence of any event occurring or any income, profits or gains earned, accrued or received by the Domestic Company and any other Group Company on or prior to the Closing and any reasonable costs, fees or expenses incurred and other Liabilities which the Domestic Company and any other Group Company may properly incur in connection with the investigation, assessment or the contesting of any claim, the settlement of any claim for Tax, any legal proceedings in which the Domestic Company or any other Group Company’s claims in respect of the claim for Tax concerning material breach of Tax Laws and in which an arbitration award or judgment is given for the Domestic Company or any other Group Company and the enforcement of any such arbitration award or judgment whether or not such Tax is chargeable against or attributable to any other Person, *provided, however*, that the Warrantors shall be under no Liability in respect of Taxation:

- (a) that is promptly cured without recourse to cash or other assets of any Group Company;
- (b) to the extent that provision, reserve or allowance has been made for such Tax in the audited financial statement of the Company provided to CMC prior to the date hereof;
- (c) to the extent that the Liability arises as a result only of a provision or reserve in respect of the Liability made in the Financial Statements being insufficient by reason of any increase in rates of Tax announced after the Closing with retrospective effect; or
- (d) to the extent that the Liability arises solely as a result of breach, violation or fault of any Person other than (i) the Group Companies, its directors and officers, and (ii) such other Person(s) acting for or on behalf of the Group Companies and/or its directors and officers.

8.3 Without prejudice to the other sections under this Section 8, the Warrantors shall, jointly and severally, indemnify and keep indemnified the Indemnitees at all times and hold them harmless against any and all Indemnifiable Losses resulting from, or arising out of, or otherwise in connection with, any claim for any activities, businesses and operations of any Group Company at any time from its establishment to the date of the Closing, including but not limited to (a) any Group Company’s failure to pay any Social Insurance for its employees who have signed employee contracts with any Group Company in accordance with the applicable Laws for any time period prior to the Closing; (b) any Group Company’s failure to comply in any material respect with any applicable Laws

prior to the Closing other than the applicable Laws in respect with permits for providing online news services, online publishing services, and video and audio services which are not available to the majority of entities conducting the Business; (c) any action, suit, arbitration or other court proceeding, pending or threatened, due to the facts existing prior to the Closing even if the Liability is actually incurred after the Closing (excluding the suspension of content updating and business operations imposed on “□□□□” APP for the period from July 16, 2019 to October 15, 2019) and (d) any Group Company’s failure to own or possess sufficient and valid Contracts, assets, business, employees, leased properties, Intellectual Property and other items as are necessary and sufficient to the conduct of such Group Company’s Business.

- 8.4** The Warrantors agree that if there is a Breach, damages may not be an adequate remedy in which case such representation, warranty, covenant, undertaking or agreement may be enforced by injunction, order for specific performance or such other equitable release as a court of competent jurisdiction or the arbitrators may see fit to award. As a result, the indemnification provisions under this Section 8 are in addition to, and not in derogation of, any statutory, equitable or common-law remedy that any Party may otherwise have.
- 8.5** With respect to any Breach committed by the Group Companies, the Indemnitees shall first require the Group Companies to fulfill the indemnification obligations set forth in this Section 8. If the Group Companies failed to satisfy the indemnification obligations provided herein in full within thirty (30) Business Days after the Group Companies become liable pursuant to this Agreement, the Parent Company shall, in addition to (and not in lieu of) the Group Companies, jointly and severally with the Group Companies, fulfill the indemnification obligations herein in full.
- 8.6** Notwithstanding the above, the aggregate indemnification Liability of the Warrantors under the Transaction Documents with respect to the Indemnitees shall be limited to the amount equal to one hundred percent (100%) of the Subscription Price paid by such Series B Investor, while the aggregate indemnification Liability cap in this Section 8 shall not apply to any Liability on the part of any Warrantor for fraud, criminal acts or any willful act intending to jeopardize the interests of the Group Companies or such Series B Investor or the current or future Business of the Group Companies.

9. Miscellaneous.

9.1 Termination.

- (a) **Termination of this Agreement.** This Agreement may be terminated prior to the Closing (i) by mutual written consent of the Parties, (ii) by CMC on or after October 30, 2019 if Closing has not been consummated by October 30, 2019 for causes not attributable to CMC, (iii) by the Company (with respect to CMC only) after September 30, 2019 and prior to October 2, 2019 if all conditions precedent to CMC’s consummation of the Closing under Section 5 have been satisfied and the Subscription Price applicable to CMC has not been fully paid to the

Company by CMC by September 30, 2019 in accordance with the terms of this Agreement for causes not attributable to the Warrantors.

- (b) **Effects of Termination.** If this Agreement is terminated as provided under this Section 9.1, this Agreement will be of no further force or effect upon termination and the Parties shall be irrevocably and fully relieved of their duties and Liabilities arising out of or in connection with this Agreement and such termination shall be without Liability to the Parties.

9.2 Transfer; Successors and Assigns. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the Parties hereto whose rights or obligations hereunder are affected by such terms and conditions. Except as otherwise provided herein, nothing in this Agreement, express or implied, is intended to confer upon any Party other than the Parties hereto or their respective successors and assigns any rights, remedies, obligations, or Liabilities under or by reason of this Agreement, except as expressly provided in this Agreement. This Agreement and the rights and obligations therein may not be assigned by any Warrantor without the prior written consent of the Series B Investors. This Agreement and the rights and obligations therein may be assigned by any Series B Investor to its Affiliates with a prior written notice to the Company.

9.3 Governing Law. This Agreement shall be governed by and construed in accordance with the Laws of Hong Kong, without regard to its principles of conflicts of laws.

9.4 Dispute Resolution.

- (a) Any dispute, controversy, difference or claim (each, a “Dispute”) arising out of or relating to this Agreement, or the existence, validity, interpretation, performance, breach or termination thereof or any dispute regarding non-contractual obligations arising out of or relating to it, shall be referred to arbitration upon the demand of either party to the dispute with notice (the “Arbitration Notice”) to the other.
- (b) The Dispute shall be settled by arbitration in Hong Kong by the Hong Kong International Arbitration Centre (the “HKIAC”) in accordance with the UNCITRAL Arbitration Rules (the “UNCITRAL Rules”) in force when the Arbitration Notice is submitted in accordance with the UNCITRAL Rules. There shall be three (3) arbitrators. The HKIAC Council shall select the arbitrator, who shall be qualified to practice law in Hong Kong. The place of the arbitration shall be Hong Kong.
- (c) The arbitral proceedings shall be conducted in English. To the extent that the UNCITRAL Rules are in conflict with the provisions of this Section 9.4, including the provisions concerning the appointment of the arbitrators, the provisions of this Section 9.4 shall prevail.
- (d) Each party to the arbitration shall cooperate with each other party to the arbitration in making full disclosure of and providing complete access

to all information and documents requested by such other party in connection with such arbitral proceedings, subject only to any confidentiality obligations binding on such party.

- (e) The award of the arbitral tribunal shall be final and binding upon the parties thereto, and the prevailing party may apply to a court of competent jurisdiction for enforcement of such award.
- (f) The arbitral tribunal shall decide any Dispute submitted by the parties to the arbitration strictly in accordance with the substantive Laws of Hong Kong (without regard to principles of conflict of laws thereunder) and shall not apply any other substantive Law.
- (g) Any party to the Dispute shall be entitled to seek preliminary injunctive relief, if possible, from any court of competent jurisdiction pending the constitution of the arbitral tribunal.
- (h) During the course of the arbitral tribunal's adjudication of the Dispute, this Agreement shall continue to be performed except with respect to the part in dispute and under adjudication.

9.5 Notices. Any notice required or permitted pursuant to this Agreement shall be given in writing and shall be given either personally or by sending it by next-day or second-day courier service, electronic mail or similar means to the address of the relevant Party as shown on Schedule IV (or at such other address as such Party may designate by fifteen (15) days' advance written notice to the other Parties to this Agreement given in accordance with this Section 9.5). Where a notice is sent by next-day or second-day courier service, service of the notice shall be deemed to be effected by properly addressing, pre-paying and sending by next-day or second-day service through an internationally-recognized courier a letter containing the notice, with a written confirmation of delivery, and to have been effected at the earlier of (a) delivery (or when delivery is refused) and (b) expiration of two (2) Business Days after the letter containing the same is sent as aforesaid. Where a notice is sent by electronic mail, service of the notice shall be deemed to be effected by properly addressing, and sending such notice through a transmitting organization, with a written confirmation of delivery, and to have been effected on the day the same is sent as aforesaid, if such day is a Business Day and if sent during normal business hours of the recipient, otherwise the next Business Day. Notwithstanding the foregoing, to the extent a "with a copy to" address is designated, notice must also be given to such address in the manner above for such notice, request, consent or other communication hereunder to be effective.

9.6 Rights Cumulative; Specific Performance. Each and all of the various rights, powers and remedies of a party hereto will be considered to be cumulative with and in addition to any other rights, powers and remedies which such Party may have at Law or in equity in the event of the breach of any of the terms of this Agreement. The exercise or partial exercise of any right, power or remedy will neither constitute the exclusive election thereof nor the waiver of any other right, power or remedy available to such Party. Without limiting the foregoing, the Parties hereto acknowledge and agree irreparable harm may occur for which

money damages would not be an adequate remedy in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the Parties shall be entitled to injunction to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement.

9.7 Fees and Expenses. The Company shall pay all of its own costs and expenses incurred in connection with the negotiation, execution, delivery and performance of this Agreement and other Transaction Documents and the transactions contemplated hereby and thereby. The Company shall pay or reimburse at the Closing all costs and expenses incurred or to be incurred by CMC, which shall include all expenses and costs, including out-of-pocket expenses and third party consulting or advisory expenses incurred in connection with the transactions contemplated by the Transaction Documents, *provided, however*, that the foregoing costs and expenses to be paid or reimbursed by the Company to CMC shall be no higher than US\$100,000. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

9.8 No Negotiation. From the date of this Agreement until the earlier of (i) Termination of this Agreement in accordance with Section 9.1(a), or (ii) at the Closing, the Group Companies and the Parent Company shall deal exclusively with the Series B Investors in connection with any investment in any Group Company or the purchase of any assets from any Group Company, and shall not, and shall cause their respective Affiliates and any Person acting on behalf of them or any of their Affiliates not to, directly or indirectly solicit, initiate, encourage or entertain any inquiries or proposals from, discuss or negotiate with, provide any non-public information to or consider the merits of any inquiries or proposals from any Person (other than the Series B Investors) relating to the transactions contemplated by this Agreement or any business combination transaction involving any Group Company, including the sale of shares (including in trust), the merger or consolidation of any Group Company, or the sale of all or any material portion of any Group Company's business or assets, or the license of any material Intellectual Property of any Group Company, or any comparable transaction or other transaction that would be inconsistent with the transactions contemplated by this Agreement. From the date of this Agreement until the earlier of (i) Termination of this Agreement in accordance with Section 9.1(a), or (ii) at the Closing, the Group Companies, the Parent Company shall notify the Series B Investors of any such inquiry or proposal promptly upon receipt or awareness of the same, or the intention to solicit or initiate any such inquiry or proposal, by any Group Company, the Parent Company, their respective Affiliates, or any Person acting on their behalf.

9.9 Confidentiality.

(a) The terms and conditions of this Agreement, any other Transaction Documents, any term sheet or memorandum of understanding entered into pursuant to the transactions contemplated hereby, all exhibits and schedules attached hereto and thereto, the transactions contemplated

hereby and thereby, including their existence, and all information furnished by any Party hereto and by representatives of such Parties to any other Party hereof or any of the representatives of such Parties (collectively, the “Confidential Information”), shall be considered confidential information and shall not be disclosed by any Party hereto to any third party except in accordance with the provisions set forth below.

- (b) Notwithstanding the foregoing, each Party may disclose (i) the Confidential Information to its current or bona fide prospective investors, partners, Affiliates and their respective employees, bankers, accountants or legal counsels who need to know such information, in each case only where such persons or entities are informed of the confidential nature of the Confidential Information and are under appropriate nondisclosure obligations substantially similar to those set forth in this Section 9.9(b), (ii) such Confidential Information as is required to be disclosed pursuant to routine examination requests from Governmental Authorities in accordance with applicable Laws, in each case as such Party deems appropriate in good faith, and (iii) the Confidential Information to any Person to which disclosure is approved in writing by the other Parties. Any Party hereto may also provide disclosure in order to comply with applicable Laws, as set forth in Section 9.9(c) below.
- (c) Except as set forth in Section 9.9(b) above, in the event that any Party is requested or becomes legally compelled (including without limitation, pursuant to any applicable Tax, securities, other Laws of any jurisdiction, or any applicable stock exchange rules or regulations) to disclose the existence of this Agreement or any Confidential Information, such party (the “Disclosing Party”) shall provide the other Parties hereto with prompt written notice of that fact and shall consult with the other Parties hereto regarding such disclosure. At the request of any other Parties, the Disclosing Party shall, to the extent reasonably possible and with the cooperation and reasonable efforts of the other Parties, seek a protective order, confidential treatment or other appropriate remedy at the cost of the other Parties. In any event, the Disclosing Party shall furnish only that portion of the information that is legally required and shall exercise reasonable efforts to obtain reliable assurance that confidential treatment will be accorded such information.
- (d) Notwithstanding any other provision of this Section 9.9, the confidentiality obligations of the Parties shall not apply to: (i) information which a restricted party learns from a third party which the receiving party reasonably believes to have the right to make the disclosure, provided the restricted party complies with any restrictions imposed by the third party; (ii) information which is rightfully in the restricted party’s possession prior to the time of disclosure by the protected party and not acquired by the restricted party under a confidentiality obligation; or (iii) information which enters the public domain without breach of confidentiality by the restricted party.

(e) Without the prior written consent of CMC, none of the Parties and their Affiliates (other than CMC) shall use, publish, reproduce, or refer to the name of CMC, its Affiliates and/or Controlling Persons, or the name “CMC”, “中国媒体资本”, “China Media Capital” or any similar name, trademark or logo in any discussion, documents or materials, including without limitation for any marketing, advertising, or promotional purposes, or issue a press release or make any public announcement or other public disclosure with respect to any of the transactions contemplated under the Transaction Documents without the prior written consent of CMC.

9.10 Severability. In case any provision of the Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. If, however, any provision of this Agreement shall be invalid, illegal, or unenforceable under any such applicable Law in any jurisdiction, it shall, as to such jurisdiction, be deemed modified to conform to the minimum requirements of such Law, or, if for any reason it is not deemed so modified, it shall be invalid, illegal, or unenforceable only to the extent of such invalidity, illegality, or limitation on enforceability without affecting the remaining provisions of this Agreement, or the validity, legality, or enforceability of such provision in any other jurisdiction.

9.11 Amendments and Waivers. Any term of this Agreement may be amended, only with the written consent of each of (a) the Company, (b) the Parent Company, and (c) the Series B Investors. Any amendment effected in accordance with this paragraph shall be binding upon each of the Parties hereto. Notwithstanding the foregoing, the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Party against whom such waiver is sought.

9.12 No Waiver. Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof will not be deemed a waiver of such term, covenant, or condition, nor will any waiver or relinquishment of, or failure to insist upon strict compliance with, any right, power or remedy power hereunder at any one or more times be deemed a waiver or relinquishment of such right, power or remedy at any other time or times.

9.13 Delays or Omissions. No delay or omission to exercise any right, power or remedy accruing to any Party under this Agreement, upon any breach or default of any other Party under this Agreement, shall impair any such right, power or remedy of such non-breaching or non-defaulting Party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any Consent of any kind or character on the part of any Party of any breach or default under this Agreement, or any waiver on the part of any Party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing.

- 9.14 Further Assurance.** Upon the terms and subject to the conditions herein, each Party agrees to use its reasonable best efforts to take or cause to be taken all action, to do or cause to be done, to execute such further instruments, and to assist and cooperate with the other Parties hereto in doing, all things necessary, proper or advisable under applicable Laws or otherwise to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement and the other Transaction Documents, *provided* that except as expressly provided herein, no Party shall be obligated to grant any waiver of any condition or other waiver hereunder.
- 9.15 No Presumption.** The Parties acknowledge that any applicable Law that would require interpretation of any claimed ambiguities in this Agreement against the Party that drafted it has no application and is expressly waived. If any claim is made by a Party relating to any conflict, omission or ambiguity in the provisions of this Agreement, no presumption or burden of proof or persuasion will be implied because this Agreement was prepared by or at the request of any Party or its counsel.
- 9.16 Headings and Subtitles; Interpretation.** The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement. Unless a provision hereof expressly provides otherwise: (i) the term “or” is not exclusive; (ii) words in the singular include the plural, and words in the plural include the singular; (iii) the terms “herein”, “hereof”, and other similar words refer to this Agreement as a whole and not to any particular section, subsection, paragraph, clause, or other subdivision; (iv) the term “including” will be deemed to be followed by, “but not limited to”, (v) the masculine, feminine, and neuter genders will each be deemed to include the others; (vi) the terms “shall”, “will”, and “agrees” are mandatory, and the term “may” is permissive; (vii) the term “day” means “calendar day”, and “month” means calendar month, (viii) all references in this Agreement to designated “Sections” and other subdivisions are to the designated Sections and other subdivisions of the body of this Agreement, (ix) all references in this Agreement to designated Schedules and Exhibits are to the Schedules and Exhibits attached to this Agreement, (x) the phrase “directly or indirectly” means directly, or indirectly through one or more intermediate Persons or through contractual or other arrangements, and “direct or indirect” has the correlative meaning, (xi) references to laws include any such law modifying, re-enacting, extending or made pursuant to the same or which is modified, re-enacted, or extended by the same or pursuant to which the same is made, (xii) each representation, warranty, agreement, and covenant contained herein will have independent significance, regardless of whether also addressed by a different or more specific representation, warranty, agreement, or covenant, (xiii) all accounting terms not otherwise defined herein have the meanings assigned under the Accounting Standards, (xiv) pronouns of either gender or neuter shall include, as appropriate, the other pronoun forms, (xv) references to this Agreement, any other Transaction Documents and any other document shall be construed as references to such document as the same may be amended, supplemented or novated from time to time, and (xvi) all references to dollars or to “US\$” are to currency of the United States of America and all references

to RMB are to currency of the PRC (and each shall be deemed to include reference to the equivalent amount in other currencies).

- 9.17 Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Facsimile and e-mailed copies of signatures shall be deemed to be originals for purposes of the effectiveness of this Agreement.
- 9.18 Entire Agreement.** This Agreement and the Transaction Documents, together with all schedules and exhibits hereto and thereto, constitute the full and entire understanding and agreement among the Parties with regard to the subjects hereof and thereof, and supersede all other agreements between or among any of the Parties with respect to the subject matters hereof and thereof.
- 9.19 Use of English Language.** This Agreement has been executed and delivered in the English language. Any translation of this Agreement into another language shall have no interpretive effect. All documents or notices to be delivered pursuant to or in connection with this Agreement shall be in the English language or, if any such document or notice is not in the English language, accompanied by an English translation thereof, and the English language version of any such document or notice shall prevail for purposes thereof.

[The remainder of this page has been left intentionally blank]

IN WITNESS WHEREOF, the parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

COMPANY:

Fun Literature Limited

By: /s/ Jingbo Wang
Name: Jingbo Wang
Title: Director

[Signature Page to Share Purchase Agreement]

IN WITNESS WHEREOF, the parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

HK COMPANY:

Fun Literature (HK) Limited

By: /s/ Jingbo Wang
Name: Jingbo Wang
Title: Director

WFOE:

Shanghai Zhicao Information Technology Co., Ltd. (上海致超信息科技有限公司)

By: /s/ Wanting Xu
Name: Wanting Xu
Title: Legal Representative

Affix Seal: [Seal]

DOMESTIC COMPANY:

Shanghai Big Rhinoceros Horn Information Technology Co., Ltd. (上海大犀牛角信息科技有限公司)

By: /s/ Min Gao
Name: Min Gao
Title: Legal Representative

Affix Seal: [Seal]

IN WITNESS WHEREOF, the parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

PARENT COMPANY/SERIES B INVESTOR:

Qutoutiao Inc.

By: /s/ Eric Siliang Tan
Name: Eric Siliang Tan
Title: Director

[Signature Page to Share Purchase Agreement]

IN WITNESS WHEREOF, the parties hereto have caused their respective duly authorized representatives to execute this Agreement on the date and year first above written.

SERIES B INVESTOR:

CMC Rocket Holdings Limited

By: /s/ Peter Chuan Li

Name: Peter Chuan Li

Title: Director

[Signature Page to Share Purchase Agreement]

SCHEDULE I

Schedule of Series B Investors

<u>Name</u>	<u>Number of Subscription Shares</u>	<u>Subscription Price</u>
CMC Rocket Holdings Limited	[***]	[***]
Qutoutiao Inc.	[***]	[***]

SCHEDULE II

Schedule of Capitalization Immediately Prior to the Closing

[**]

Schedule of Capitalization Immediately After the Closing

[**]

Schedule III

Share Purchase Agreement

SCHEDULE III

List of Key Employees

[***]

Schedule III

Share Purchase Agreement

SCHEDULE IV

Address for Notices

[**]

Schedule IV

Share Purchase Agreement

EXHIBIT A
FORM OF MANAGEMENT RIGHTS LETTER

-

Exhibit A Share Purchase Agreement

EXHIBIT B

FORM OF THE MEMORANDUM AND ARTICLES

Exhibit B

Share Purchase Agreement

EXHIBIT C
FORM OF SHAREHOLDERS AGREEMENT

Exhibit C Share Purchase Agreement

EXHIBIT D

FORM OF INDEMNIFICATION AGREEMENT

Exhibit D

Share Purchase Agreement

EXHIBIT E
DISCLOSURE SCHEDULE

Exhibit E Share Purchase Agreement

Share Pledge Agreement

THIS Share Pledge Agreement (this “**Agreement**”) is executed on September 29, 2019 by and among the following parties in Shanghai, the People’s Republic of China (the “**PRC**” or “**China**”):

1. **Wanting Xu**, Chinese, ID No.: [REDACTED];
2. **Min Gao**, Chinese, ID No.: [REDACTED] (together with Wanting Xu hereinafter referred to respectively or collectively as “**Pledgor**” or “**Pledgors**”);
3. **Shanghai Quyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (the “**Pledgee**”); and
4. **Anhui Zhangduan Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Company**”).

In this Agreement, the above parties hereto may be individually referred to as a “**Party**” and collectively referred to as the “**Parties**”.

Whereas:

1. The Pledgors are registered shareholders of the Company, collectively hold 100% of the Company’s equity interests. As of the date of this Agreement, the respective amount of capital contribution and proportion of shareholding of the Pledgors in the Company are as stated in Schedule I.
2. Pursuant to the Exclusive Option Agreement (including the Agreement itself and any of its amendments or restatements, hereinafter referred to as the “**Option Agreement**”) executed by and among the Parties on the date of this Agreement, the Pledgors and/or the Company shall, as per requested by the Pledgee and to the extent permitted under the PRC law, transfer all or part of the equity interest held by the Pledgors and/or all or part of the assets in the Company to the Pledgee and/or any other entity or individual designated by the Pledgee.
3. Pursuant to the Loan Agreement (including the Agreement itself and any of its amendments or restatements, hereinafter referred to as the “**Loan Agreement**”) executed by the Pledgors and the Pledgee on the date of this Agreement, the Pledgee agrees to provide loans to the Pledgors in accordance with the terms and conditions stipulated in the Loan Agreement.
4. Pursuant to the Voting Rights Proxy Agreement (including the Agreement itself and any of its amendments or restatements, hereinafter referred to as the “**Voting Rights Proxy Agreement**”) executed by the Parties on the date of this Agreement, the Pledgors have irrevocably and fully authorized the person appointed by the Pledgee at that time to represent the Pledgors to exercise all their voting rights as

shareholders in the Company.

5. Pursuant to the Exclusive Technical and Consulting Services Agreement (including the Agreement itself and any of its amendments or restatements, hereinafter referred to as the “**Consulting Services Agreement**”) executed by the Company and the Pledgee on the date of this Agreement, the Company has exclusively engaged the Pledgee to provide the Company relevant technical support and consultation services, and has agreed to pay corresponding service fees to the Pledgee for such provision of services.
6. To secure the performance of the Pledgors and the Company of the Contractual Obligations (as defined below) and the repayment of the Secured Indebtedness (as defined below), the Pledgors agree to pledge all of their equity interests in the Company in favor of the Pledgee, and grant the Pledgee the first priority right of pledge.

By friendly negotiation, the Parties agree as follows:

1. Definitions

Unless otherwise provided herein, the following words and terms shall have the respective meanings set forth below:

- 1.1 “**Contractual Obligations**” means all Contractual Obligations of the Pledgors and/or the Company under the Loan Agreement, the Consulting Service Agreement, the Option Agreement, the Voting Rights Proxy Agreement and this Agreement (and any of its amendments or restatements thereof).
- 1.2 “**Pledge**” means the security interest granted by the Pledgors to the Pledgee in accordance with Article 2 of this Agreement, which refers to the right to be compensated on a preferential basis with the conversion, auction or sales price of the equity interest enjoyed by the Pledgee.
- 1.3 “**Transaction Agreements**” means the Loan Agreement, the Option Agreement, the Voting Rights Proxy Agreement and the Consulting Service Agreement.
- 1.4 “**Secured Indebtedness**” includes all service fees as well as the interests incurred accordingly that shall be payable to the Pledgee and the repayment of the loan along with the interests incurred that shall be made by the Pledgors to the Pledgee under the Transaction Agreements; the amount of all direct, indirect and predictable loss of benefits arising out of any Event of Default (as defined below) caused by the Pledgors and/or the Company as determined by the Pledgee on its sole discretion (to the extent permitted by PRC law) which shall be fully binding on the Pledgors and the Company; all expenses of the Pledgee incurred from forcing the the Pledgors and/or the Company to perform the Contract Obligations, and fees and expenses for the enforcement of the Pledge (including but not limited to the legal fees, arbitration fees, costs of assessment and auction of the Pledged Interests

and etc.).

- 1.5 “**Pledged Interests**” means all of the Company’s equity interests legally owned by the Pledgors as of the date of effectiveness of this Agreement which shall, pursuant to this Agreement, be pledged to the Pledgee as collateral security for the performance of the Contractual Obligations (as specifically stated in Schedule I).
- 1.6 “**Term of the Pledge**” refers to the term set forth in Article 3 of this Agreement.
- 1.7 “**Event of Default**” refers to any of the circumstances listed in Article 7 of this Agreement.
- 1.8 “**Notice of Default**” refers to the notice issued by the Pledgee in accordance with this Agreement declaring an Event of Default.

2. **Pledge of Equity Interests**

Pursuant to this Agreement, the Pledgors hereby agree to pledge, all of the equity interest which are legally held and are entitled to be disposed by the Pledgors (collectively representing 100% equity interest in the Company) to the Pledgee, as a jointly liability guarantee to secure the performance of the Contractual Obligations and the repayment of the Secured Indebtedness of the Pledgors and the Company.

3. **Term of the Pledge**

- 3.1 This Pledge shall become effective on such date when the pledge of the equity interest contemplated herein is registered with competent authority of Administration for Industry and Commerce (“**AIC**”). The Pledge shall continue until all Contractual Obligations have been fully performed by the Pledgors and the Company and all Secured Indebtedness have been paid in full, or all of the Transaction Agreements have been terminated or turned invalid, or the Contractual Obligations have been terminated for legal reasons.
- 3.2 The Pledgors and the Company shall (1) record the Pledge made under this Agreement on the Company’s register of shareholders when appropriate after the execution of this Agreement, and (2) file the Pledge with the appropriate AIC to complete the pledge registration of the Pledged Interests under this Agreement after the execution of this Agreement when appropriate. Such registration of Pledged Interests shall be completed within 20 working days after the date of this Agreement or other time period agreed by the Parties, and the certification documents concerning the registration with AIC shall be delivered to and kept by the Pledgee. The Parties jointly confirm that, in order to complete the procedure of pledge registration with AIC, the Parties and other shareholders of the Company shall submit this Agreement, or, a Pledge Contract executed in the way complying with the requirements of the AIC of the registered place of the

Company in which truly reflects the information of the Pledge under this Agreement (“**Pledge Agreement for AIC Registration**”) to AIC. Matters that are not specified in the Pledge Agreement for AIC Registration shall be subject to the provisions of this Agreement. The Pledgors and the Company shall, as per required by relevant AIC and pursuant to the PRC laws and regulations, submit all necessary documents and complete all necessary procedures to ensure that the Pledge will be registered as soon as possible after filing the application.

- 3.3 In case of any Event of Default, the Pledgee shall be entitled to dispose the Pledged Interests in accordance with Article 8 of this Agreement.
- 3.4 Within the Term of Pledge, the Pledgors may, after obtaining prior consent from the Pledgee, receive dividends, bonuses or other profits generated from the Pledged Interests. The Pledgors agree that during the duration of the pledge of the equity interests, the Pledgee shall have the right to receive any dividend or bonus generated from the Pledged Interests. The Company shall pay such portion of fund to the bank account designated by the Pledgee.

4. Custody of Pledge Certificate

Within the Term of Pledge set forth in this Agreement, the Pledgors shall deliver the capital contribution certificate for the equity interest in the Company and the register of shareholders containing the Pledge to the Pledgee for the Pledgee’s custody of such items. The Company shall not set up any register of shareholders other than the aforesaid one. The Pledgors shall deliver the above-mentioned capital contribution certificate and the register of shareholders to the Pledgee on the date of this Agreement, and the Pledgee shall maintain custody of such items throughout the entire Term of Pledge.

5. Representations and Warranties of the Pledgors

- 5.1 The Pledgors are the legal owners of the Pledged Interests and there is no existing dispute in relation to the ownership of the Pledged Interests.
- 5.2 The Pledged Interests are free to be pledged and transferred according to laws, and the Pledgors have full rights and authorities to pledge the Pledged Interests to the Pledgee in accordance with the provisions of this Agreement.
- 5.3 The Pledgors have not placed any right of pledge or other security interests on the Pledged Interests except for the Pledge.
- 5.4 The Pledge under this Agreement constitutes the first priority right of pledge placed on the Pledged Interests.
- 5.5 The Pledgors and the Company warrant to the Pledgee that the above-mentioned representations and warranties are true and correct and will be completely complied with in any case before the Contract Obligations have been fully performed or the Secured Indebtedness has been completely repaid.

6. The Pledgors' Covenants and Acknowledgements

- 6.1 The Pledgors hereby covenant to the Pledgee, that during the term of this Agreement, the Pledgors shall:
- 6.1.1 not transfer the Pledged Interests or create or permit the existence of any guarantee or other encumbrance on the Pledged Interests without prior written consent from the Pledgee, except for the performance of the Option Agreement;
 - 6.1.2 comply with and execute all the laws and regulations applicable to the pledge of rights, present the notice, order or recommendation issued or promulgated by relevant competent authorities regarding the Pledge to the Pledgee within 5 days upon receipt such item, and comply with the aforementioned notice, order or recommendation, or, as per reasonable requested or consent of the Pledgee, submit objections and representations with respect to the aforementioned matters;
 - 6.1.3 promptly notify the Pledgee of any event or notice received by the Pledgors that may have an impact on the Pledgee's rights to the equity interests or any portion thereof, and any event or notice received by the Pledgors that may have an impact on any warrant, obligation of the Pledgors or their performance of this Agreement.
- 6.2 The Pledgors agree that the right enjoyed by the Pledgee under the terms of this Agreement with respect to the Pledge shall not be interrupted or harmed by the Pledgors or any successor or representative of the Pledgors or any other person through any legal proceeding.
- 6.3 The Pledgors guarantee the Pledgee that, in order to protect or perfect the security interests granted under this Agreement securing the payment of the consulting and service fees under the Transaction Agreements, the Pledgors agree to execute in good faith and to cause other parties who have an interest in the Pledge to execute all certificates, agreements, and/or perform and cause other parties who have an interest in the Pledge to perform as required by the Pledgee. The Pledgors further agree to facilitate the exercise by the Pledgee of its rights and authorities granted thereto by this Agreement, and to enter into all relevant documents regarding the ownership of equity interest with the Pledgee or designees of the Pledgee (individuals/legal entities). The Pledgors agree to provide the Pledgee within a reasonable time with all notices, orders and decisions regarding the Pledge that are required by the Pledgee.
- 6.4 The Pledgors guarantee the Pledgee that the Pledgors will comply with and perform all the guarantees, promises, agreements, representations and conditions under this Agreement. If the Pledgors is not performing or fail to fully perform its guarantees, promises, agreements, representations and conditions, the Pledgors shall compensate the Pledgee for all losses suffered

thereby.

7. Event of Default

- 7.1 Each of the following circumstances shall be considered as Event of Default:
- 7.1.1 Any breach of any of the Pledgors and/or the Company of any Contractual Obligation under the Loan Agreement, the Option Agreement, the Voting Rights Proxy Agreement, the Consulting Service Agreement, and/or this Agreement (and any amendment or restatement thereof);
 - 7.1.2 Except for Article 6.1.1 of this Agreement, any waiver of the Pledgors of the Pledged Interests or any transfer or intended transfer of the Pledged Interests without written consent from the Pledgee;
 - 7.1.3 Any external loan, guarantee, compensation, commitment or other payment liability of any of the Pledgors and/or the Company is required to be repaid or performed in advance, or is expired but cannot be repaid or performed as scheduled, which, at Pledgee's discretion, may be considered materially and adversely affect the ability of the Pledgors and/or the Company to perform its obligations hereunder;
 - 7.1.4 Any occurrence of any material adverse change to the property of the Pledgors and/or the Company, which, at Pledgee's discretion, may be considered materially affect the ability of the Pledgors and/or the Company to perform its obligations hereunder; and
 - 7.1.5 Occurrence of any event that prevents the Pledgee to exercise its right with respect to the Pledge.
- 7.2 Upon notice or awareness of the occurrence of any circumstance or event that may lead to the above-mentioned circumstances described in Article 7.1, the Pledgors shall immediately notify the Pledgee in writing accordingly.

8. Exercise of the Pledge

- 8.1 The Parties hereby agree that in the Event of Default, the Pledgee shall have the right to exercise all the rights and authorities of remedy for breach of contract enjoyed under the PRC laws, Transaction Agreements and this Agreement, including (but not limited to) auction or sale of the Pledged Interests and to be compensated in priority from what it gains after giving written notice to the Pledgors. The Pledgee is not responsible for any loss caused by its lawful and reasonable exercise of such rights and authorities.
- 8.2 Before the full payment of the consultation service fees and other fees under the Transaction Agreements has been made, the Pledgors shall not transfer the Pledge or the equity interest held in the Company without the Pledgee's

written consent.

8.3 For reasonable expenses incurred when the Pledgee exercises any or all of the above-mentioned rights and authorities, the Pledgee shall have the right to deduct such expenses from the funds obtained from the exercise of its rights and authorities, based on the actual situation.

8.4 The fund obtained from the exercise of the Pledgee of its rights and authorities shall be processed in the following order:

Firstly, to pay for all expenses (including paying the emoluments of its attorneys and agents) arising from the disposal of the Pledged Interests and the exercise of the Pledgee of its rights and authorities;

Secondly, to pay payable taxes arising from the disposal of the Pledged Interests;

Thirdly, repay the Secured Indebtedness to the Pledgee;

The remaining fund after the deduction of the aforesaid items shall be returned by the Pledgee to the Pledgors or other person who enjoyed the right to the fund under relevant laws and regulations, or be deposited to the local notary office of the location of the Pledgee (any cost generated arising from such deposit shall be undertaken by the Pledgee).

8.5 The Pledgee has the right to appoint its legal counsels or other agents to exercise the Pledge on its behalf, and the Pledgor or the Company shall not raise any objections.

8.6 When the Pledgee disposes the Pledge in accordance with this Agreement, the Pledgors and the Company shall provide necessary assistance to enable the Pledgee to realize its Pledge.

8.7 The Pledgee shall be entitled to choose to, simultaneously or successively, exercise any of the remedies it enjoys for breach of contract. The Pledgee is not required to exercise any other remedy for breach of contract before exercising the right to auction or sell the Pledged Interests under this Agreement. The Pledgors or the Company does not have the right to challenge the Pledgee whether to exercise part of the Pledge or the sequential order of the exercise of the Pledge.

9. Liability of Breach

9.1 The Pledgee has the right to terminate this Agreement and/or require the the Pledgor and the Company to fully indemnify the Pledgee if the Pledgor or the Company substantially breach any articles hereof; this article 9 shall not preclude any other rights of the Plegee hereunder.

9.2 Unless otherwise provided for by applicable laws, the Pledgor or the Company have no right to terminate or cancel this Agreement.

10. Assignment

- 10.1 The Pledgors shall not grant or transfer its rights and obligations under this Agreement without prior consent from the Pledgee.
- 10.2 This Agreement shall be binding on the Pledgors, their successors and authorized assignees, and shall be valid to the Pledgee and each of its successors and assignees.
- 10.3 The Pledgee may assign all or any of its rights and obligations under the Transaction Agreements to its designees (individuals/legal entities) at any time. In such case, the assignee shall have the rights and obligations that the Pledgee enjoys and undertakes under this Agreement, as if it was the original party to this Agreement. When the Pledgee assigns the rights and obligations under the Transaction Agreements, the Pledgors shall, upon the Pledgee's request, execute relevant agreements and/or documents relating to such assignment.
- 10.4 In the event of a change of the Pledgee due to the assignment, at the request of the Pledgee, the Pledgors shall execute a new pledge agreement with the new Pledgee on the same terms and conditions as this Agreement, and shall register such pledge with the relevant AIC.
- 10.5 The Pledgors shall strictly comply with the provisions of this Agreement and other relevant agreements jointly or respectively executed by the Parties, including the Exclusive Option Agreement and the Power of Attorney granted to the Pledgee, fulfill the obligations under each agreement, and refrain from any action/omission that may affect the effectiveness and enforceability of the Agreement. Any remaining right of the Pledgors with respect to the Pledged Interests hereunder shall not be exercised by the Pledgors except in accordance with written instructions from the Pledgee.

11. Termination

- 11.1 Upon fully fulfilled its obligations hereunder and paid all the guaranteed debts, the Pledgor shall have the right to require the Pledgee to release the Pledge under this Agreement, within a reasonable time period, and the Pledgee shall take necessary actions to deregister the Pledge with the relevant AIC.
- 11.2 Articles 9, 13, 14 and this article 11.2 will survive the termination of the Agreement.

12. Service fees and other expenses

All fees and actual expenses relating to this Agreement, including but not limited to legal fees, costs of production, stamp duties, and any other tax, fee and etc. shall be borne by the Company.

13. Confidentiality

Each Party hereto acknowledges and confirms to treat any oral or written material relating to this Agreement, the content of this Agreement and exchanged among for preparing or performing this Agreement as confidential information. Each party shall maintain the confidentiality of all such confidential information and shall not disclose any confidential information to any third party without the written consent of the other Parties, except for (a) any information is or will be acknowledged by the public (provided that it is not the result of a disclosure to the public without authorization made by a party who receives the confidential information); (b) any information required to disclose under the applicable laws and regulations, stock trading rules, or orders of government departments or courts; or (c) information required to be disclosed by any Party to its shareholders, investors, legal or financial counsels regarding the transaction stated in this Agreement, and such shareholders, legal or financial counsels shall also be required to comply with the confidentiality duties similar to the duties contained under this clause. Any disclosure by staff or agencies hired by a Party should be deemed as a disclosure by such party and such party shall be liable for breach of this Agreement. This article shall survive regardless of the termination of this Agreement for any reason.

14. Applicable Law and Dispute Resolution

- 14.1 The execution, effectiveness, interpretation, implementation, amendment and termination of this Agreement and the resolution of disputes shall be governed by PRC law.
- 14.2 Any dispute arising from interpretation and implementation of this Agreement shall be firstly solved by the Parties through friendly negotiation. If the dispute cannot be resolved within 30 days after the written notice sent from one party to the other for negotiation and resolution, any party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules then effective. The arbitration shall be conducted in Shanghai and the language used is Chinese. The award of the arbitral tribunal shall be final and binding on the Parties.
- 14.3 When any dispute arising from interpretation and implementation of this Agreement occurs and when any dispute is under arbitration, except for the matters under dispute, the Parties shall continue to exercise their other rights under this Agreement and perform their other obligations under this Agreement.

15. Notices

- 15.1 All notices and other communications required or sent under this Agreement shall be delivered personally, registered post, postage paid or business express service or fax to the Party's following address. Each notice shall also be delivered by email. The dates on which the notices shall be deemed to have been effectively delivered shall be determined as follows:

- 15.2 For notices delivered by personal delivery, express service or registered post, postage paid, the effectively delivered date shall be deemed as the date of delivery or refusal at the address specified for notices.
- 15.3 For the notices delivered by fax, the effectively delivered date shall be deemed as the date of delivered successfully. (as evidenced by an automatically generated confirmation of transmission)
- 15.4 For the purpose of notice, the addresses of the Parties are as follows:

The Pledgors:

Wanting Xu

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

Min Gao

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

The Pledgee: Shanghai Quyun Internet Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

The Company: Anhui Zhangduan Internet Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

- 15.5 Any Party may at any time send notice to other Parties in accordance with this Article to change its address for the purpose of receiving notice.

16. Severability

If one or several provisions of this Agreement are found to be invalid, illegal or unenforceable according to any law or regulation in any aspect, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or damaged in any aspect. The Parties shall strive for replacing those invalid, illegal or unenforceable provisions with effective provisions within the highest limit of permission of laws and expectation of the Parties by sincerely negotiation, and the economic effects of such effective provisions shall as close as possible to that of those invalid, illegal or unenforceable provisions.

17. Effectiveness

- 17.1 This Agreement shall become effective upon execution of the Agreement by all Parties.

- 17.2 Any amendment, supplement or change to this Agreement shall be made in writing and shall become effective upon completion of the governmental filing procedures (if applicable) after execution or affixing with seals of the Parties.
- 17.3 This Agreement is written in Chinese in four (4) originals. Each Party of this Agreement shall have one (1) and all the originals shall have equal legal validity.

[The remainder of this page intentionally left blank.]

[Signature Page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

Wanting Xu

Signature: /s/ Wanting Xu

Min Gao

Signature: /s/ Min Gao

Shanghai Quyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Fei Shen

Name: Fei Shen

Title: Legal Representative

Anhui Zhangduan Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Mengdie Hua

Name: Mengdie Hua

Title: Legal Representative

Schedule I

Company Name: Anhui Zhangduan Internet Technology Co., Ltd.

Shareholding Structure:

Shareholder Name	Amount of Contribution of Company's registered capitals (RMB/Yuan)	Shareholding Ratio
Wanting Xu	6,000,000	60%
Min Gao	4,000,000	40%
Total	10,000,000	100%

Shareholders' Voting Rights Proxy Agreement

THIS Shareholders' Voting Rights Proxy Agreement (this "**Agreement**") is executed on September 29, 2019 by and among the following parties in Shanghai, the People's Republic of China ("**PRC**"):

1. **Wanting Xu**, Chinese, ID No.: [REDACTED];
2. **Min Gao**, Chinese, ID No.: [REDACTED] (together with Wanting Xu hereinafter referred to as "**Shareholders**");
3. **Shanghai Qyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] ("**Sole Corporation**"); and
4. **Anhui Zhangduan Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] ("**Company**").

In this Agreement, the above parties hereinafter shall be individually referred to as a "**Party**" and collectively referred to as the "**Parties**".

Whereas:

1. The Shareholders, being the Company's current shareholders, collectively hold 100% equity interest of the Company. As of the date of this Agreement, the amount of contribution and proportion of shareholding in the Company are as stated in Schedule I;
2. The Shareholders intend to delegate a person appointed by the Sole Corporation to exercise the Shareholders' voting rights in the Company and the Sole Corporation intend to appoint a person to accept such delegation.

The Parties come to an agreement as follows by friendly negotiation:

Article 1

Voting Rights Proxy

- 1.1 The Shareholders hereby irrevocably agree that after the Sole Corporation appoint someone other than staff of the Sole Corporation as an Assignee (definite as follows), the Shareholders will execute the Power of Attorney of which the content and format are as stated in Schedule II of this Agreement, authorizing the person designated by the Sole Corporation at that time (the "**Assignee**") to, at his own will and discretion and on behalf of the Shareholders, exercise the following rights respectively enjoyed by the Shareholders under the

articles of association of the Company then effective. (“**Delegated Right**”):

- (1) propose to convene and attend a shareholders meeting of the Company according to the Company’s articles of association as the proxy of each of the Shareholders;
- (2) exercise the voting rights on behalf of the Shareholders on the matters which are required to be discussed and resolved in the shareholders meeting, including, but not limited to the appointment and election of the directors of the Company and other senior management that should be appointed or dismissed by the Shareholders;
- (3) exercise other Shareholder’s voting rights under the Company’s article of association (including any other voting right of the Shareholders specified after the modification of such article of association).

1.2 The above-mentioned authorization and delegation shall subject to the condition that the Assignee is a Chinese and the Sole Corporation agrees with such authorization and delegation. The Assignee has the right to recommit. In terms of the above-mentioned matters, the Assignee may recommit other person or entity to handle such matters by neither sending prior notice to relevant shareholders nor obtaining the consent from relevant shareholders. When and only when the Sole Corporation sends a written notice to the Shareholders to dismiss or replace the Assignee, the Shareholders shall immediately authorize another Chinese person designated by the Sole Corporation to exercise such right. The new appointment shall replace the former one immediately upon execution and except for such situation, the Shareholders shall not revoke the delegation and authorization to the Assignee.

1.3 The Assignee shall prudently and diligently perform the Delegated Right within the scope of authorization specified in this Agreement. The Shareholders agree to recognize and be responsible for the corresponding liability of any legal consequence caused by the Assignee exercising the above-mentioned Delegated Right.

1.4 The Shareholders hereby confirm that the Assignee may exercise such Delegated Right without asking for the Shareholders’ opinion in advance. However, the Assignee shall inform the Shareholders in time of the resolutions or proposals of convening temporary shareholders meeting are made.

1.5 The Shareholders hereby confirm that any action taken by the Assignee shall be deemed as an action of the Shareholders, and any documents or materials executed by the Assignee shall be deemed dully executed by the Shareholders with an authentic intention to do so.

Article 2**Right to Know**

- 2.1 For the purpose of exercising the rights hereunder, the Assignee shall be entitled to get access to related information with respect to the Company's operation, business, client, finance, staff, etc. and to look up related materials. The Company shall cooperate sufficiently to this.

Article 3**Exercise of the Delegated Right**

- 3.1 The shareholders will provide sufficient assistance with respect to the exercise of the Delegated Right by the Assignee, including promptly executing the Resolution of the shareholders meeting or other related legal documents made by the Assignee when necessary (to satisfy the requirements of the governmental authorities with respect to the documents submitted for approval, registration and filing).
- 3.2 If, at any time during the term of this Agreement, the authorization or exercise of the Delegated Right under this Agreement becomes unenforceable for any reason (except for breach of contract of the Shareholders or the Company), the Parties shall seek for an alternative solution most similar to the unenforceable provision and, if necessary, execute the supplementary agreement to amend or adjust the terms of this Agreement to make sure the purpose of this Agreement can be realized.

Article 4**Exemption and Indemnification**

- 4.1 The Parties acknowledge that the Sole Corporation shall not be required to be liable for any responsibility to other parties or any third party or compensate in economic or other aspect due to the exercise of Delegated Right by Assignee under this Agreement.
- 4.2 The Shareholders and the Company agree to indemnify in full and hold harmless the Sole Corporation for any loss incurred or likely to incur by appointing the Assignee to exercise the Delegated Right, including but not limited to any loss caused by lawsuit, recovery, arbitration, claim bring by any third party against it or administrative investigation, punishment made by government departments, unless such loss is resulting from wilful misconduct or gross negligence of the Assignee.

Article 5**Representations and Warranties**

- 5.1 The Shareholders hereby respectively and jointly represent and warrant the Sole Corporation that:

- 5.1.1 He/It is a Chinese citizen with full capacity or a limited liability company/limited partnership duly registered and validly existing under laws of domicile. He/It has complete and independent legal status and ability and is properly authorized to execute, deliver and perform this Agreement and can be a subject of litigation independently.
- 5.1.2 He/It has the complete right and authorization to execute and deliver this Agreement and all other documents he/it is going to execute related to the transaction stated hereunder and has the full right and authorization to complete such transaction. This Agreement is executed and delivered legally and appropriately. This Agreement constitutes a legal and binding obligation of him/it and can be enforceable according to the provisions of this Agreement.
- 5.1.3 He/It is a legally registered shareholder of the Company as of the effectiveness of this Agreement. Except for the rights set according to this Agreement, the Share Pledge Agreement and the Exclusive Option Agreement executed on the same date of this Agreement among the Shareholders, the Company and the Sole Corporation, there is no other third-party rights on the Delegated Right. In accordance with this Agreement, the Assignee may completely and sufficiently exercise its Delegated Right according to the Company's article of association then effective.

5.2 The Sole Corporation and the Company hereby respectively represents and warrants that:

- 5.2.1 It is a limited liability company duly registered and validly existing under the laws of domicile and has independent legal personality. It has complete and independent legal status and the ability to execute, deliver and perform this Agreement and can be a subject of litigation independently.
- 5.2.2 It has the complete internal right and authorization of the Company to execute and deliver this Agreement and all other documents it is going to execute related to the transaction stated hereunder and has the full right and authorization to complete such transaction.

5.3 The Company further represents and warrants that:

- 5.3.1 The Shareholders are legally registered shareholders of the Company as of the effectiveness of this Agreement. Except for the right set according to this Agreement, the Share Pledge Agreement and Exclusive Option

Agreement executed among the Shareholders, the Company and the Sole Corporation, there is no other third-party rights on the Delegated Right. In accordance with this Agreement, the Assignee may completely and sufficiently exercise its Delegated Right according to the Company's article of association then effective.

Article 6

Term of Agreement

- 6.1 Subject to Article 6.2 of this Agreement, this Agreement shall come into effect on the date the Parties executed formally. Unless and until earlier terminated with the Parties' written agreement or in accordance with Article 9.1 of this Agreement, this Agreement shall remain effective and in force.
- 6.2 This Agreement shall be terminated under the situation that the Company or the Sole Corporation does not complete the approval and registration procedure of extending the operating period when it expires.
- 6.3 This Agreement shall automatically be terminated if the Shareholders transfer all the equity interest of the Company they held to the Sole Corporation or the entity appointed by the Sole Corporation with the Sole Corporation's prior written consent.

Article 7

Notice

- 7.1 All notices and other communications required or sent under this Agreement shall be delivered personally, registered post, postage paid or business express service or fax to the Party's following address. Each notice shall also be delivered by email. The dates on which the notices shall be deemed to have been effectively delivered shall be determined as follows:
- 7.1.1 For notices delivered by personal delivery, express service or registered post, postage paid, the effectively delivered date shall be deemed as the date of delivery or refusal at the address specified for notices.
- 7.1.2 For the notices delivered by fax, the effectively delivered date shall be deemed as the date of delivered successfully. (as evidenced by an automatically generated confirmation of transmission)
- 7.2 For the purpose of notice, the addresses of the Parties are as follows:

Shareholders□

Wanting Xu

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

Min Gao
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

The Sole Corporation: Shanghai Quyun Internet Technology Co., Ltd.
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

The Company: Anhui Zhangduan Internet Technology Co., Ltd.
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

7.3 Any Party may at any time send notice to other Parties in accordance with this Article to change its address for the purpose of receiving notices.

Article 8

Confidentiality

8.1 Regardless of the termination of this Agreement, the Parties shall maintain the confidentiality of all information relating to other party's trade secret, proprietary information, client information and all other information with confidentiality acknowledged during the course of execution and performance of this Agreement ("**Confidential Information**"). The Party receiving the Confidential Information shall not disclose any Confidential Information to any third party except with the disclosing party of the Confidential Information's prior written consent or required by provisions of related laws, regulations or the listing location of the affiliated company of One Party to disclose to third parties; Except for the purpose of performing this Agreement, the recipient shall not use or indirectly use any Confidential Information.

8.2 The following information is not deemed as Confidential Information:

- (a) Any information is acknowledged by the recipient previously through legitimate form which could be evidenced by written proof;
- (b) Information of the public which is not due to the recipient's fault; or
- (c) Information obtained through other legitimate form by the recipient after the recipient received the information.

8.3 The Party receiving the Confidential Information can disclose the information to its related staff, agents or professionals hired by the Party. However, the recipient shall make sure that such person will comply with the related terms and conditions of this Agreement and the recipient shall be liable for such person's breaching relating terms and conditions of this Agreement.

- 8.4 The effect of this Article shall not be influenced by the termination of this Agreement regardless of other provisions of this Agreement.

Article 9

Default Liability

- 9.1 The Parties agree and confirm that any substantial violation of any of the provisions under this Agreement of any Party (“**Defaulting Party**”), or any substantial failure of, or any delay on, performing any obligation under this Agreement will constitute a default under this Agreement (the “**Default**”) and any party who is not a Defaulting Party (“**Non-Defaulting Party**”) shall have the right to require the Defaulting Party to correct or take remedial measures in reasonable time period. If the Defaulting Party does not correct or take remedial measures in reasonable time period or ten (10) days after the other party informs the Defaulting Party in written of compensation requirements, then:

- 9.1.1 If the Shareholders or the Company is the Defaulting Party, the Sole Corporation shall have the right to terminate this Agreement and require the Defaulting Party to compensate.
- 9.1.2 If the Sole Corporation is the Defaulting Party, the Non-Defaulting Parties shall have the right to require the Defaulting Party to compensate. However, unless otherwise specified in laws, the Non-Defaulting Parties are not entitled to terminate or relieve this Agreement under any circumstance.
- 9.1.3 Regardless of any provision otherwise agreed under this Agreement, the effectiveness of this Article shall not be affected by suspension or termination of this Agreement.

Article 10

Miscellaneous

- 10.1 This Agreement is written in Chinese in four (4) originals. Each Party of this Agreement shall have one (1) and all the originals shall have equal legal validity.
- 10.2 PRC law will apply to the execution, effectivity, implementation, amendment, interpretation and termination of this Agreement.
- 10.3 Any dispute arising from interpretation and implementation of this Agreement shall be firstly resolved by the Parties through friendly negotiation. If the dispute cannot be resolved in thirty (30) days after the written notice sent from one party to the other for negotiation and resolution, any party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules then effective. The arbitration

shall be conducted in Shanghai and the language used is Chinese. The award of the arbitral tribunal shall be final and binding on all Parties.

- 10.4 Any right, power and remedy empowered to any Party by any provision of this Agreement shall not exclude any other right, power and remedy enjoyed by such Party in accordance with laws and other provisions under this Agreement, and a Party's exercise of its rights, powers and remedies shall not exclude its exercise of other rights, powers and remedies enjoyed.
- 10.5 Any Party's failure or delay to exercise any right, power and remedy enjoyed by this Agreement or laws ("**the Party's Rights**") shall not cause waiver of such rights. In addition, the waiver of any single or part of the Party's Right shall not exclude such Party's exercising such rights in other ways and exercising other rights.
- 10.6 The title of Articles in this Agreement is set for reference only, and such titles shall not be used to or affect the interpretation of Articles in this Agreement under any circumstance.
- 10.7 Each provision of this Agreement can be severable and independent from any other provision. If one or several provisions of this Agreement are found to be invalid, illegal or unenforceable at any time, the validity, legality or enforceability of remaining provisions of this Agreement shall not be affected.
- 10.8 Any amendment, supplement of this Agreement shall be made in written and come into effect after proper execution of the Parties of this Agreement. Regardless of any provision otherwise agreed in this Agreement, without Sole Corporation's prior written consent, any Shareholder shall not revoke delegation of the Delegated Right under this Agreement and any Shareholder and the Company shall not terminate this Agreement. However, the Sole Corporation may, at any time inform the Shareholders and the Company to terminate this Agreement by sending written notice thirty (30) days in advance.
- 10.9 Without prior written consent from the Sole Corporation, other Parties are not allowed to transfer any right and/or obligation under this Agreement to any third party; the Shareholders and the Company hereby agree that the Sole Corporation has the right to transfer its any right and/or obligation under this Agreement to any third party without prior notice to related Shareholders or the Company or their consent.
- 10.10 This Agreement shall be binding on the legal successors of the Parties.
- 10.11 Every of the Shareholders shall be jointly liable for the obligations of the other Shareholders under this Agreement.

[The remainder of this page intentionally left blank.]

[Signature Page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

Wanting Xu

Signature: /s/ Wangting Xu

Min Gao

Signature: /s/ Min Gao

Shanghai Quyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Fei Shen

Name: Fei Shen

Title: Legal Representative

Anhui Zhangduan Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Mengdie Hua

Name: Mengdie Hua

Title: Legal Representative

□□□□□□□□□□

The Signature Page of the Voting Rights Proxy Agreement

Schedule I

Company Name: Anhui Zhangduan Internet Technology Co., Ltd.

Shareholding Structure:

Shareholder Name	Amount of Contribution of Company's registered capitals (RMB/Yuan)	Shareholding Ratio
Wanting Xu	6,000,000	60%
Min Gao	4,000,000	40%
Total	10,000,000	100%

Power of Attorney

This Power of Attorney (hereinafter referred to as the “**POA**”) is executed by Wanting Xu (ID No.: [REDACTED]) on _____, 2019 and provided to _____ (ID No. _____) (hereinafter referred to as “**Assignee**”).

I, Wanting Xu, hereby irrevocably grant the Assignee a comprehensive power of attorney, authorize the Assignee to represent me as my proxy, in the name of me, at his/her own will and discretion to exercise the following rights enjoyed for being a shareholder of Anhui Zhangduan Internet Technology Co., Ltd. (hereinafter referred to as the “**Company**”):

- (1) propose to convene and attend shareholders meeting of the Company according to the Company’s articles of association as my proxy;
- (2) exercise the voting rights as my proxy on the matters which are required to be discussed and resolved on the shareholders meeting, including, but not limited to the appointment and election of the directors of the Company and other senior management that shall be appointed or dismissed by the shareholders meeting;
- (3) exercise other Shareholder’s voting rights as my proxy under the Company’s article of association (including any other voting right of Shareholders specified after the modification of such article of association).

The Assignee has the right to recommit. In terms of the above-mentioned matters, the Assignee may recommit other person or entity to handle such matters by neither sending prior notice to me nor obtaining consent from me.

I, hereby irrevocably confirm that, unless [] (“**Sole Corporation**”) requires me to change the Assignee, the period of validity of this POA shall continue until the Voting Rights Proxy Agreement executed by the Sole Corporation, the Company and the Shareholders on [] [], 2019 expires or early terminates.

Hereby authorized.

Name:

Signature: _____
Date: _____, 2019.

Power of Attorney

This Power of Attorney (hereinafter referred to as the “**POA**”) is executed by Min Gao (ID No.: [REDACTED]) on _____, 2019 and provided to _____ (ID No. _____) (hereinafter referred to as “**Assignee**”)

I, Min Gao, hereby irrevocably grant the Assignee a comprehensive power of attorney, authorize the Assignee to represent me as my proxy, in the name of me, at his/her own will and discretion to exercise the following rights enjoyed for being a shareholder of Anhui Zhangduan Internet Technology Co., Ltd. (hereinafter referred to as the “**Company**”):

- (1) propose to convene and attend shareholders meeting of the Company according to the Company’s articles of association as my proxy;
- (2) exercise the voting rights as my proxy on the matters which are required to be discussed and resolved on the shareholders meeting, including, but not limited to the appointment and election of the directors of the Company and other senior management that shall be appointed or dismissed by the shareholders meeting;
- (3) exercise other Shareholder’s voting rights as my proxy under the Company’s article of association (including any other voting right of Shareholders specified after the modification of such article of association).

The Assignee has the right to recommit. In terms of the above-mentioned matters, the Assignee may recommit other person or entity to handle such matters by neither sending prior notice to me nor obtaining consent from me.

I, hereby irrevocably confirm that, unless [] (“**Sole Corporation**”) requires me to change the Assignee, the period of validity of this POA shall continue until the Voting Rights Proxy Agreement executed by the Sole Corporation, the Company and the Shareholders on [] [], 2019 expires or early terminates.

Hereby authorized.

Name:

Signature: _____

Date: _____, 2019.

Exclusive Technical and Consulting Service Agreement

THIS Exclusive Technical and Consulting Service Agreement (this “**Agreement**”) is made on September 29, 2019 by the following two parties in Shanghai, the People’s Republic of China (“**PRC**”):

1. **Shanghai Quyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Party A**”); and
2. **Anhui Zhangduan Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Party B**”).

Party A and Party B are hereinafter referred to individually as “**a Party**” and collectively as “**Parties**”.

Whereas: Party A is a wholly foreign owned company established in the Republic of China (“**PRC**”), with the necessary and appropriate resources to provide technical and consulting services.

Whereas: Party B is a domestic company established in the PRC, with a business scope of providing services such as information technology, computer science, technical services, technology research, technology transfer, technical consulting, design, make, act as agent for advertisement, making plans for cultural and art exchange, enterprise image, marketing strategy, and so on (the activities conducted by Party B currently or from time to time during the term of this Agreement, collectively “**Main Business**”)

Whereas: Party B wishes to engage Party A to provide Party B with certain technical support and consulting services.

By friendly negotiation, the Parties agree as follows:

1. **Service Provision**

- 1.1 Pursuant to the terms and conditions of this Agreement, during the term of this Agreement, Party B hereby appoints Party A as Party B’s exclusive service provider to provide Party B with comprehensive technical support, business support and related consulting services, which shall include services as determined necessary by Party A from time to time within the approved business scope of Party B, including but not limited to technical services, business consultations, assets equipment leasing, market consultancy, system integration, product research and system maintenance.
- 1.2 Party B agrees to accept the consultations and services provided by Party A. Party B further agrees that during the term of this Agreement, in terms of the services or other matters stipulated in this Agreement, it shall

neither, directly or indirectly, accept any consultation and/or service that is the same as or similar to which under this Agreement provided by any third party, nor establish any similar cooperative relationship with any third party regarding the matters stated in this Agreement without Party A's prior written consent. The Parties agree that Party A may appoint any other party (who may be designated to enter into certain agreements with Party B as described in Article 1.3), to provide Party B with the services and/or supports described under this Agreement.

1.3 Services Delivery

- 1.3.1 Party A and Party B agree that during the term of this Agreement, Party B may further enter into technical service agreement and consulting service agreement with Party A or other parties designated by Party A, as appropriate, in which shall describe the specific contents, manner, personnel and fees for each technical service and consulting service.
- 1.3.2 For better performance of this Agreement, the Parties agree that within the term of this Agreement, Party B will, as appropriate, based on the needs of business development, enter into Equipment/Asset Leasing Agreement with Party A or its designated party pursuant to which Party A or its designated party shall provide related equipment and assets to Party B.
- 1.3.3 Party B hereby grants to Party A an irrevocable and exclusive right to purchase, at Party A's option and in compliance with the laws and regulations of PRC, all or part of Party B's assets and business, at the lowest price as permitted by the PRC law. The Parties will enter into a separate agreement with respect to the terms and conditions of such transfer.
- 1.3.4 Party A has the right to assign part of the services to be performed under this Agreement to a third party.

2. Service Fees and Payment

The Parties agree that in consideration of the all the services provided by Party A to Party B under this Agreement, Party A shall provide bills to Party B on the basis of the price determined by Party A as well as the workload of services provided to Party B. Party B shall pay relevant service fees ("**Service Fees**") to Party A in accordance with the date and amount specified in the bills. Party A may unilaterally make other arrangements with respect to the payment of Service Fees at any time. If Party A adjusts the amount of Service Fees and informs Party B by prior written notice for such adjusted Service Fees, Party B shall pay the Service Fees at the adjusted amount. Service Fees shall be settled monthly on the basis of the actual services provided by Party A to Party B; Party B shall, within 30 days from the last day of each month, (a) provide Party A with the management statement, operating statistics and other financial information for the current month, including the income of Party B during the

month; (b) pay the monthly Service Fees to Party A (“**Monthly Service Fee**”). Party B shall, within 90 days from the end of every financial year, (a) provide Party A with the audited financial statement of the current financial year, which shall be audited and certified by the independent chartered accountant approved by Party A; (b) If according to the audited financial statement, the total amount of the payment by Party B to Party A have any deficiency within the financial year, Party B shall pay Party A the balance.

3. **Intellectual Property and Confidentiality**

- 3.1 To the extent permitted under the PRC law, Party A shall have the exclusive rights and interests in all rights, ownership, interests and intellectual properties arising out of or created during the performance of this Agreement, which shall include, but not limited to, copyrights, patents, patent applications, software, technology secrets, trade secrets and other rights and interests. Party B shall sign all necessary documents, take all appropriate actions, submit all the documents and/or applications, provide all proper assistances and take all other actions solely determined by Party A as necessary to give all the ownership, rights and interests of such intellectual property to Party A, and/or perfect the protection of Party A’s intellectual property rights.
- 3.2 Party B agrees to indemnify Party A for any and all economic losses that Party A suffers as a result of Party B’s infringement of the intellectual property right of any third party (including copyright, trademark, patent and know-how).
- 3.3 The Parties acknowledge and confirm that any oral or written information exchanged between the Parties related to this Agreement, the content of this Agreement, and for preparing or performing this Agreement is confidential information. Each party shall maintain the confidentiality of the information and without the written consent of the other party, it shall not disclose any confidential information to any third parties, excluding the following: (a) any information is or will be acknowledged by the public (provided that it is not the result of a disclosure to the public without authorization made by a party who receives the confidential information); (b) any information required to disclose under the applicable laws and regulations, stock trading rules, or orders of government departments or courts; or (c) information required to be disclosed by any Party to its shareholders, investors, legal or financial counsels regarding the transaction stated in this Agreement, and such shareholders, legal or financial counsels shall also be required to comply with the confidentiality duties similar to the duties contained under this clause. Any disclosure by staff or agencies hired by a Party should be deemed as a disclosure by such party and such party shall be liable for breach of this Agreement. This article shall survive regardless of the termination of this Agreement for any reason.

- 3.4 Both Parties agree that this article shall survive and remain in full force and effect regardless of any modification, rescission or termination of this Agreement.

4. **Representations and Warranties**

4.1 Party A hereby represents and warrants as follows:

- 4.1.1 Party A is an exclusively foreign-owned enterprise legally registered and validly existing in accordance with PRC laws.
- 4.1.2 Party A has taken necessary corporate actions, achieved necessary authorizations, and obtained all consents and approvals by third parties and governmental authorities (if needed) for the execution and performance of this Agreement. The execution and performance of this Agreement by Party A does not violate any specific provision of laws or regulations.
- 4.1.3 This Agreement constitutes legal, valid and binding obligations of Party A, enforceable against it pursuant hereto.

4.2 Party B hereby represents and warrants as follows:

- 4.2.1 Party B is an enterprise legally registered and validly existing in accordance with PRC laws. Party B has obtained the permits and licenses issued by the governmental authorities required for engaging in main business.
- 4.2.2 Party B has taken necessary corporate actions, achieved necessary authorizations, and obtained all consents and approvals by third parties and governmental authorities (if needed) for the execution and performance of this Agreement. The execution and performance of this Agreement by Party B does not violate any specific provision of laws or regulations.
- 4.2.3 This Agreement constitutes legal, valid and binding obligations of Party B, enforceable against it pursuant hereto.

5. **Effectiveness and Term of the Agreement**

- 5.1 This Agreement is executed and taken effect on the date written first above. Unless earlier terminated in accordance with the terms of this Agreement or determined by Party B, this Agreement shall be effective indefinitely.
- 5.2 In case that either Party's business period expires, such Party shall, in a timely manner, to extend its business period to the extent such that this Agreement could be in effect and carried out on an ongoing basis. If either party's application to extend its business term is declined, this

Agreement shall be void and null when the business term of such Party expires.

5.3 The rights and obligations of both Parties under sections 3,6,7,9 and this section 5.3 shall survive after the termination of this Agreement .

6. **Applicable Law and Dispute Resolution**

6.1 The execution, effectiveness, interpretation, implementation, amendment and termination of this Agreement and the resolution of disputes shall be governed by PRC law.

6.2 Any dispute arising from interpretation and implementation of this Agreement shall be firstly solved by both Parties through friendly negotiation. If the dispute cannot be resolved within 30 days after the written notice sent from one party to the other for negotiation and resolution, any party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules then effective. The arbitration shall be conducted in Shanghai and the language used is Chinese. The award of the arbitral tribunal shall be final and binding on both Parties.

6.3 When any dispute arising from interpretation and implementation of this Agreement occurs and when any dispute is under arbitration, except for the matters under dispute, both Parties shall continue to exercise their other rights under this Agreement and perform their other obligations under this Agreement.

7. **Indemnification**

7.1 Party A has the right to terminate this Agreement and/or require Party B to fully indemnify Party A if Party B substantially breach any sections hereof; this section 7.1 shall not preclude any other rights of Party A hereof.

7.2 Unless specifically provided for by applicable laws, Party A has no right, under any circumstances, to terminate or cancel this Agreement.

7.3 Party B shall indemnify in full and hold harmless of Party A for any loss, damage, liability or fee arising from the lawsuits, requests or other demands against Party A arising from the consulting and service provided to Party B according to this Agreement, unless such losses, damages, liabilities or fees are resulting from gross negligence or willful misconduct of Party A.

8. **Force Majeure**

8.1 Neither Party is responsible for any failure to perform its obligation under this Agreement, if it is prevented or delayed in performing those

obligations by an event or circumstance which is beyond the control, unforeseeable, and unavoidable by such Party including, but not limited to, earthquake, typhoon, flood, fire, epidemic, war, strike (“Force Majeure”).

8.2 Where there is an event of force majeure, the Party prevented from or delayed in performing its obligations under this Agreement shall immediately notify the other Party of such event, and within 15 days thereafter provide the other Party with full particulars of the event of force majeure, and the reasons for the event of force majeure preventing that Party from, partially or fully, or delaying that Party in performing its obligations under this Agreement.

8.3 Failure to notify the other Party and to provide the particulars and reasons will subject that Party to liabilities for not fully performing its obligations under this Agreement. The Party claiming an event of force majeure shall use its reasonable efforts to mitigate the effect of the event of force majeure, and upon the termination of such event of force majeure, immediately fulfil its obligation hereunder. Failure to perform its obligations hereunder after the termination of an event of force majeure will subject such Party to liabilities.

9. Notice

9.1 All notices and other communications required or sent under this Agreement shall be delivered personally, registered post, postage paid or business express service or fax to the Party’s following address. Each notice shall also be delivered by email. The dates on which the notices shall be deemed to have been effectively delivered shall be determined as follows:

9.1.1 For notices delivered by personal delivery, express service or registered post, postage paid, the effectively delivered date shall be deemed as the date of delivery or refusal at the address specified for notices.

9.1.2 For the notices delivered by fax, the effectively delivered date shall be deemed as the date of delivered successfully (as evidenced by an automatically generated confirmation of transmission).

9.2 For the purpose of notice, the addresses of the Parties are as follows:

Party A Shanghai Quyun Internet Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

Party B: Anhui Zhangduan Internet Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

9.3 Any Party may at any time change its address for notices by a notice delivered to the other Party in accordance with the terms hereof.

10. **Assignment**

10.1 Without Party A's prior written consent, Party B shall not assign its rights and obligations to any third party.

10.2 Party B hereby agrees that Party A is entitled to assign its rights and obligations under this Agreement to any third party when necessary without prior notice to Party B or consent from Party B.

11. **Severability**

If one or several provisions of this Agreement are found to be invalid, illegal or unenforceable according to any law or regulation in any aspect, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or damaged in any aspect. The Parties shall strive for replacing those invalid, illegal or unenforceable provisions with effective provisions within the highest limit of permission of laws and expectation of both Parties by sincerely negotiation, and the economic effects of such effective provisions shall as close as possible to that of those invalid, illegal or unenforceable provisions.

12. **Amendments and supplements**

Both Parties may make amendments and supplements to this Agreement by written agreement. The amendments and supplements regarding this Agreement executed by both Parties are the constituent parts of this Agreement and shall have equivalent legal effect as this Agreement.

13. **Language and Copies**

This Agreement is written in Chinese in two originals. Each party shall retain one and all the originals shall be equally valid.

[The remainder of this page intentionally left blank.]

[Signature Page]

Shanghai Quyun Internet Technology Co., Ltd.
(Seal)

Signature: /s/ Fei Shen
Name: Fei Shen
Title: Legal Representative

Anhui Zhangduan Internet Technology Co., Ltd.
(Seal)

Signature: /s/ Mengdie Hua
Name: Mengdie Hua
Title: Legal Representative

Exclusive Option Agreement

THIS Exclusive Option Agreement (this “**Agreement**”) is executed on September 29, 2019 by and among the following parties in Shanghai, the People’s Republic of China (“**PRC**”):

1. **Wanting Xu**, Chinese, ID No.: [REDACTED];
2. **Min Gao**, Chinese, ID No.: [REDACTED] (together with Wanting Xu hereinafter referred to as “**Shareholders**”);
3. **Shanghai Quyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Sole Corporation**”); and
4. **Anhui Zhangduan Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Company**”).

In this Agreement, the above parties hereinafter shall be individually referred to as a “**Party**” and collectively referred to as the “**Parties**”.

Whereas:

1. The Shareholders collectively hold 100% equity interests of the Company. As of the date of this Agreement, the amount of contribution and proportion of shareholding in the Company are as stated in Schedule I;
2. The Shareholders intend to grant the Sole Corporation an irrevocable and exclusive option to buy all the equity interest of the Company held by shareholders.

The Parties come to an agreement as follows by friendly negotiation:

1. Sales and Purchase of Equity Interests

1.1 Option Granted

The Shareholders hereby irrevocably grant the Sole Corporation an irrevocable and exclusive right to purchase the equity interest without any additional condition (“**Equity Interest Purchase Option**”), pursuant to which the Sole Corporation is granted to require the Shareholders to perform and complete all the approval and registration procedure required by PRC law so as the Sole Corporation may, at the price stated in Article 1.3 in this Agreement and in accordance with the steps decided solely by itself to the extent permitted by PRC law, to purchase, or designate a person or several persons (each, a “**Designee**”) to purchase, once or at multiple times at any time, all or part of the equity interest held by the Shareholders. The Sole

Corporation agrees to accept such Equity Interest Purchase Option. The Equity Interest Purchase Option shall be exclusive. Except for the Sole Corporation and its Designees, no other third parties shall have the Equity Interest Purchase Option or other rights related to the Shareholders' equity interest. The Company hereby agrees to the Shareholder's grant of the Equity Interest Purchase Option to the Sole Corporation. The term "**Person**" used in this Article and this Agreement shall refer to individuals, corporations, cooperative enterprises, partnerships, enterprises, trusts or non-corporate organizations.

1.2 Steps for Exercise

Subject to the compliance with PRC laws and regulations, the Sole Corporation may exercise its Equity Interest Purchase Option by sending a written notice to the Shareholders ("**Equity Interest Purchase Option Notice**"), in which shall specify: (a) the decision of the Sole Corporation to exercise its Equity Interest Purchase Option; (b) the percentage of equity interest the Sole Corporation intend to purchase from the Shareholders ("**Optioned Interests**"); and (c) the date for purchasing/transferring the Optioned Interests ("**Transferring Date**").

1.3 Equity Interest Purchase Price

When exercising its option, before the Shareholders are required to process the related Industry and Commerce Modification Registration, the Sole Corporation or its appointed entities or persons shall pay the Shareholders the corresponding transfer price which is the lowest price permitted under the PRC law and in accordance with the corresponding percentage of the Company's equity interest to be transferred. The Shareholders agree that upon receiving such amount of transfer price, it shall, following specific instructions of the Sole Corporation, (i) use such transfer price to repay the loan under the Loan Contract (including the amendments, supplements and restatements from time to time) executed by the Shareholders and the Sole Corporation on the same date of this Agreement, and/or (ii) return to the Sole Corporation or its Designees by legal means.

1.4 Transfer of Optioned Interests

For each exercise of the Equity Interest Purchase Option by the Sole Corporation:

1.4.1 the Shareholders shall instruct the Company to convene a shareholders meeting in time, at which a resolution shall be adopted to approve the Shareholder's transfer of the Optioned Interests to the Sole Corporation and/or the Designees.

1.4.2 the Shareholders shall obtain written statements from the other shareholders of the Company in which such shareholders shall agree with such transfer and to waive the right of first refusal in terms of transferring the Optioned Interests to the Sole Corporation and/or the

Designees from the Shareholders.

- 1.4.3 the Shareholders shall execute an Equity Transfer Contract for every transfer with the Sole Corporation and/or (if applicable) the Designee according to the provisions of this Agreement and the Equity Interest Purchase Option Notice.
- 1.4.4 the relevant Parties shall execute all other necessary contracts, agreements or documents, obtain all necessary government permits and approvals and take all necessary actions to transfer the valid ownership of the Optioned Interests to the Sole Corporation and/or the Designees under the circumstances that there is no additional security interests, and cause the Sole Corporation and/or the Designees to become the registered owners of the Optioned Interests. For the purpose of this Article and this Agreement, the “**Security Interests**” shall include securities, mortgages, third party’s rights or interests, any purchase right, acquisition right, right of first refusal, right to offset, ownership retention or other guarantee arrangement; but for sake of clarity, it does not include any security interest created by this Agreement and the Share Pledge Agreement. The “**Share Pledge Agreement**” specified in this Article and this Agreement refers to the Share Pledge Agreement executed by the Sole Corporation, the Shareholders and the Company on the date of this Agreement. (“**Share Pledge Agreement**”)

2. **Covenants**

2.1 Covenants concerning the Company.

The Shareholders and the Company hereby covenant as follows:

- 2.1.1 without prior written consent of the Sole Corporation, not to supplement, change or amend the Company’s articles of association, increase or decrease its registered capital, or change its registered capital structure in any other manner;
- 2.1.2 to maintain the Company’s existence, manage its business and deal with its affairs prudently and effectively in accordance with good financial and business standards and practices;
- 2.1.3 without prior written consent of the Sole Corporation, not to sell, transfer, mortgage, or in any other manner dispose, or to create any other security interest on any asset, business or legal right to collect interests or beneficial interest of the Company at any time after the execution of this Agreement;
- 2.1.4 without prior written consent of the Sole Corporation, not to create, succeed to, guarantee or permit any debt, except for (i) any debt incurred in the course of the ordinary or daily business operation other than through loans, and (ii) any debt disclosed to and agreed by the

Sole Corporation in writing;

- 2.1.5 to manage all the business in the course of the ordinary business operation to maintain the asset value of the Company, not to conduct any action/omission which is sufficient to affect its operating conditions and asset value;
- 2.1.6 without prior written consent of the Sole Corporation, not to execute any material contract, except for contracts executed in the course of the ordinary business operation (a contract will be deemed material if its total value exceeds RMB 1,000,000 in this Article);
- 2.1.7 without prior written consent of the Sole Corporation, not to provide a loan or financial credit to anyone;
- 2.1.8 to provide all material related to operation and financial condition of the Company as required by the Sole Corporation;
- 2.1.9 to purchase and hold, if required by the Sole Corporation, the insurance related to its assets and business from insurance companies acceptable to the Sole Corporation, at an amount and type of coverage typical for companies that operate similar businesses;
- 2.1.10 without prior written consent of the Sole Corporation, not to merge or combine with any person, or acquire or invest in any person with transaction value exceeding US\$2,000,000;
- 2.1.11 to inform the Sole Corporation immediately upon the occurrence or possible occurrence of any litigation, arbitration or administrative proceeding concerning the assets, business or income of the Company;
- 2.1.12 to the extent necessary to maintain the Company's ownership of its all assets, to execute all necessary or appropriate documents, take all necessary or appropriate actions and bring all necessary or appropriate lawsuits or make all necessary and appropriate defense against all claims;
- 2.1.13 without prior written consent of the Sole Corporation, not to distribute dividends in any way to each shareholder, except required by the Sole Corporation, the Company shall immediately distribute all the allocable profit to each shareholder;
- 2.1.14 in the event that the Company admits any new shareholder with the prior written consent of the Sole Corporation, to procure that the new shareholder sign an accession agreement to accede to this Agreement and assume the same obligations under this Agreement as the Shareholders;
- 2.1.15 to appoint anyone designated by the Sole Corporation to be the director or senior manager of the Company as required by the Sole

Corporation;

- 2.1.16 not to engage in any business or activities that compete with the business of the Sole Corporation without the written consent of the Sole Corporation; and
- 2.1.17 not to dissolve the company or applying for a liquidation without the written consent of the Sole Corporation, unless mandatorily required by PRC laws.

2.2 Covenants concerning the Shareholders

The Shareholders hereby covenant as follows:

- 2.2.1 without prior written consent of the Sole Corporation, not to sell, transfer, mortgage, or in any other manner dispose, or to create any security interest on the legal interest or beneficial interest of the shares of the Company held by the Shareholders, except for the pledge set according to the Shareholder's Share Pledge Agreement;
- 2.2.2 to procure the Company's Shareholders Meeting and/or Board of Directors to disapprove to sell, transfer, mortgage, or in any other manner dispose, or to create any security interest on the legal interest or beneficial interest of the equity interest of the Company held by the shareholders without prior written consent of the Sole Corporation, except for the pledge set according to the Shareholder's Share Pledge Agreement;
- 2.2.3 without prior written consent of the Sole Corporation, to procure the Company's Shareholders Meeting or the Board of Directors not to approve the Company to merge or combine with, acquire or invest in, any person;
- 2.2.4 to inform the Sole Corporation upon the occurrence or possible occurrence of any litigation, arbitration or administrative proceeding concerning the equity interest they held;
- 2.2.5 to procure the Company's Shareholders Meeting or the Board of Directors to vote to approve the transferring of the Optioned Interest stated in this Agreement and take any other action as required by the Sole Corporation;
- 2.2.6 to the extent necessary to maintain its ownership of the equity interests, to execute all necessary or appropriate documents, take all necessary or appropriate actions and bring all necessary or appropriate lawsuits or make all necessary and appropriate defense against all claims.
- 2.2.7 to appoint anyone designated by the Sole Corporation to be the

director and/or the executive director of the Company as required by the Sole Corporation.

- 2.2.8 as required by the Sole Corporation at any time, to transfer its equity interest immediately to the representative appointed by the Sole Corporation at any time without any condition according to the Equity Interest Purchase Option under this Agreement and waive its right of first refusal of transferring corresponding equity interest of any other shareholder;
- 2.2.9 to, in compliance with applicable PRC laws, donate the profits, dividend, and distributions from liquidation of the Company to the Sole Corporation or a person designated by the Sole Corporation in a timely manner; and
- 2.2.10 to strictly comply with this Agreement and any provision of other contracts executed by the Shareholders, the Company and the Sole Corporation jointly or respectively, to practically perform each of the obligations under such contracts and do not conduct any action/omission which is sufficient to affect the validity and enforceability of such contracts;

3. **Representations and Warranties**

The Shareholders and the Company hereby represent and warrant to the Sole Corporation, jointly and respectively, as of the date of this Agreement and as of each Transferring Date, that:

- 3.1 They have the authority to execute and deliver this Agreement, any share transfer contract executed for each assignment of the Optioned Interests (each referred to as a “**Transfer Contract**”) to which they are parties according to this Agreement, and have the authority and ability to perform their obligations under this Agreement and any of the Transfer Contracts. The Shareholders and the Company agree to enter into the Transfer Contracts consistent with the terms of this Agreement when the Sole Corporation exercises the purchase options. This Agreement and the Transfer Contracts to which they are parties constitute or shall constitute their legal, valid and binding obligations and shall be enforceable against them in accordance with the provisions upon execution;
- 3.2 The execution and delivery of this Agreement or any of the Transfer Contracts and the performance of the obligations under this Agreement or any of the Transfer Contracts shall not: (i) cause the violation of any related PRC law; (ii) be inconsistent with the articles of association or other constitutional documents; (iii) cause the violation of any contract or document to which they are parties or are binding to them, or constitute breach of contract under any contract or document to which they are parties or are binding to them; (iv) cause the violation of any condition for the grant and/or continued effectiveness of any permit or approval issued to any party; or (v) cause the suspension, or revocation of, or additional conditions to any

permit or approval issued to any party;

- 3.3 The shareholders have a good and merchantable title on the equity interest of the Company, and have not placed any security interest on such equity interests except for the pledge set pursuant to Shareholders' Share Pledge Agreements;
- 3.4 The Company has a good and merchantable title to all the assets and the Company has not set any security interest on such assets.
- 3.5 The Company does not have any outstanding debt, except for (i) debts incurred in the ordinary course of business, and (ii) debts disclosed to and agreed by the Sole Corporation in writing;
- 3.6 The Company complies with all the laws and regulations applicable to the acquisition of equity interest and assets; and
- 3.7 There are no pending or threatening lawsuits, arbitrations or administrative proceedings related to equity interest, assets of the Company or the Company at present.

4. Effective Date

This Agreement shall come into effect upon the execution of this Agreement of the Parties, and remain effect and force until the Shareholders have transferred the whole Equity Interest in accordance with terms of this Agreement to the Sole Corporation or designated person of the Sole Corporation.

5. Applicable Law and Dispute Resolution

5.1 Applicable Law

The execution, effectiveness, interpretation, implementation, amendment and termination of this Agreement and the resolution of disputes shall be governed by officially issued PRC laws publically available. For the matters that are not regulated under officially issued PRC laws publically available, International laws and conventions shall apply.

5.2 Dispute Resolution

Any dispute arising from interpretation and implementation of this Agreement shall be firstly solved by the Parties through friendly negotiation. If the dispute cannot be resolved in 30 days after the written notice sent from one party to the other for negotiation and resolution, any party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules then effective. The arbitration shall be conducted in Shanghai and the language used is Chinese. The award of the arbitral tribunal shall be final and binding on the Parties.

6. **Taxes and Expenses**

Each Party shall pay any and all of the taxes, costs and expenses for transfer and registration incurred thereby or levied thereon under PRC law in connection with the preparation and execution of this Agreement and other Transfer Contracts and the consummation of the transactions contemplated under this Agreement and other Transfer Contracts.

7. **Notice**

10.1 All notices and other communications required or sent under this Agreement shall be delivered personally, registered post, postage paid or business express service or fax to the Party's following address. Each notice shall also be delivered by email. The dates on which the notices shall be deemed to have been effectively delivered shall be determined as follows:

7.1.1 For notices delivered by personal delivery, express service or registered post, postage paid, the effectively delivered date shall be deemed as the date of delivery or refusal at the address specified for notices.

7.1.2 For the notices delivered by fax, the effectively delivered date shall be deemed as the date of delivered successfully (as evidenced by an automatically generated confirmation of transmission).

7.2 For the purpose of notice, the addresses of the Parties are as follows:

Shareholders:

Wanting Xu

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

Min Gao

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

The Sole Corporation: Shanghai Quyun Internet Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

The Company: Anhui Zhangduan Internet Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

7.3 Any Party may at any time send notice to other Parties in accordance with this Article to change its address for the purpose of receiving notices.

8. Confidentiality

Each Party hereto acknowledges and confirms to treat any oral or written materials relating to this Agreement, the content of this Agreement and exchanged among for preparing or performing this Agreement as confidential information. Each party shall maintain the confidentiality of all such confidential information and not disclose any confidential information to any third party without the written consent of the other Parties, except for (a) any information is or will be acknowledged by the public (provided that it is not a result of a disclosure to the public without authorization made by a party who receives the confidential information); (b) any information required to disclose under the applicable laws and regulations, stock trading rules, or orders of government departments or courts; or (c) information required to be disclosed by any Party to its shareholders, investors, legal or financial counsels regarding the transaction stated in this Agreement, and such shareholders, legal or financial counsels shall also be required to comply with the confidentiality duties similar to the duties contained under this clause. Any disclosure by staff or agencies hired by a Party should be deemed as a disclosure by such party and such party shall be liable for breach of this Agreement. This article shall survive regardless of the termination of this Agreement for any reason.

9. Further Covenants

The Parties agree to promptly execute documents that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement and take further actions that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement.

10. Liability of Breach

10.1 The Sole Corporation has the right to terminate this Agreement and/or require the Shareholders and the Company to fully indemnify the Sole Corporation if the Shareholders or the Company substantially breach any sections hereof; this section 10 shall not preclude any other rights of the Sole Corporation hereunder.

10.2 Unless otherwise provided for by applicable laws, the Shareholders or the Company have no right to terminate or cancel this Agreement.

11. Miscellaneous

11.1 Revision, Amendment and Supplement

Any revision, amendment or supplement to this Agreement shall be executed in a written agreement by each Party.

11.2 Entire Contract

Except for the revisions, supplements or amendments in writing executed after the execution of this Agreement, this Agreement shall constitute an

entire contract reached by and among the Parties hereto with respect to the subject matter hereof, replacing all prior oral or written negotiations, statements and contracts beforehand in terms of the object of this Agreement.

11.3 Title

The title of this Agreement is only set for convenience, which shall not be used to interpret, state or otherwise affect the meaning of all the provisions in this Agreement.

11.4 Language

This Agreement is written in Chinese in four (4) originals. Each Party of this Agreement shall have one (1) and all the originals shall have equal legal validity.

11.5 Severability

If one or several provisions of this Agreement are found to be invalid, illegal or unenforceable according to any law or regulation in any aspect, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or damaged in any aspect. The Parties shall strive for replacing those invalid, illegal or unenforceable provisions with effective provisions within the highest limit of permission of laws and expectation of the Parties by sincerely negotiation, and the economic effects of such effective provisions shall as close as possible to that of those invalid, illegal or unenforceable provisions.

11.6 Assignment

Without prior written consent from the Sole Corporation, the Shareholders or the Company are not allowed to transfer any right and/or obligation under this Agreement to any third party; the Shareholders and the Company hereby agree that the Sole Corporation has the right to transfer its any right and/or obligation under this Agreement to any third party without prior notice to the Shareholders or the Company or their consent.

11.7 Successors

This Agreement shall be binding on the successor of each party and the permitted transferee.

11.8 Survival

11.8.1 Any obligation caused or due by this Agreement upon the expiration or early termination of this Agreement shall survive and remain in force after the expiration or early termination of this Agreement.

11.8.2 Article 5, 7, 8 and 11.8 of this Agreement shall survive and remain

in force after the termination of this Agreement.

11.9 Waivers

Any Party may waive the terms and conditions of this Agreement in writing with signatures of the Parties. No waiver by any Party in certain circumstances with respect to a breach by other Parties shall operate as a waiver by such a Party with respect to any similar breach in other circumstances.

[The remainder of this page intentionally left blank.]

[Signature Page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

Wanting Xu

Signature: /s/ Wanting Xu

Min Gao

Signature: /s/ Min Gao

Shanghai Quyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Fei Shen

Name: Fei Shen

Title: Legal Representative

Anhui Zhangduan Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Mengdie Hua

Name: Mengdie Hua

Title: Legal Representative

Schedule I

Company Name: Anhui Zhangduan Internet Technology Co., Ltd.

Shareholding Structure:

Shareholder Name	Amount of Contribution of Company's registered capitals (RMB/Yuan)	Shareholding Ratio
Wanting Xu	6,000,000	60%
Min Gao	4,000,000	40%
Total	10,000,000	100%

LOAN AGREEMENT

THIS Loan Agreement (this “**Agreement**”) is executed on September 29, 2019 in Shanghai, the People's Republic of China (“**PRC**”) by and among the following parties:

1. **Wanting Xu**, Chinese, ID No.: [REDACTED];
2. **Min Gao**, Chinese, ID No.: [REDACTED] (together with Wanting Xu hereinafter referred to as “**Borrower**”); and
3. **Shanghai Qyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Lender**”).

In this Agreement, the above parties are individually referred to as a “**Party**” and are collectively referred to as “**Parties**”.

Whereas:

1. The Lender is a wholly foreign-owned enterprise registered and established under the PRC law;
4. As of the date of this Agreement, the Borrowers collectively own 100% of the equity interests in the Anhui Zhangdian Internet Technology Co., Ltd. (the “**Domestic Company**”), and their respective capital contribution amount and shareholding ratios are shown in Schedule I attached hereto;
2. The Lender intends to provide the Borrowers with a loan for the purposes as specified in this Agreement.

Therefore, the Parties reached the agreements through negotiation as follows:

Article 1

Definitions

- 1.1 In this Agreement:

“**Loan**” means any and all loans provided by the Lender to the Borrower under this Agreement;

“**Due date**” shall have the meaning under Article 4.1 of this Agreement;

“**Notice of Repayment**” shall have the meaning under Article 4.2 of this Agreement;

“**Repayment Application**” shall have the meaning under Article 4.3 of this Agreement.

- 1.2 Relevant capitalized terms used and mentioned herein shall have the meanings
-

given to them as below:

“**Articles**” shall be interpreted as articles in this Agreement unless the context of this Agreement stipulates otherwise;

“**Taxes and Fees**” shall be interpreted as a charge of any tax, fee, tariff, or other charges of equivalent nature (including, but not limited to, any fine or interest relating to the taxes and fees that are not paid or delayed).

The “**Borrower**” or “**Borrowers**” and the “**Lender**” shall be interpreted as including successors and assignees of all Parties.

- 1.3 Unless otherwise specified, any reference made herein to this Agreement or any other agreement or document shall, depending on the situation, be interpreted as references made to the amendments, changes, substitutions or supplements that have been made or could be made from time to time to this Agreement or to such other agreements or documents.

Article 2 **Loan**

- 2.1 Based on the terms and conditions of this Agreement, the Lender agrees to provide loans to the Borrowers in accordance with the terms and conditions stipulated herein. The actual amount of the Loan shall be separately determined by the Borrowers and the Lender in written. The Borrowers agree to accept the aforesaid Loan provided by the Lender in accordance with the conditions and terms stipulated in this Agreement and to provide funds to the Domestic Company to develop its business. Without the consent of the Lender, the Borrower shall not use the Loan for any purpose other than those stipulated herein.
- 2.2 The Parties confirm that the Borrowers shall perform repayment obligations and other obligations under this Agreement to the Lender in accordance with the provisions of this Agreement.
- 2.3 According to the requirements of the Lender, the Borrowers has executed an Equity Pledge Agreement with the Lender, the Domestic Company and other shareholders of the Domestic Company on the date the same as the execution date hereof, pursuant to which the Borrowers have pledged all the shares of the Domestic Company owned by them to the Lender as a guarantee for the Loan.

Article 3 **Interest**

Unless otherwise agreed herein, the Lender acknowledges and confirms that the Loan under this Agreement shall be free of any interest whatsoever.

Article 4 **Repayment**

- 4.1 Unless the Parties unanimously agree to extend the Loan, any loan under this Agreement shall be fully repaid by the Borrowers at one time on one of the following dates whichever occurs earlier (“**Due Date**”): (i) upon the expiration of ten (10) years after the execution of this Agreement, or (ii) upon the

expiration of the operation term of the Lender, or (iii) upon the expiration of the operation term of the Domestic Company. Under such circumstance, to the extent that there is no violation of applicable laws and regulations, the Lender shall have the right to purchase or appoint a third party to purchase all the shares of the Domestic Company held by the Borrowers at that time at the lowest price permitted by the laws and regulations. The Parties agree to sign a separate agreement with other relevant parties with regard to the above matters.

- 4.2 From the execution date of this Agreement to the Due Date, the Lender may, at any time, decide to accelerate the maturity of the Loan on its absolute sole discretion by issuing a notice of repayment (“**Repayment Notice**”) to the Borrowers thirty (30) days in advance, requiring the Borrowers to repay part or all of the Loan amount. Under the circumstance that the Lender requests the Borrowers to repay according to the aforesaid provisions, the Parties agree and confirm that the Borrowers shall repay the Loan provided by the Lender to the Borrowers hereunder only by way of the following: to the extent permitted under PRC laws and regulations, the Borrowers shall, according to the requirements specified in the written notice of the Lender, transfer the equity interests of the Domestic Company to the Lender or its designated person, and repay the Loan hereunder to the Lender with the proceeds gained from their equity transfer. The Lender shall provide unconditional financial support to the Domestic Company based on this Agreement or any other agreement. Regardless of any provision otherwise agreed under this Agreement, the Lender irrevocably agrees that, if Borrowers are not able to (i.e. not permitted by law) repay the Loan in accordance with the provisions of this Agreement, it shall waive the right of requesting the repayment of the Borrowers.
- 4.3 When the Loan is due and the Borrowers are required to transfer the equity interests to the Lender or the person designated by the Lender, if, due to legal requirements or other reasons, the actual transfer price of the equity interests (the “**Equity**”) of the Domestic Company received by the Borrowers is higher than the principal of the Loan, the difference between the proceeds obtained from the Borrowers’ assignment of the Equity and the principal of the Loan shall be deemed as the interest of the Loan or as the cost for the occupation of funds, and shall be repaid to the Lender along with the principal of the Loan.
- 4.4 The Borrowers shall repay the aforementioned corresponding amount in cash or repay it in other forms determined by the resolution made by the Lender’s board of directors appropriately.
- 4.5 When the Borrowers repay the aforementioned corresponding amount in accordance with this Article 4, all Parties shall complete the agreed equity transfer matters at the same time, and ensure that the payment has been fully made. Meanwhile, the Lender or the third party designated by the Lender shall have legally and completely accepted the Equity of the Domestic Company according to the above-mentioned agreement, and there is no pledge or any other encumbrance on such equity interest. The Borrowers shall provide all reasonable assistance according to the foregoing agreement for the equity transfer of the Domestic Company, and cause other shareholders of the Domestic Company to waive their rights of first refusal.

4.6 Only when the Borrowers transfer all the equity interests in the Domestic Company they hold to the Lender or the third party designated by the Lender in accordance with this Article 4, and after the Loan is fully repaid (including the principal of the Loan and the maximum interest or cost of funds of the Loan as allowed by the applicable law at that time), it shall be deemed as a complete performance of the Borrower's repayment obligations under this Agreement.

Article 5 Taxes and Fees

All taxes and fees related to the Loan shall be borne by the Lender.

Article 6 Confidentiality

6.1 Whether or not this Agreement has been terminated, the Borrowers shall maintain confidentiality of all the information relating to the Lender's trade secret, proprietary information, client information ("**Confidential Information**") known to or obtained by the Borrowers during the course of execution and performance of this Agreement. The Borrowers shall only use such Confidential Information for purpose of their performance of their obligations hereunder. Without the Lender's written consent, any of the Borrowers shall not disclose any Confidential Information to any third party, otherwise such Borrower shall bear the default liabilities and compensate the losses incurred to the Lender.

6.2 The following information is not deemed as Confidential Information:

- (a) Any information is known and obtained by the recipient previously through legitimate form which could be evidenced by proof;
- (b) Information of the public which is not due to the recipient's fault; or
- (c) Information obtained through other legitimate form by the recipient after the recipient received the information.

6.3 Subsequent to the termination of this Agreement, the Borrowers shall return, destroy all the documents, materials or software containing the Confidential Information or dispose in other corresponding ways upon request from the Lender, and refrain from using such Confidential Information.

6.4 Notwithstanding any other provision hereunder, the effect of this Article 6 shall not be influenced by suspension or termination of this Agreement.

Article 7 Representations and Warranties

7.1 The Borrowers hereby irrevocably covenant and warrant that, without the prior written consent from the Lender, the Borrowers shall not make or authorize other person (including but not limited to the director of the Domestic Company nominated by the Lender) to make any resolution, instruction, consent or order in any way, to prompt the Domestic Company to make any transaction which

will or may substantially affect the assets, rights, obligations or business (“Prohibited Transactions”) of the Domestic Company (including their branches and/or subsidiaries), including but not limited to:

- (1) borrow money from a third party or undertake any debt (except for the debts or guarantees arising from normal daily business activities and beyond the annual budget which amount does not exceed RMB 10,000,000 each);
- (2) provide guarantees to third parties for its own debt or provide any guarantee to a third party;
- (3) transfer any business, major assets, actual or potential business opportunities to a third party;
- (4) transfer or license any domain name, trademark, or other intellectual property (if any) that are legally owned by the Domestic Company to a third party;
- (5) transfer part or all of its equity interests in the Domestic Company to a third party;
- (6) any other major transaction;

or shall not execute any agreement, contract, memorandum or other form of transaction documents (“**Prohibited Document**”) concerning the Prohibited Transaction, and shall not indulge the process of any Prohibited Transaction or the execution of any Prohibited Document by any omission.

7.2 It will cause the directors and managers of the Domestic Company to strictly abide by this Agreement when performing their duties as the directors or managers, and do not conduct any action or omission which is contrary to any covenant aforementioned in any way.

Article 8

Notice

8.1 All notices and other communications required or sent under this Agreement shall be delivered personally, through registered mail, postage paid or business express service or fax to the Party’s following address. Each notice shall also be delivered by email at the same time. The dates on which the notices deemed to have been effectively delivered shall be determined as follows:

8.1.1 For notices delivered by personal delivery, express service or registered mail, postage paid, the effective delivery date shall be deemed as the date of delivery or refusal of receipt at the address specified for notices.

8.1.2 For notices delivered by fax, the effective delivery date shall be the date of successful transmit (as evidenced by an automatically generated confirmation of transmission)

8.2 For the purpose of notice, the addresses of the Parties are as follows:

The Borrowers:

Wanting Xu
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

Min Gao
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

The Lender: Shanghai Quyun Internet Technology Co., Ltd.
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

8.3 Any Party may at any time change its address for notices by a notice delivered to the other Parties in accordance with the terms hereof.

Article 9 Default Liability

9.1 The Borrowers covenant that it will undertake the corresponding liability to compensate to the Lender for any action, charge, claim, cost, damage, request, fee, liability, loss and procedure suffered or caused by the Borrower's violation of any obligation under this Agreement.

9.2 Notwithstanding any other provision of this Agreement, the effectiveness of this Article will not be influenced by suspension or termination of this Agreement.

Article 10 Miscellaneous

10.1 This Agreement is written in Chinese and executed in three (3) copies. Each party of this Agreement shall have one (1) and all the copies shall have equal legal effect.

10.2 The conclusion, effectiveness, implementation, modification, interpretation and termination of this Agreement shall all be governed by PRC laws.

10.3 Any dispute arising under this Agreement or related to this Agreement shall be resolved through negotiation among the disputing Parties. If the disputing Parties cannot reach an agreement within thirty (30) days after the dispute arose, the dispute shall be submitted to China International Economic and Trade Arbitration Commission. The arbitration shall be conducted in Shanghai according to the valid arbitration rules when submitting. The award of the arbitral tribunal shall be final and binding on all disputing Parties.

- 10.4 Any right, power, and remedy given to the Parties by any provision in this Agreement shall not exclude any other right, power or remedy the Party enjoys in accordance with the laws and other provisions under this Agreement. In addition, the exercise by one Party of its rights, powers and remedies shall not exclude such Party's exercise of other rights, powers and remedies it enjoys.
- 10.5 Any Party's failure or delay to exercise any right, power and remedy enjoyed by this Agreement or laws ("**Such Party's Rights**") will not cause waiver of such rights. In addition, waiver of any single or part of Such Party's Right will not exclude such Party's exercising of such rights in other ways and exercising other rights.
- 10.6 The title of Articles in this Agreement is only set for reference only, and such titles shall not be used to or affect the interpretation of Articles in this Agreement under any circumstance.
- 10.7 Each Article of this Agreement can be severable and independent from any other Article. If at any time any one or several Articles of this Agreement are found to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining Articles of this Agreement shall not be affected thereby.
- 10.8 This Agreement and the schedules hereof shall replace all verbal or written agreements, understandings and communications which covenanted previously by all Parties in respect of the standard contents of this Agreement and its schedules. Any amendment and supplement to this Agreement shall be made in writing and shall take effect after properly executed by the Parties hereto.
- 10.9 Without the prior written consent from the Lender, any Borrower shall not transfer any of its rights and/or obligations under this Agreement to any third party; The Lender shall have the right to transfer any of its rights under this Agreement to any third party it designated without prior notice to any Borrower or consent from any Borrower.
- 10.10 This Agreement shall be binding on legitimate assignees or successors of the Parties.

[The remainder of this page intentionally left in blank.]

[Signature Page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

Wanting Xu

Signature: /s/ Wanting Xu

Min Gao

Signature: /s/ Min Gao

Shanghai Quyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Fei Shen

Name: Fei Shen

Title: Legal Representative

The Signature Page of Loan Agreement

SCHEDULE I

Company Name: Anhui Zhangduan Internet Technology Co., Ltd.

Shareholding Structure:

Shareholder Name	Amount of Contribution of Company's registered capitals (RMB/Yuan)	Shareholding Ratio
Wanting Xu	6,000,000	60%
Min Gao	4,000,000	40%
Total	10,000,000	100%

Share Pledge Agreement

THIS Share Pledge Agreement (this “**Agreement**”) is executed on January 1, 2019 by and among the following parties in Shanghai, the People’s Republic of China (the “**PRC**” or “**China**”):

1. **Biao Liu**, Chinese, ID No.: [REDACTED];
2. **Zhongyuan Zhang**, Chinese, ID No.: [REDACTED] (together with Biao Liu hereinafter referred to respectively or collectively as “**Pledgor**” or “**Pledgors**”); and
3. **Shanghai Quyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (the “**Pledgee**”); and
4. **Shanghai DragonS Information Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Company**”).

In this Agreement, the above parties hereto may be individually referred to as a “**Party**” and collectively referred to as the “**Parties**”.

Whereas:

1. The Pledgors are registered shareholders of the Company, collectively hold 100% of the Company’s equity interests. As of the date of this Agreement, the respective amount of capital contribution and proportion of shareholding of the Pledgors in the Company are as stated in Schedule I.
2. Pursuant to the Exclusive Option Agreement (including the Agreement itself and any of its amendments or restatements, hereinafter referred to as the “**Option Agreement**”) executed by and among the Parties on the date of this Agreement, the Pledgors and/or the Company shall, as per requested by the Pledgee and to the extent permitted under the PRC law, transfer all or part of the equity interest held by the Pledgors and/or all or part of the assets in the Company to the Pledgee and/or any other entity or individual designated by the Pledgee.
3. Pursuant to the Loan Agreement (including the Agreement itself and any of its amendments or restatements, hereinafter referred to as the “**Loan Agreement**”) executed by the Pledgors and the Pledgee on the date of this Agreement, the Pledgee agrees to provide loans to the Pledgors in accordance with the terms and conditions stipulated in the Loan Agreement.
4. Pursuant to the Voting Rights Proxy Agreement (including the Agreement itself and any of its amendments or restatements, hereinafter referred to as the “**Voting Rights Proxy Agreement**”) executed by the Parties on the date of this Agreement, the Pledgors have irrevocably and fully authorized the person appointed by the Pledgee at that time to represent the Pledgors to exercise all their voting rights as shareholders in the Company.

5. Pursuant to the Exclusive Technical and Consulting Services Agreement (including the Agreement itself and any of its amendments or restatements, hereinafter referred to as the “**Consulting Services Agreement**”) executed by the Company and the Pledgee on the date of this Agreement, the Company has exclusively engaged the Pledgee to provide the Company relevant technical support and consultation services, and has agreed to pay corresponding service fees to the Pledgee for such provision of services.
6. To secure the performance of the Pledgors and the Company of the Contractual Obligations (as defined below) and the repayment of the Secured Indebtedness (as defined below), the Pledgors agree to pledge all of their equity interests in the Company in favor of the Pledgee, and grant the Pledgee the first priority right of pledge.

By friendly negotiation, the Parties agree as follows:

1. Definitions

Unless otherwise provided herein, the following words and terms shall have the respective meanings set forth below:

- 1.1 “**Contractual Obligations**” means all Contractual Obligations of the Pledgors and/or the Company under the Loan Agreement, the Consulting Service Agreement, the Option Agreement, the Voting Rights Proxy Agreement and this Agreement (and any of its amendments or restatements thereof).
- 1.2 “**Pledge**” means the security interest granted by the Pledgors to the Pledgee in accordance with Article 2 of this Agreement, which refers to the right to be compensated on a preferential basis with the conversion, auction or sales price of the equity interest enjoyed by the Pledgee.
- 1.3 “**Transaction Agreements**” means the Loan Agreement, the Option Agreement, the Voting Rights Proxy Agreement and the Consulting Service Agreement.
- 1.4 “**Secured Indebtedness**” includes all service fees as well as the interests incurred accordingly that shall be payable to the Pledgee and the repayment of the loan along with the interests incurred that shall be made by the Pledgors to the Pledgee under the Transaction Agreements; the amount of all direct, indirect and predictable loss of benefits arising out of any Event of Default (as defined below) caused by the Pledgors and/or the Company as determined by the Pledgee on its sole discretion (to the extent permitted by PRC law) which shall be fully binding on the Pledgors and the Company; all expenses of the Pledgee incurred from forcing the the Pledgors and/or the Company to perform the Contract Obligations, and fees and expenses for the enforcement of the Pledge (including but not limited to the legal fees, arbitration fees, costs of assessment and auction of the Pledged Interests and etc.).
- 1.5 “**Pledged Interests**” means all of the Company’s equity interests legally owned by the Pledgors as of the date of effectiveness of this Agreement which shall, pursuant to this Agreement, be pledged to the Pledgee as collateral security for the performance of the Contractual Obligations (as specifically stated in Schedule I).

- 1.6 “**Term of the Pledge**” refers to the term set forth in Article 3 of this Agreement.
- 1.7 “**Event of Default**” refers to any of the circumstances listed in Article 7 of this Agreement.
- 1.8 “**Notice of Default**” refers to the notice issued by the Pledgee in accordance with this Agreement declaring an Event of Default.

2. **Pledge of Equity Interests**

Pursuant to this Agreement, the Pledgors hereby agree to pledge, all of the equity interest which are legally held and are entitled to be disposed by the Pledgors (collectively representing 100% equity interest in the Company) to the Pledgee, as a jointly liability guarantee to secure the performance of the Contractual Obligations and the repayment of the Secured Indebtedness of the Pledgors and the Company.

3. **Term of the Pledge**

- 3.1 This Pledge shall become effective on such date when the pledge of the equity interest contemplated herein is registered with competent authority of Administration for Industry and Commerce (“**AIC**”). The Pledge shall continue until all Contractual Obligations have been fully performed by the Pledgors and the Company and all Secured Indebtedness have been paid in full, or all of the Transaction Agreements have been terminated or turned invalid, or the Contractual Obligations have been terminated for legal reasons.
- 3.2 The Pledgors and the Company shall (1) record the Pledge made under this Agreement on the Company’s register of shareholders when appropriate after the execution of this Agreement, and (2) file the Pledge with the appropriate AIC to complete the pledge registration of the Pledged Interests under this Agreement after the execution of this Agreement when appropriate. Such registration of Pledged Interests shall be completed within 20 working days after the date of this Agreement or other time period agreed by the Parties, and the certification documents concerning the registration with AIC shall be delivered to and kept by the Pledgee. The Parties jointly confirm that, in order to complete the procedure of pledge registration with AIC, the Parties and other shareholders of the Company shall submit this Agreement, or, a Pledge Contract executed in the way complying with the requirements of the AIC of the registered place of the Company in which truly reflects the information of the Pledge under this Agreement (“**Pledge Agreement for AIC Registration**”) to AIC. Matters that are not specified in the Pledge Agreement for AIC Registration shall be subject to the provisions of this Agreement. The Pledgors and the Company shall, as per required by relevant AIC and pursuant to the PRC laws and regulations, submit all necessary documents and complete all necessary procedures to ensure that the Pledge will be registered as soon as possible after filing the application.
- 3.3 In case of any Event of Default, the Pledgee shall be entitled to dispose the Pledged Interests in accordance with Article 8 of this Agreement.

- 3.4 Within the Term of Pledge, the Pledgors may, after obtaining prior consent from the Pledgee, receive dividends, bonuses or other profits generated from the Pledged Interests. The Pledgors agree that during the duration of the pledge of the equity interests, the Pledgee shall have the right to receive any dividend or bonus generated from the Pledged Interests. The Company shall pay such portion of fund to the bank account designated by the Pledgee.

4. Custody of Pledge Certificate

Within the Term of Pledge set forth in this Agreement, the Pledgors shall deliver the capital contribution certificate for the equity interest in the Company and the register of shareholders containing the Pledge to the Pledgee for the Pledgee's custody of such items. The Company shall not set up any register of shareholders other than the aforesaid one. The Pledgors shall deliver the above-mentioned capital contribution certificate and the register of shareholders to the Pledgee on the date of this Agreement, and the Pledgee shall maintain custody of such items throughout the entire Term of Pledge.

5. Representations and Warranties of the Pledgors

- 5.1 The Pledgors are the legal owners of the Pledged Interests and there is no existing dispute in relation to the ownership of the Pledged Interests.
- 5.2 The Pledged Interests are free to be pledged and transferred according to laws, and the Pledgors have full rights and authorities to pledge the Pledged Interests to the Pledgee in accordance with the provisions of this Agreement.
- 5.3 The Pledgors have not placed any right of pledge or other security interests on the Pledged Interests except for the Pledge.
- 5.4 The Pledge under this Agreement constitutes the first priority right of pledge placed on the Pledged Interests.
- 5.5 The Pledgors and the Company warrant to the Pledgee that the above-mentioned representations and warranties are true and correct and will be completely complied with in any case before the Contract Obligations have been fully performed or the Secured Indebtedness has been completely repaid.

6. The Pledgors' Covenants and Acknowledgements

- 6.1 The Pledgors hereby covenant to the Pledgee, that during the term of this Agreement, the Pledgors shall:
- 6.1.1 not transfer the Pledged Interests or create or permit the existence of any guarantee or other encumbrance on the Pledged Interests without prior written consent from the Pledgee, except for the performance of the Option Agreement;

- 6.1.2 comply with and execute all the laws and regulations applicable to the pledge of rights, present the notice, order or recommendation issued or promulgated by relevant competent authorities regarding the Pledge to the Pledgee within 5 days upon receipt such item, and comply with the aforementioned notice, order or recommendation, or, as per reasonable requested or consent of the Pledgee, submit objections and representations with respect to the aforementioned matters;
- 6.1.3 promptly notify the Pledgee of any event or notice received by the Pledgors that may have an impact on the Pledgee's rights to the equity interests or any portion thereof, and any event or notice received by the Pledgors that may have an impact on any warrant, obligation of the Pledgors or their performance of this Agreement.
- 6.2 The Pledgors agree that the right enjoyed by the Pledgee under the terms of this Agreement with respect to the Pledge shall not be interrupted or harmed by the Pledgors or any successor or representative of the Pledgors or any other person through any legal proceeding.
- 6.3 The Pledgors guarantee the Pledgee that, in order to protect or perfect the security interests granted under this Agreement securing the payment of the consulting and service fees under the Transaction Agreements, the Pledgors agree to execute in good faith and to cause other parties who have an interest in the Pledge to execute all certificates, agreements, and/or perform and cause other parties who have an interest in the Pledge to perform as required by the Pledgee. The Pledgors further agree to facilitate the exercise by the Pledgee of its rights and authorities granted thereto by this Agreement, and to enter into all relevant documents regarding the ownership of equity interest with the Pledgee or designees of the Pledgee (individuals/legal entities). The Pledgors agree to provide the Pledgee within a reasonable time with all notices, orders and decisions regarding the Pledge that are required by the Pledgee.
- 6.4 The Pledgors guarantee the Pledgee that the Pledgors will comply with and perform all the guarantees, promises, agreements, representations and conditions under this Agreement. If the Pledgors is not performing or fail to fully perform its guarantees, promises, agreements, representations and conditions, the Pledgors shall compensate the Pledgee for all losses suffered thereby.

7. Event of Default

- 7.1 Each of the following circumstances shall be considered as Event of Default:
 - 7.1.1 Any breach of any of the Pledgors and/or the Company of any Contractual Obligation under the Loan Agreement, the Option Agreement, the Voting Rights Proxy Agreement, the Consulting Service Agreement, and/or this Agreement (and any amendment or restatement thereof);
 - 7.1.2 Except for Article 6.1.1 of this Agreement, any waiver of the Pledgors of the Pledged Interests or any transfer or intended transfer of the Pledged Interests without written consent from the Pledgee;

- 7.1.3 Any external loan, guarantee, compensation, commitment or other payment liability of any of the Pledgors and/or the Company is required to be repaid or performed in advance, or is expired but cannot be repaid or performed as scheduled, which, at Pledgee's discretion, may be considered materially and adversely affect the ability of the Pledgors and/or the Company to perform its obligations hereunder;
 - 7.1.4 Any occurrence of any material adverse change to the property of the Pledgors and/or the Company, which, at Pledgee's discretion, may be considered materially affect the ability of the Pledgors and/or the Company to perform its obligations hereunder; and
 - 7.1.5 Occurrence of any event that prevents the Pledgee to exercise its right with respect to the Pledge.
- 7.2 Upon notice or awareness of the occurrence of any circumstance or event that may lead to the above-mentioned circumstances described in Article 7.1, the Pledgors shall immediately notify the Pledgee in writing accordingly.

8. Exercise of the Pledge

- 8.1 The Parties hereby agree that in the Event of Default, the Pledgee shall have the right to exercise all the rights and authorities of remedy for breach of contract enjoyed under the PRC laws, Transaction Agreements and this Agreement, including (but not limited to) auction or sale of the Pledged Interests and to be compensated in priority from what it gains after giving written notice to the Pledgors. The Pledgee is not responsible for any loss caused by its lawful and reasonable exercise of such rights and authorities.
- 8.2 Before the full payment of the consultation service fees and other fees under the Transaction Agreements has been made, the Pledgors shall not transfer the Pledge or the equity interest held in the Company without the Pledgee's written consent.
- 8.3 For reasonable expenses incurred when the Pledgee exercises any or all of the above-mentioned rights and authorities, the Pledgee shall have the right to deduct such expenses from the funds obtained from the exercise of its rights and authorities, based on the actual situation.
- 8.4 The fund obtained from the exercise of the Pledgee of its rights and authorities shall be processed in the following order:
 - Firstly, to pay for all expenses (including paying the emoluments of its attorneys and agents) arising from the disposal of the Pledged Interests and the exercise of the Pledgee of its rights and authorities;
 - Secondly, to pay payable taxes arising from the disposal of the Pledged Interests;
 - Thirdly, repay the Secured Indebtedness to the Pledgee;

The remaining fund after the deduction of the aforesaid items shall be returned by the Pledgee to the Pledgors or other person who enjoyed the right to the fund under relevant laws and regulations, or be deposited to the local notary office of the location of the Pledgee (any cost generated arising from such deposit shall be undertaken by the Pledgee).

- 8.5 The Pledgee has the right to appoint its legal counsels or other agents to exercise the Pledge on its behalf, and the Pledgor or the Company shall not raise any objections.
- 8.6 When the Pledgee disposes the Pledge in accordance with this Agreement, the Pledgors and the Company shall provide necessary assistance to enable the Pledgee to realize its Pledge.
- 8.7 The Pledgee shall be entitled to choose to, simultaneously or successively, exercise any of the remedies it enjoys for breach of contract. The Pledgee is not required to exercise any other remedy for breach of contract before exercising the right to auction or sell the Pledged Interests under this Agreement. The Pledgors or the Company does not have the right to challenge the Pledgee whether to exercise part of the Pledge or the sequential order of the exercise of the Pledge.

9. Liability of Breach

- 9.1 The Pledgee has the right to terminate this Agreement and/or require the the Pledgor and the Company to fully indemnify the Pledgee if the Pledgor or the Company substantially breach any articles hereof; this article 9 shall not preclude any other rights of the Plegee hereunder.
- 9.2 Unless otherwise provided for by applicable laws, the Pledgor or the Company have no right to terminate or cancel this Agreement.

10. Assignment

- 10.1 The Pledgors shall not grant or transfer its rights and obligations under this Agreement without prior consent from the Pledgee.
- 10.2 This Agreement shall be binding on the Pledgors, their successors and authorized assignees, and shall be valid to the Pledgee and each of its successors and assignees.
- 10.3 The Pledgee may assign all or any of its rights and obligations under the Transaction Agreements to its designees (individuals/legal entities) at any time. In such case, the assignee shall have the rights and obligations that the Pledgee enjoys and undertakes under this Agreement, as if it was the original party to this Agreement. When the Pledgee assigns the rights and obligations under the Transaction Agreements, the Pledgors shall, upon the Pledgee's request, execute relevant agreements and/or documents relating to such assignment.

- 10.4 In the event of a change of the Pledgee due to the assignment, at the request of the Pledgee, the Pledgors shall execute a new pledge agreement with the new Pledgee on the same terms and conditions as this Agreement, and shall register such pledge with the relevant AIC.
- 10.5 The Pledgors shall strictly comply with the provisions of this Agreement and other relevant agreements jointly or respectively executed by the Parties, including the Exclusive Option Agreement and the Power of Attorney granted to the Pledgee, fulfill the obligations under each agreement, and refrain from any action/omission that may affect the effectiveness and enforceability of the Agreement. Any remaining right of the Pledgors with respect to the Pledged Interests hereunder shall not be exercised by the Pledgors except in accordance with written instructions from the Pledgee.

11. Termination

- 11.1 Upon fully fulfilled its obligations hereunder and paid all the guaranteed debts, the Pledgor shall have the right to require the Pledgee to release the Pledge under this Agreement, within a reasonable time period, and the Pledgee shall take necessary actions to deregister the Pledge with the relevant AIC.
- 11.2 Articles 9, 13, 14 and this article 11.2 will survive the termination of the Agreement.

12. Service fees and other expenses

All fees and actual expenses relating to this Agreement, including but not limited to legal fees, costs of production, stamp duties, and any other tax, fee and etc. shall be borne by the Company.

13. Confidentiality

Each Party hereto acknowledges and confirms to treat any oral or written material relating to this Agreement, the content of this Agreement and exchanged among for preparing or performing this Agreement as confidential information. Each party shall maintain the confidentiality of all such confidential information and shall not disclose any confidential information to any third party without the written consent of the other Parties, except for (a) any information is or will be acknowledged by the public (provided that it is not the result of a disclosure to the public without authorization made by a party who receives the confidential information); (b) any information required to disclose under the applicable laws and regulations, stock trading rules, or orders of government departments or courts; or (c) information required to be disclosed by any Party to its shareholders, investors, legal or financial counsels regarding the transaction stated in this Agreement, and such shareholders, legal or financial counsels shall also be required to comply with the confidentiality duties similar to the duties contained under this clause. Any disclosure by staff or agencies hired by a Party should be deemed as a disclosure by such party and such party shall be liable for breach of this Agreement. This article shall survive regardless of the termination of this Agreement for any reason.

14. Applicable Law and Dispute Resolution

- 14.1 The execution, effectiveness, interpretation, implementation, amendment and termination of this Agreement and the resolution of disputes shall be governed by PRC law.
- 14.2 Any dispute arising from interpretation and implementation of this Agreement shall be firstly solved by the Parties through friendly negotiation. If the dispute cannot be resolved within 30 days after the written notice sent from one party to the other for negotiation and resolution, any party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules then effective. The arbitration shall be conducted in Shanghai and the language used is Chinese. The award of the arbitral tribunal shall be final and binding on the Parties.
- 14.3 When any dispute arising from interpretation and implementation of this Agreement occurs and when any dispute is under arbitration, except for the matters under dispute, the Parties shall continue to exercise their other rights under this Agreement and perform their other obligations under this Agreement.

15. Notices

- 15.1 All notices and other communications required or sent under this Agreement shall be delivered personally, registered post, postage paid or business express service or fax to the Party's following address. Each notice shall also be delivered by email. The dates on which the notices shall be deemed to have been effectively delivered shall be determined as follows:
- 15.2 For notices delivered by personal delivery, express service or registered post, postage paid, the effectively delivered date shall be deemed as the date of delivery or refusal at the address specified for notices.
- 15.3 For the notices delivered by fax, the effectively delivered date shall be deemed as the date of delivered successfully. (as evidenced by an automatically generated confirmation of transmission)
- 15.4 For the purpose of notice, the addresses of the Parties are as follows:

The Pledgors:

Biao Liu

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

Zhongyuan Zhang

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

The Pledgee: Shanghai Quyun Internet Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

The Company: Shanghai DragonS Information Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

15.5 Any Party may at any time send notice to other Parties in accordance with this Article to change its address for the purpose of receiving notice.

16. Severability

If one or several provisions of this Agreement are found to be invalid, illegal or unenforceable according to any law or regulation in any aspect, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or damaged in any aspect. The Parties shall strive for replacing those invalid, illegal or unenforceable provisions with effective provisions within the highest limit of permission of laws and expectation of the Parties by sincerely negotiation, and the economic effects of such effective provisions shall as close as possible to that of those invalid, illegal or unenforceable provisions.

17. Effectiveness

17.1 This Agreement shall become effective upon execution of the Agreement by all Parties.

17.2 Any amendment, supplement or change to this Agreement shall be made in writing and shall become effective upon completion of the governmental filing procedures (if applicable) after execution or affixing with seals of the Parties.

17.3 This Agreement is written in Chinese in four (4) originals. Each Party of this Agreement shall have one (1) and all the originals shall have equal legal validity.

[The remainder of this page intentionally left blank.]

[Signature Page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

Biao Liu

Signature: /s/ Biao Liu _____

Zhongyuan Zhang

Signature: /s/ Zhongyuan Zhang _____

Shanghai Quyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Lei Li _____

Name: Lei Li

Title: Legal Representative

Shanghai DragonS Information Technology Co., Ltd.

(Seal)

Signature: /s/ Biao Liu _____

Name: Biao Liu

Title: Legal Representative

The Signature Page of Share Pledge Agreement

Schedule I

Company Name: Shanghai DragonS Information Technology Co., Ltd.

Shareholding Structure:

Shareholder Name	Amount of Contribution of Company's registered capitals (RMB/Yuan)	Shareholding Ratio
Biao Liu	6,000,000	60%
Zhongyuan Zhang	4,000,000	40%
Total	10,000,000	100%

Shareholders' Voting Rights Proxy Agreement

THIS Shareholders' Voting Rights Proxy Agreement (this "**Agreement**") is executed on January 1, 2019 by and among the following parties in Shanghai, the People's Republic of China ("**PRC**"):

1. **Biao Liu**, Chinese, ID No.: [REDACTED];
2. **Zhongyuan Zhang**, Chinese, ID No.: [REDACTED] (together with Biao Liu hereinafter referred to as "**Shareholders**");
3. **Shanghai Quyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] ("**Sole Corporation**"); and
4. **Shanghai DragonS Information Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] ("**Company**").

In this Agreement, the above parties hereinafter shall be individually referred to as a "**Party**" and collectively referred to as the "**Parties**".

Whereas:

1. The Shareholders, being the Company's current shareholders, collectively hold 100% equity interest of the Company. As of the date of this Agreement, the amount of contribution and proportion of shareholding in the Company are as stated in Schedule I;
2. The Shareholders intend to delegate a person appointed by the Sole Corporation to exercise the Shareholders' voting rights in the Company and the Sole Corporation intend to appoint a person to accept such delegation.

The Parties come to an agreement as follows by friendly negotiation:

Article 1 Voting Rights Proxy

- 1.1 The Shareholders hereby irrevocably agree that after the Sole Corporation appoint someone other than staff of the Sole Corporation as an Assignee (definite as follows), the Shareholders will execute the Power of Attorney of which the content and format are as stated in Schedule II of this Agreement, authorizing the person designated by the Sole Corporation at that time (the "**Assignee**") to, at his own will and discretion and on behalf of the Shareholders, exercise the following rights respectively enjoyed by the Shareholders under the articles of association of the Company then effective. ("**Delegated Right**"):
 - (1) propose to convene and attend a shareholders meeting of the Company according to the Company's articles of association as the proxy of each of the Shareholders;

- (2) exercise the voting rights on behalf of the Shareholders on the matters which are required to be discussed and resolved in the shareholders meeting, including, but not limited to the appointment and election of the directors of the Company and other senior management that should be appointed or dismissed by the Shareholders;
- (3) exercise other Shareholder's voting rights under the Company's article of association (including any other voting right of the Shareholders specified after the modification of such article of association).

- 1.2 The above-mentioned authorization and delegation shall subject to the condition that the Assignee is a Chinese and the Sole Corporation agrees with such authorization and delegation. The Assignee has the right to recommit. In terms of the above-mentioned matters, the Assignee may recommit other person or entity to handle such matters by neither sending prior notice to relevant shareholders nor obtaining the consent from relevant shareholders. When and only when the Sole Corporation sends a written notice to the Shareholders to dismiss or replace the Assignee, the Shareholders shall immediately authorize another Chinese person designated by the Sole Corporation to exercise such right. The new appointment shall replace the former one immediately upon execution and except for such situation, the Shareholders shall not revoke the delegation and authorization to the Assignee.
- 1.3 The Assignee shall prudently and diligently perform the Delegated Right within the scope of authorization specified in this Agreement. The Shareholders agree to recognize and be responsible for the corresponding liability of any legal consequence caused by the Assignee exercising the above-mentioned Delegated Right.
- 1.4 The Shareholders hereby confirm that the Assignee may exercise such Delegated Right without asking for the Shareholders' opinion in advance. However, the Assignee shall inform the Shareholders in time of the resolutions or proposals of convening temporary shareholders meeting are made.
- 1.5 The Shareholders hereby confirm that any action taken by the Assignee shall be deemed as an action of the Shareholders, and any documents or materials executed by the Assignee shall be deemed dully executed by the Shareholders with an authentic intention to do so.

Article 2 Right to Know

- 2.1 For the purpose of exercising the rights hereunder, the Assignee shall be entitled to get access to related information with respect to the Company's operation, business, client, finance, staff, etc. and to look up related materials. The Company shall cooperate sufficiently to this.

Article 3 Exercise of the Delegated Right

- 3.1 The shareholders will provide sufficient assistance with respect to the exercise of the Delegated Right by the Assignee, including promptly executing the Resolution of the shareholders meeting or other related legal documents made by the Assignee when necessary (to satisfy the requirements of the governmental authorities with respect to the documents submitted for approval, registration and filing).
- 3.2 If, at any time during the term of this Agreement, the authorization or exercise of the Delegated Right under this Agreement becomes unenforceable for any reason (except for breach of contract of the Shareholders or the Company), the Parties shall seek for an alternative solution most similar to the unenforceable provision and, if necessary, execute the supplementary agreement to amend or adjust the terms of this Agreement to make sure the purpose of this Agreement can be realized.

Article 4 Exemption and Indemnification

- 4.1 The Parties acknowledge that the Sole Corporation shall not be required to be liable for any responsibility to other parties or any third party or compensate in economic or other aspect due to the exercise of Delegated Right by Assignee under this Agreement.
- 4.2 The Shareholders and the Company agree to indemnify in full and hold harmless the Sole Corporation for any loss incurred or likely to incur by appointing the Assignee to exercise the Delegated Right, including but not limited to any loss caused by lawsuit, recovery, arbitration, claim bring by any third party against it or administrative investigation, punishment made by government departments, unless such loss is resulting from wilful misconduct or gross negligence of the Assignee.

Article 5 Representations and Warranties

- 5.1 The Shareholders hereby respectively and jointly represent and warrant the Sole Corporation that:
- 5.1.1 He/It is a Chinese citizen with full capacity or a limited liability company/limited partnership duly registered and validly existing under laws of domicile. He/It has complete and independent legal status and ability and is properly authorized to execute, deliver and perform this Agreement and can be a subject of litigation independently.

5.1.2 He/It has the complete right and authorization to execute and deliver this Agreement and all other documents he/it is going to execute related to the transaction stated hereunder and has the full right and authorization to complete such transaction. This Agreement is executed and delivered legally and appropriately. This Agreement constitutes a legal and binding obligation of him/it and can be enforceable according to the provisions of this Agreement.

5.1.3 He/It is a legally registered shareholder of the Company as of the effectiveness of this Agreement. Except for the rights set according to this Agreement, the Share Pledge Agreement and the Exclusive Option Agreement executed on the same date of this Agreement among the Shareholders, the Company and the Sole Corporation, there is no other third-party rights on the Delegated Right. In accordance with this Agreement, the Assignee may completely and sufficiently exercise its Delegated Right according to the Company's article of association then effective.

5.2 The Sole Corporation and the Company hereby respectively represents and warrants that:

5.2.1 It is a limited liability company duly registered and validly existing under the laws of domicile and has independent legal personality. It has complete and independent legal status and the ability to execute, deliver and perform this Agreement and can be a subject of litigation independently.

5.2.2 It has the complete internal right and authorization of the Company to execute and deliver this Agreement and all other documents it is going to execute related to the transaction stated hereunder and has the full right and authorization to complete such transaction.

5.3 The Company further represents and warrants that:

5.3.1 The Shareholders are legally registered shareholders of the Company as of the effectiveness of this Agreement. Except for the right set according to this Agreement, the Share Pledge Agreement and Exclusive Option Agreement executed among the Shareholders, the Company and the Sole Corporation, there is no other third-party rights on the Delegated Right. In accordance with this Agreement, the Assignee may completely and sufficiently exercise its Delegated Right according to the Company's article of association then effective.

Article 6 Term of Agreement

- 6.1 Subject to Article 6.2 of this Agreement, this Agreement shall come into effect on the date the Parties executed formally. Unless and until earlier terminated with the Parties' written agreement or in accordance with Article 9.1 of this Agreement, this Agreement shall remain effective and in force.
- 6.2 This Agreement shall be terminated under the situation that the Company or the Sole Corporation does not complete the approval and registration procedure of extending the operating period when it expires.
- 6.3 This Agreement shall automatically be terminated if the Shareholders transfer all the equity interest of the Company they held to the Sole Corporation or the entity appointed by the Sole Corporation with the Sole Corporation's prior written consent.

Article 7 Notice

- 7.1 All notices and other communications required or sent under this Agreement shall be delivered personally, registered post, postage paid or business express service or fax to the Party's following address. Each notice shall also be delivered by email. The dates on which the notices shall be deemed to have been effectively delivered shall be determined as follows:
- 7.1.1 For notices delivered by personal delivery, express service or registered post, postage paid, the effectively delivered date shall be deemed as the date of delivery or refusal at the address specified for notices.
- 7.1.2 For the notices delivered by fax, the effectively delivered date shall be deemed as the date of delivered successfully. (as evidenced by an automatically generated confirmation of transmission)
- 7.2 For the purpose of notice, the addresses of the Parties are as follows:

Shareholders[]

Biao Liu
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

Zhongyuan Zhang
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

The Sole Corporation: Shanghai Qyun Internet Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

The Company: Shanghai DragonS Information Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

- 7.3 Any Party may at any time send notice to other Parties in accordance with this Article to change its address for the purpose of receiving notices.

Article 8 Confidentiality

- 8.1 Regardless of the termination of this Agreement, the Parties shall maintain the confidentiality of all information relating to other party's trade secret, proprietary information, client information and all other information with confidentiality acknowledged during the course of execution and performance of this Agreement ("**Confidential Information**"). The Party receiving the Confidential Information shall not disclose any Confidential Information to any third party except with the disclosing party of the Confidential Information's prior written consent or required by provisions of related laws, regulations or the listing location of the affiliated company of One Party to disclose to third parties; Except for the purpose of performing this Agreement, the recipient shall not use or indirectly use any Confidential Information.

- 8.2 The following information is not deemed as Confidential Information:

- (a) Any information is acknowledged by the recipient previously through legitimate form which could be evidenced by written proof;
- (b) Information of the public which is not due to the recipient's fault; or
- (c) Information obtained through other legitimate form by the recipient after the recipient received the information.

- 8.3 The Party receiving the Confidential Information can disclose the information to its related staff, agents or professionals hired by the Party. However, the recipient shall make sure that such person will comply with the related terms and conditions of this Agreement and the recipient shall be liable for such person's breaching relating terms and conditions of this Agreement.

- 8.4 The effect of this Article shall not be influenced by the termination of this Agreement regardless of other provisions of this Agreement.

Article 9 Default Liability

- 9.1 The Parties agree and confirm that any substantial violation of any of the provisions under this Agreement of any Party (“**Defaulting Party**”), or any substantial failure of, or any delay on, performing any obligation under this Agreement will constitute a default under this Agreement (the “**Default**”) and any party who is not a Defaulting Party (“**Non-Defaulting Party**”) shall have the right to require the Defaulting Party to correct or take remedial measures in reasonable time period. If the Defaulting Party does not correct or take remedial measures in reasonable time period or ten (10) days after the other party informs the Defaulting Party in written of compensation requirements, then:
- 9.1.1 If the Shareholders or the Company is the Defaulting Party, the Sole Corporation shall have the right to terminate this Agreement and require the Defaulting Party to compensate.
- 9.1.2 If the Sole Corporation is the Defaulting Party, the Non-Defaulting Parties shall have the right to require the Defaulting Party to compensate. However, unless otherwise specified in laws, the Non-Defaulting Parties are not entitled to terminate or relieve this Agreement under any circumstance.
- 9.1.3 Regardless of any provision otherwise agreed under this Agreement, the effectiveness of this Article shall not be affected by suspension or termination of this Agreement.

Article 10 Miscellaneous

- 10.1 This Agreement is written in Chinese in four (4) originals. Each Party of this Agreement shall have one (1) and all the originals shall have equal legal validity.
- 10.2 PRC law will apply to the execution, effectivity, implementation, amendment, interpretation and termination of this Agreement.
- 10.3 Any dispute arising from interpretation and implementation of this Agreement shall be firstly resolved by the Parties through friendly negotiation. If the dispute cannot be resolved in thirty (30) days after the written notice sent from one party to the other for negotiation and resolution, any party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules then effective. The arbitration shall be conducted in Shanghai and the language used is Chinese. The award of the arbitral tribunal shall be final and binding on all Parties.

- 10.4 Any right, power and remedy empowered to any Party by any provision of this Agreement shall not exclude any other right, power and remedy enjoyed by such Party in accordance with laws and other provisions under this Agreement, and a Party's exercise of its rights, powers and remedies shall not exclude its exercise of other rights, powers and remedies enjoyed.
- 10.5 Any Party's failure or delay to exercise any right, power and remedy enjoyed by this Agreement or laws ("**the Party's Rights**") shall not cause waiver of such rights. In addition, the waiver of any single or part of the Party's Right shall not exclude such Party's exercising such rights in other ways and exercising other rights.
- 10.6 The title of Articles in this Agreement is set for reference only, and such titles shall not be used to or affect the interpretation of Articles in this Agreement under any circumstance.
- 10.7 Each provision of this Agreement can be severable and independent from any other provision. If one or several provisions of this Agreement are found to be invalid, illegal or unenforceable at any time, the validity, legality or enforceability of remaining provisions of this Agreement shall not be affected.
- 10.8 Any amendment, supplement of this Agreement shall be made in written and come into effect after proper execution of the Parties of this Agreement. Regardless of any provision otherwise agreed in this Agreement, without Sole Corporation's prior written consent, any Shareholder shall not revoke delegation of the Delegated Right under this Agreement and any Shareholder and the Company shall not terminate this Agreement. However, the Sole Corporation may, at any time inform the Shareholders and the Company to terminate this Agreement by sending written notice thirty (30) days in advance.
- 10.9 Without prior written consent from the Sole Corporation, other Parties are not allowed to transfer any right and/or obligation under this Agreement to any third party; the Shareholders and the Company hereby agree that the Sole Corporation has the right to transfer its any right and/or obligation under this Agreement to any third party without prior notice to related Shareholders or the Company or their consent.
- 10.10 This Agreement shall be binding on the legal successors of the Parties.
- 10.11 Every of the Shareholders shall be jointly liable for the obligations of the other Shareholders under this Agreement.

[The remainder of this page intentionally left blank.]

[Signature Page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

Biao Liu

Signature: /s/ Biao Liu

Zhongyuan Zhang

Signature: /s/ Zhongyuan Zhang

Shanghai Quyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Lei Li

Name: Lei Li

Title: Legal Representative

Shanghai DragonS Information Technology Co., Ltd.

(Seal)

Signature: /s/ Biao Liu

Name: Biao Liu

Title: Legal Representative

□□□□□□□□□□

The Signature Page of the Voting Rights Proxy Agreement

Schedule I

Company Name: Shanghai DragonS Information Technology Co., Ltd.

Shareholding Structure:

Shareholder Name	Amount of Contribution of Company's registered capitals (RMB/Yuan)	Shareholding Ratio
Biao Liu	6,000,000	60%
Zhongyuan Zhang	4,000,000	40%
Total	10,000,000	100%

Power of Attorney

This Power of Attorney (hereinafter referred to as the “**POA**”) is executed by Biao Liu (ID No.: [REDACTED]) on _____, 2019 and provided to _____ (ID No. _____) (hereinafter referred to as “**Assignee**”).

I, Biao Liu, hereby irrevocably grant the Assignee a comprehensive power of attorney, authorize the Assignee to represent me as my proxy, in the name of me, at his/her own will and discretion to exercise the following rights enjoyed for being a shareholder of Shanghai DragonS Information Technology Co., Ltd. (hereinafter referred to as the “**Company**”):

- (1) propose to convene and attend shareholders meeting of the Company according to the Company’s articles of association as my proxy;
- (2) exercise the voting rights as my proxy on the matters which are required to be discussed and resolved on the shareholders meeting, including, but not limited to the appointment and election of the directors of the Company and other senior management that shall be appointed or dismissed by the shareholders meeting;
- (3) exercise other Shareholder’s voting rights as my proxy under the Company’s article of association (including any other voting right of Shareholders specified after the modification of such article of association).

The Assignee has the right to recommit. In terms of the above-mentioned matters, the Assignee may recommit other person or entity to handle such matters by neither sending prior notice to me nor obtaining consent from me.

I, hereby irrevocably confirm that, unless [] (“**Sole Corporation**”) requires me to change the Assignee, the period of validity of this POA shall continue until the Voting Rights Proxy Agreement executed by the Sole Corporation, the Company and the Shareholders on [] [], 2019 expires or early terminates.

Hereby authorized.

Name: _____
Signature: _____
Date: _____, 2019.

Power of Attorney

This Power of Attorney (hereinafter referred to as the “**POA**”) is executed by Zhongyuan Zhang (ID No.: [REDACTED]) on _____, 2019 and provided to _____ (ID No. _____) (hereinafter referred to as “**Assignee**”)

I, Zhongyuan Zhang, hereby irrevocably grant the Assignee a comprehensive power of attorney, authorize the Assignee to represent me as my proxy, in the name of me, at his/her own will and discretion to exercise the following rights enjoyed for being a shareholder of Shanghai DragonS Information Technology Co., Ltd. (hereinafter referred to as the “**Company**”):

- (1) propose to convene and attend shareholders meeting of the Company according to the Company’s articles of association as my proxy;
- (2) exercise the voting rights as my proxy on the matters which are required to be discussed and resolved on the shareholders meeting, including, but not limited to the appointment and election of the directors of the Company and other senior management that shall be appointed or dismissed by the shareholders meeting;
- (3) exercise other Shareholder’s voting rights as my proxy under the Company’s article of association (including any other voting right of Shareholders specified after the modification of such article of association).

The Assignee has the right to recommit. In terms of the above-mentioned matters, the Assignee may recommit other person or entity to handle such matters by neither sending prior notice to me nor obtaining consent from me.

I, hereby irrevocably confirm that, unless [] (“**Sole Corporation**”) requires me to change the Assignee, the period of validity of this POA shall continue until the Voting Rights Proxy Agreement executed by the Sole Corporation, the Company and the Shareholders on [] [], 2019 expires or early terminates.

Hereby authorized.

Name: _____
Signature: _____
Date: _____, 2019.

Exclusive Technical and Consulting Service Agreement

THIS Exclusive Technical and Consulting Service Agreement (this “**Agreement**”) is made on January 1, 2019 by the following two parties in Shanghai, the People’s Republic of China (“**PRC**”):

1. **Shanghai Quyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Party A**”); and
2. **Shanghai DragonS Information Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Party B**”).

Party A and Party B are hereinafter referred to individually as “**a Party**” and collectively as “**Parties**”.

Whereas: Party A is a wholly foreign owned company established in the Republic of China (“**PRC**”), with the necessary and appropriate resources to provide technical and consulting services.

Whereas: Party B is a domestic company established in the PRC, with a business scope of providing services such as information technology, computer science, technical services, technology research, technology transfer, technical consulting, design, make, act as agent for advertisement, making plans for cultural and art exchange, enterprise image, marketing strategy, and so on (the activities conducted by Party B currently or from time to time during the term of this Agreement, collectively “**Main Business**”)

Whereas: Party B wishes to engage Party A to provide Party B with certain technical support and consulting services.

By friendly negotiation, the Parties agree as follows:

1. **Service Provision**

- 1.1 Pursuant to the terms and conditions of this Agreement, during the term of this Agreement, Party B hereby appoints Party A as Party B’s exclusive service provider to provide Party B with comprehensive technical support, business support and related consulting services, which shall include services as determined necessary by Party A from time to time within the approved business scope of Party B, including but not limited to technical services, business consultations, assets equipment leasing, market consultancy, system integration, product research and system maintenance.
- 1.2 Party B agrees to accept the consultations and services provided by Party A. Party B further agrees that during the term of this Agreement, in terms of the services or other matters stipulated in this Agreement, it shall neither, directly or indirectly, accept any consultation and/or service that is the same as or similar

to which under this Agreement provided by any third party, nor establish any similar cooperative relationship with any third party regarding the matters stated in this Agreement without Party A's prior written consent. The Parties agree that Party A may appoint any other party (who may be designated to enter into certain agreements with Party B as described in Article 1.3), to provide Party B with the services and/or supports described under this Agreement.

1.3 Services Delivery

1.3.1 Party A and Party B agree that during the term of this Agreement, Party B may further enter into technical service agreement and consulting service agreement with Party A or other parties designated by Party A, as appropriate, in which shall describe the specific contents, manner, personnel and fees for each technical service and consulting service.

1.3.2 For better performance of this Agreement, the Parties agree that within the term of this Agreement, Party B will, as appropriate, based on the needs of business development, enter into Equipment/Asset Leasing Agreement with Party A or its designated party pursuant to which Party A or its designated party shall provide related equipment and assets to Party B.

1.3.3 Party B hereby grants to Party A an irrevocable and exclusive right to purchase, at Party A's option and in compliance with the laws and regulations of PRC, all or part of Party B's assets and business, at the lowest price as permitted by the PRC law. The Parties will enter into a separate agreement with respect to the terms and conditions of such transfer.

1.3.4 Party A has the right to assign part of the services to be performed under this Agreement to a third party.

2. Service Fees and Payment

The Parties agree that in consideration of the all the services provided by Party A to Party B under this Agreement, Party A shall provide bills to Party B on the basis of the price determined by Party A as well as the workload of services provided to Party B. Party B shall pay relevant service fees ("**Service Fees**") to Party A in accordance with the date and amount specified in the bills. Party A may unilaterally make other arrangements with respect to the payment of Service Fees at any time. If Party A adjusts the amount of Service Fees and informs Party B by prior written notice for such adjusted Service Fees, Party B shall pay the Service Fees at the adjusted amount. Service Fees shall be settled monthly on the basis of the actual services provided by Party A to Party B; Party B shall, within 30 days from the last day of each month, (a) provide Party A with the management statement, operating statistics and other financial information for the current month, including the income of Party B during the month; (b) pay the monthly Service Fees to Party A ("**Monthly Service Fee**"). Party B shall, within 90 days from the end of every financial year, (a) provide Party A with the audited financial statement of the current financial year, which shall be audited and certified by the independent chartered accountant approved by Party A; (b) If according to the audited financial statement, the total amount of the payment by Party B to Party A have any deficiency within the financial year, Party B shall pay Party A the balance.

3. **Intellectual Property and Confidentiality**

- 3.1 To the extent permitted under the PRC law, Party A shall have the exclusive rights and interests in all rights, ownership, interests and intellectual properties arising out of or created during the performance of this Agreement, which shall include, but not limited to, copyrights, patents, patent applications, software, technology secrets, trade secrets and other rights and interests. Party B shall sign all necessary documents, take all appropriate actions, submit all the documents and/or applications, provide all proper assistances and take all other actions solely determined by Party A as necessary to give all the ownership, rights and interests of such intellectual property to Party A, and/or perfect the protection of Party A's intellectual property rights.
- 3.2 Party B agrees to indemnify Party A for any and all economic losses that Party A suffers as a result of Party B's infringement of the intellectual property right of any third party (including copyright, trademark, patent and know-how).
- 3.3 The Parties acknowledge and confirm that any oral or written information exchanged between the Parties related to this Agreement, the content of this Agreement, and for preparing or performing this Agreement is confidential information. Each party shall maintain the confidentiality of the information and without the written consent of the other party, it shall not disclose any confidential information to any third parties, excluding the following: (a) any information is or will be acknowledged by the public (provided that it is not the result of a disclosure to the public without authorization made by a party who receives the confidential information); (b) any information required to disclose under the applicable laws and regulations, stock trading rules, or orders of government departments or courts; or (c) information required to be disclosed by any Party to its shareholders, investors, legal or financial counsels regarding the transaction stated in this Agreement, and such shareholders, legal or financial counsels shall also be required to comply with the confidentiality duties similar to the duties contained under this clause. Any disclosure by staff or agencies hired by a Party should be deemed as a disclosure by such party and such party shall be liable for breach of this Agreement. This article shall survive regardless of the termination of this Agreement for any reason.
- 3.4 Both Parties agree that this article shall survive and remain in full force and effect regardless of any modification, rescission or termination of this Agreement.

4. **Representations and Warranties**

- 4.1 Party A hereby represents and warrants as follows:
 - 4.1.1 Party A is an exclusively foreign-owned enterprise legally registered and validly existing in accordance with PRC laws.

4.1.2 Party A has taken necessary corporate actions, achieved necessary authorizations, and obtained all consents and approvals by third parties and governmental authorities (if needed) for the execution and performance of this Agreement. The execution and performance of this Agreement by Party A does not violate any specific provision of laws or regulations.

4.1.3 This Agreement constitutes legal, valid and binding obligations of Party A, enforceable against it pursuant hereto.

4.2 Party B hereby represents and warrants as follows:

4.2.1 Party B is an enterprise legally registered and validly existing in accordance with PRC laws. Party B has obtained the permits and licenses issued by the governmental authorities required for engaging in main business.

4.2.2 Party B has taken necessary corporate actions, achieved necessary authorizations, and obtained all consents and approvals by third parties and governmental authorities (if needed) for the execution and performance of this Agreement. The execution and performance of this Agreement by Party B does not violate any specific provision of laws or regulations.

4.2.3 This Agreement constitutes legal, valid and binding obligations of Party B, enforceable against it pursuant hereto.

5. **Effectiveness and Term of the Agreement**

5.1 This Agreement is executed and taken effect on the date written first above. Unless earlier terminated in accordance with the terms of this Agreement or determined by Party B, this Agreement shall be effective indefinitely.

5.2 In case that either Party's business period expires, such Party shall, in a timely manner, to extend its business period to the extent such that this Agreement could be in effect and carried out on an ongoing basis. If either party's application to extend its business term is declined, this Agreement shall be void and null when the business term of such Party expires.

5.3 The rights and obligations of both Parties under sections 3,6,7,9 and this section 5.3 shall survive after the termination of this Agreement .

6. **Applicable Law and Dispute Resolution**

6.1 The execution, effectiveness, interpretation, implementation, amendment and termination of this Agreement and the resolution of disputes shall be governed by PRC law.

- 6.2 Any dispute arising from interpretation and implementation of this Agreement shall be firstly solved by both Parties through friendly negotiation. If the dispute cannot be resolved within 30 days after the written notice sent from one party to the other for negotiation and resolution, any party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules then effective. The arbitration shall be conducted in Shanghai and the language used is Chinese. The award of the arbitral tribunal shall be final and binding on both Parties.
- 6.3 When any dispute arising from interpretation and implementation of this Agreement occurs and when any dispute is under arbitration, except for the matters under dispute, both Parties shall continue to exercise their other rights under this Agreement and perform their other obligations under this Agreement.

7. **Indemnification**

- 7.1 Party A has the right to terminate this Agreement and/or require Party B to fully indemnify Party A if Party B substantially breach any sections hereof; this section 7.1 shall not preclude any other rights of Party A hereof.
- 7.2 Unless specifically provided for by applicable laws, Party A has no right, under any circumstances, to terminate or cancel this Agreement.
- 7.3 Party B shall indemnify in full and hold harmless of Party A for any loss, damage, liability or fee arising from the lawsuits, requests or other demands against Party A arising from the consulting and service provided to Party B according to this Agreement, unless such losses, damages, liabilities or fees are resulting from gross negligence or willful misconduct of Party A.

8. **Force Majeure**

- 8.1 Neither Party is responsible for any failure to perform its obligation under this Agreement, if it is prevented or delayed in performing those obligations by an event or circumstance which is beyond the control, unforeseeable, and unavoidable by such Party including, but not limited to, earthquake, typhoon, flood, fire, epidemic, war, strike (“Force Majeure”).
- 8.2 Where there is an event of force majeure, the Party prevented from or delayed in performing its obligations under this Agreement shall immediately notify the other Party of such event, and within 15 days thereafter provide the other Party with full particulars of the event of force majeure, and the reasons for the event of force majeure preventing that Party from, partially or fully, or delaying that Party in performing its obligations under this Agreement.
- 8.3 Failure to notify the other Party and to provide the particulars and reasons will subject that Party to liabilities for not fully performing its obligations under this Agreement. The Party claiming an event of force majeure shall use its reasonable efforts to mitigate the effect of the event of force majeure, and upon the termination of such event of force majeure, immediately fulfil its obligation hereunder. Failure to perform its obligations hereunder after the termination of an event of force majeure will subject such Party to liabilities.

9. **Notice**

9.1 All notices and other communications required or sent under this Agreement shall be delivered personally, registered post, postage paid or business express service or fax to the Party's following address. Each notice shall also be delivered by email. The dates on which the notices shall be deemed to have been effectively delivered shall be determined as follows:

9.1.1 For notices delivered by personal delivery, express service or registered post, postage paid, the effectively delivered date shall be deemed as the date of delivery or refusal at the address specified for notices.

9.1.2 For the notices delivered by fax, the effectively delivered date shall be deemed as the date of delivered successfully (as evidenced by an automatically generated confirmation of transmission).

9.2 For the purpose of notice, the addresses of the Parties are as follows:

Party A Shanghai Quyun Internet Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

Party B: Shanghai DragonS Information Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

9.3 Any Party may at any time change its address for notices by a notice delivered to the other Party in accordance with the terms hereof.

10. **Assignment**

10.1 Without Party A's prior written consent, Party B shall not assign its rights and obligations to any third party.

10.2 Party B hereby agrees that Party A is entitled to assign its rights and obligations under this Agreement to any third party when necessary without prior notice to Party B or consent from Party B.

11. **Severability**

If one or several provisions of this Agreement are found to be invalid, illegal or unenforceable according to any law or regulation in any aspect, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or damaged in any aspect. The Parties shall strive for replacing those invalid, illegal or unenforceable provisions with effective provisions within the highest limit of permission of laws and expectation of both Parties by sincerely negotiation, and the economic effects of such effective provisions shall as close as possible to that of those invalid, illegal or unenforceable provisions.

12. **Amendments and supplements**

Both Parties may make amendments and supplements to this Agreement by written agreement. The amendments and supplements regarding this Agreement executed by both Parties are the constituent parts of this Agreement and shall have equivalent legal effect as this Agreement.

13. **Language and Copies**

This Agreement is written in Chinese in two originals. Each party shall retain one and all the originals shall be equally valid.

[The remainder of this page intentionally left blank.]

Shanghai Quyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Lei Li

Name: Lei Li

Title: Legal Representative

Shanghai DragonS Information Technology Co., Ltd.

(Seal)

Signature: /s/ Biao Liu

Name: Biao Liu

Title: Legal Representative

The Signature Page of Exclusive Technical and Consulting Service Agreement

Exclusive Option Agreement

THIS Exclusive Option Agreement (this “**Agreement**”) is executed on January 1, 2019 by and among the following parties in Shanghai, the People’s Republic of China (“**PRC**”):

1. **Biao Liu**, Chinese, ID No.: [REDACTED];
2. **Zhongyuan Zhang**, Chinese, ID No.: [REDACTED] (together with Biao Liu hereinafter referred to as “**Shareholders**”);
3. **Shanghai Quyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Sole Corporation**”); and
4. **Shanghai DragonS Information Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Company**”).

In this Agreement, the above parties hereinafter shall be individually referred to as a “**Party**” and collectively referred to as the “**Parties**”.

Whereas:

1. The Shareholders collectively hold 100% equity interests of the Company. As of the date of this Agreement, the amount of contribution and proportion of shareholding in the Company are as stated in Schedule I;
2. The Shareholders intend to grant the Sole Corporation an irrevocable and exclusive option to buy all the equity interest of the Company held by shareholders.

The Parties come to an agreement as follows by friendly negotiation:

1. Sales and Purchase of Equity Interests

1.1 Option Granted

The Shareholders hereby irrevocably grant the Sole Corporation an irrevocable and exclusive right to purchase the equity interest without any additional condition (“**Equity Interest Purchase Option**”), pursuant to which the Sole Corporation is granted to require the Shareholders to perform and complete all the approval and registration procedure required by PRC law so as the Sole Corporation may, at the price stated in Article 1.3 in this Agreement and in accordance with the steps decided solely by itself to the extent permitted by PRC law, to purchase, or designate a person or several persons (each, a “**Designee**”) to purchase, once or at multiple times at any time, all or part of the equity interest held by the Shareholders. The Sole Corporation agrees to accept such Equity Interest Purchase Option. The Equity Interest Purchase Option shall be exclusive. Except for the Sole Corporation and its Designees, no other third parties shall have the Equity Interest Purchase Option or other rights related to the Shareholders’ equity interest. The Company hereby agrees to the Shareholder’s grant of the Equity Interest Purchase Option to the Sole Corporation. The term “**Person**” used in this Article and this Agreement shall refer to individuals, corporations, cooperative enterprises, partnerships, enterprises, trusts or non-corporate organizations.

1.2 Steps for Exercise

Subject to the compliance with PRC laws and regulations, the Sole Corporation may exercise its Equity Interest Purchase Option by sending a written notice to the Shareholders ("**Equity Interest Purchase Option Notice**"), in which shall specify: (a) the decision of the Sole Corporation to exercise its Equity Interest Purchase Option; (b) the percentage of equity interest the Sole Corporation intend to purchase from the Shareholders ("**Optioned Interests**"); and (c) the date for purchasing/transferring the Optioned Interests ("**Transferring Date**").

1.3 Equity Interest Purchase Price

When exercising its option, before the Shareholders are required to process the related Industry and Commerce Modification Registration, the Sole Corporation or its appointed entities or persons shall pay the Shareholders the corresponding transfer price which is the lowest price permitted under the PRC law and in accordance with the corresponding percentage of the Company's equity interest to be transferred. The Shareholders agree that upon receiving such amount of transfer price, it shall, following specific instructions of the Sole Corporation, (i) use such transfer price to repay the loan under the Loan Contract (including the amendments, supplements and restatements from time to time) executed by the Shareholders and the Sole Corporation on the same date of this Agreement, and/or (ii) return to the Sole Corporation or its Designees by legal means.

1.4 Transfer of Optioned Interests

For each exercise of the Equity Interest Purchase Option by the Sole Corporation:

- 1.4.1 the Shareholders shall instruct the Company to convene a shareholders meeting in time, at which a resolution shall be adopted to approve the Shareholder's transfer of the Optioned Interests to the Sole Corporation and/or the Designees.
- 1.4.2 the Shareholders shall obtain written statements from the other shareholders of the Company in which such shareholders shall agree with such transfer and to waive the right of first refusal in terms of transferring the Optioned Interests to the Sole Corporation and/or the Designees from the Shareholders.
- 1.4.3 the Shareholders shall execute an Equity Transfer Contract for every transfer with the Sole Corporation and/or (if applicable) the Designee according to the provisions of this Agreement and the Equity Interest Purchase Option Notice.

1.4.4 the relevant Parties shall execute all other necessary contracts, agreements or documents, obtain all necessary government permits and approvals and take all necessary actions to transfer the valid ownership of the Optioned Interests to the Sole Corporation and/or the Designees under the circumstances that there is no additional security interests, and cause the Sole Corporation and/or the Designees to become the registered owners of the Optioned Interests. For the purpose of this Article and this Agreement, the “**Security Interests**” shall include securities, mortgages, third party’s rights or interests, any purchase right, acquisition right, right of first refusal, right to offset, ownership retention or other guarantee arrangement; but for sake of clarity, it does not include any security interest created by this Agreement and the Share Pledge Agreement. The “**Share Pledge Agreement**” specified in this Article and this Agreement refers to the Share Pledge Agreement executed by the Sole Corporation, the Shareholders and the Company on the date of this Agreement. (“**Share Pledge Agreement**”)

2. Covenants

2.1 Covenants concerning the Company

The Shareholders and the Company hereby covenant as follows:

- 2.1.1 without prior written consent of the Sole Corporation, not to supplement, change or amend the Company’s articles of association, increase or decrease its registered capital, or change its registered capital structure in any other manner;
- 2.1.2 to maintain the Company’s existence, manage its business and deal with its affairs prudently and effectively in accordance with good financial and business standards and practices;
- 2.1.3 without prior written consent of the Sole Corporation, not to sell, transfer, mortgage, or in any other manner dispose, or to create any other security interest on any asset, business or legal right to collect interests or beneficial interest of the Company at any time after the execution of this Agreement;
- 2.1.4 without prior written consent of the Sole Corporation, not to create, succeed to, guarantee or permit any debt, except for (i) any debt incurred in the course of the ordinary or daily business operation other than through loans, and (ii) any debt disclosed to and agreed by the Sole Corporation in writing;
- 2.1.5 to manage all the business in the course of the ordinary business operation to maintain the asset value of the Company, not to conduct any action/omission which is sufficient to affect its operating conditions and asset value;
- 2.1.6 without prior written consent of the Sole Corporation, not to execute any material contract, except for contracts executed in the course of the ordinary business operation (a contract will be deemed material if its total value exceeds RMB 1,000,000 in this Article);

- 2.1.7 without prior written consent of the Sole Corporation, not to provide a loan or financial credit to anyone;
- 2.1.8 to provide all material related to operation and financial condition of the Company as required by the Sole Corporation;
- 2.1.9 to purchase and hold, if required by the Sole Corporation, the insurance related to its assets and business from insurance companies acceptable to the Sole Corporation, at an amount and type of coverage typical for companies that operate similar businesses;
- 2.1.10 without prior written consent of the Sole Corporation, not to merge or combine with any person, or acquire or invest in any person with transaction value exceeding US\$2,000,000;
- 2.1.11 to inform the Sole Corporation immediately upon the occurrence or possible occurrence of any litigation, arbitration or administrative proceeding concerning the assets, business or income of the Company;
- 2.1.12 to the extent necessary to maintain the Company's ownership of its all assets, to execute all necessary or appropriate documents, take all necessary or appropriate actions and bring all necessary or appropriate lawsuits or make all necessary and appropriate defense against all claims;
- 2.1.13 without prior written consent of the Sole Corporation, not to distribute dividends in any way to each shareholder, except required by the Sole Corporation, the Company shall immediately distribute all the allocable profit to each shareholder;
- 2.1.14 in the event that the Company admits any new shareholder with the prior written consent of the Sole Corporation, to procure that the new shareholder sign an accession agreement to accede to this Agreement and assume the same obligations under this Agreement as the Shareholders;
- 2.1.15 to appoint anyone designated by the Sole Corporation to be the director or senior manager of the Company as required by the Sole Corporation;
- 2.1.16 not to engage in any business or activities that compete with the business of the Sole Corporation without the written consent of the Sole Corporation; and
- 2.1.17 not to dissolve the company or applying for a liquidation without the written consent of the Sole Corporation, unless mandatorily required by PRC laws.

2.2 Covenants concerning the Shareholders

The Shareholders hereby covenant as follows:

- 2.2.1 without prior written consent of the Sole Corporation, not to sell, transfer, mortgage, or in any other manner dispose, or to create any security interest on the legal interest or beneficial interest of the shares of the Company held by the Shareholders, except for the pledge set according to the Shareholder's Share Pledge Agreement;
- 2.2.2 to procure the Company's Shareholders Meeting and/or Board of Directors to disapprove to sell, transfer, mortgage, or in any other manner dispose, or to create any security interest on the legal interest or beneficial interest of the equity interest of the Company held by the shareholders without prior written consent of the Sole Corporation, except for the pledge set according to the Shareholder's Share Pledge Agreement;
- 2.2.3 without prior written consent of the Sole Corporation, to procure the Company's Shareholders Meeting or the Board of Directors not to approve the Company to merge or combine with, acquire or invest in, any person;
- 2.2.4 to inform the Sole Corporation upon the occurrence or possible occurrence of any litigation, arbitration or administrative proceeding concerning the equity interest they held;
- 2.2.5 to procure the Company's Shareholders Meeting or the Board of Directors to vote to approve the transferring of the Optioned Interest stated in this Agreement and take any other action as required by the Sole Corporation;
- 2.2.6 to the extent necessary to maintain its ownership of the equity interests, to execute all necessary or appropriate documents, take all necessary or appropriate actions and bring all necessary or appropriate lawsuits or make all necessary and appropriate defense against all claims.
- 2.2.7 to appoint anyone designated by the Sole Corporation to be the director and/or the executive director of the Company as required by the Sole Corporation.
- 2.2.8 as required by the Sole Corporation at any time, to transfer its equity interest immediately to the representative appointed by the Sole Corporation at any time without any condition according to the Equity Interest Purchase Option under this Agreement and waive its right of first refusal of transferring corresponding equity interest of any other shareholder;
- 2.2.9 to, in compliance with applicable PRC laws, donate the profits, dividend, and distributions from liquidation of the Company to the Sole Corporation or a person designated by the Sole Corporation in a timely manner; and
- 2.2.10 to strictly comply with this Agreement and any provision of other contracts executed by the Shareholders, the Company and the Sole Corporation jointly or respectively, to practically perform each of the obligations under such contracts and do not conduct any action/omission which is sufficient to affect the validity and enforceability of such contracts;

3. Representations and Warranties

The Shareholders and the Company hereby represent and warrant to the Sole Corporation, jointly and respectively, as of the date of this Agreement and as of each Transferring Date, that:

- 3.1 They have the authority to execute and deliver this Agreement, any share transfer contract executed for each assignment of the Optioned Interests (each referred to as a “**Transfer Contract**”) to which they are parties according to this Agreement, and have the authority and ability to perform their obligations under this Agreement and any of the Transfer Contracts. The Shareholders and the Company agree to enter into the Transfer Contracts consistent with the terms of this Agreement when the Sole Corporation exercises the purchase options. This Agreement and the Transfer Contracts to which they are parties constitute or shall constitute their legal, valid and binding obligations and shall be enforceable against them in accordance with the provisions upon execution;
- 3.2 The execution and delivery of this Agreement or any of the Transfer Contracts and the performance of the obligations under this Agreement or any of the Transfer Contracts shall not: (i) cause the violation of any related PRC law; (ii) be inconsistent with the articles of association or other constitutional documents; (iii) cause the violation of any contract or document to which they are parties or are binding to them, or constitute breach of contract under any contract or document to which they are parties or are binding to them; (iv) cause the violation of any condition for the grant and/or continued effectiveness of any permit or approval issued to any party; or (v) cause the suspension, or revocation of, or additional conditions to any permit or approval issued to any party;
- 3.3 The shareholders have a good and merchantable title on the equity interest of the Company, and have not placed any security interest on such equity interests except for the pledge set pursuant to Shareholders’ Share Pledge Agreements;
- 3.4 The Company has a good and merchantable title to all the assets and the Company has not set any security interest on such assets.
- 3.5 The Company does not have any outstanding debt, except for (i) debts incurred in the ordinary course of business, and (ii) debts disclosed to and agreed by the Sole Corporation in writing;
- 3.6 The Company complies with all the laws and regulations applicable to the acquisition of equity interest and assets; and
- 3.7 There are no pending or threatening lawsuits, arbitrations or administrative proceedings related to equity interest, assets of the Company or the Company at present.

4. Effective Date

This Agreement shall come into effect upon the execution of this Agreement of the Parties, and remain effect and force until the Shareholders have transferred the whole Equity Interest in accordance with terms of this Agreement to the Sole Corporation or designated person of the Sole Corporation.

5. Applicable Law and Dispute Resolution

5.1 Applicable Law

The execution, effectiveness, interpretation, implementation, amendment and termination of this Agreement and the resolution of disputes shall be governed by officially issued PRC laws publically available. For the matters that are not regulated under officially issued PRC laws publically available, International laws and conventions shall apply.

5.2 Dispute Resolution

Any dispute arising from interpretation and implementation of this Agreement shall be firstly solved by the Parties through friendly negotiation. If the dispute cannot be resolved in 30 days after the written notice sent from one party to the other for negotiation and resolution, any party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules then effective. The arbitration shall be conducted in Shanghai and the language used is Chinese. The award of the arbitral tribunal shall be final and binding on the Parties.

6. Taxes and Expenses

Each Party shall pay any and all of the taxes, costs and expenses for transfer and registration incurred thereby or levied thereon under PRC law in connection with the preparation and execution of this Agreement and other Transfer Contracts and the consummation of the transactions contemplated under this Agreement and other Transfer Contracts.

7. Notice

7.1 All notices and other communications required or sent under this Agreement shall be delivered personally, registered post, postage paid or business express service or fax to the Party's following address. Each notice shall also be delivered by email. The dates on which the notices shall be deemed to have been effectively delivered shall be determined as follows:

7.1.1 For notices delivered by personal delivery, express service or registered post, postage paid, the effectively delivered date shall be deemed as the date of delivery or refusal at the address specified for notices.

7.1.2 For the notices delivered by fax, the effectively delivered date shall be deemed as the date of delivered successfully (as evidenced by an automatically generated confirmation of transmission).

7.2 For the purpose of notice, the addresses of the Parties are as follows:

Shareholders:

Biao Liu
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

Zhongyuan Zhang
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

The Sole Corporation: Shanghai Quyun Internet Technology Co., Ltd.
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

The Company: Shanghai DragonS Information Technology Co., Ltd.
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

7.3 Any Party may at any time send notice to other Parties in accordance with this Article to change its address for the purpose of receiving notices.

8. Confidentiality

Each Party hereto acknowledges and confirms to treat any oral or written materials relating to this Agreement, the content of this Agreement and exchanged among for preparing or performing this Agreement as confidential information. Each party shall maintain the confidentiality of all such confidential information and not disclose any confidential information to any third party without the written consent of the other Parties, except for (a) any information is or will be acknowledged by the public (provided that it is not a result of a disclosure to the public without authorization made by a party who receives the confidential information); (b) any information required to disclose under the applicable laws and regulations, stock trading rules, or orders of government departments or courts; or (c) information required to be disclosed by any Party to its shareholders, investors, legal or financial counsels regarding the transaction stated in this Agreement, and such shareholders, legal or financial counsels shall also be required to comply with the confidentiality duties similar to the duties contained under this clause. Any disclosure by staff or agencies hired by a Party should be deemed as a disclosure by such party and such party shall be liable for breach of this Agreement. This article shall survive regardless of the termination of this Agreement for any reason.

9. Further Covenants

The Parties agree to promptly execute documents that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement and take further actions that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement.

10. Liability of Breach

10.1 The Sole Corporation has the right to terminate this Agreement and/or require the Shareholders and the Company to fully indemnify the Sole Corporation if the Shareholders or the Company substantially breach any sections hereof; this section 10 shall not preclude any other rights of the Sole Corporation hereunder.

10.2 Unless otherwise provided for by applicable laws, the Shareholders or the Company have no right to terminate or cancel this Agreement.

11. Miscellaneous

11.1 Revision, Amendment and Supplement

Any revision, amendment or supplement to this Agreement shall be executed in a written agreement by each Party.

11.2 Entire Contract

Except for the revisions, supplements or amendments in writing executed after the execution of this Agreement, this Agreement shall constitute an entire contract reached by and among the Parties hereto with respect to the subject matter hereof, replacing all prior oral or written negotiations, statements and contracts beforehand in terms of the object of this Agreement.

11.3 Title

The title of this Agreement is only set for convenience, which shall not be used to interpret, state or otherwise affect the meaning of all the provisions in this Agreement.

11.4 Language

This Agreement is written in Chinese in four (4) originals. Each Party of this Agreement shall have one (1) and all the originals shall have equal legal validity.

11.5 Severability

If one or several provisions of this Agreement are found to be invalid, illegal or unenforceable according to any law or regulation in any aspect, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or damaged in any aspect. The Parties shall strive for replacing those invalid, illegal or unenforceable provisions with effective provisions within the highest limit of permission of laws and expectation of the Parties by sincerely negotiation, and the economic effects of such effective provisions shall as close as possible to that of those invalid, illegal or unenforceable provisions.

11.6 Assignment

Without prior written consent from the Sole Corporation, the Shareholders or the Company are not allowed to transfer any right and/or obligation under this Agreement to any third party; the Shareholders and the Company hereby agree that the Sole Corporation has the right to transfer its any right and/or obligation under this Agreement to any third party without prior notice to the Shareholders or the Company or their consent.

11.7 Successors

This Agreement shall be binding on the successor of each party and the permitted transferee.

11.8 Survival

11.8.1 Any obligation caused or due by this Agreement upon the expiration or early termination of this Agreement shall survive and remain in force after the expiration or early termination of this Agreement.

11.8.2 Article 5, 7, 8 and 11.8 of this Agreement shall survive and remain in force after the termination of this Agreement.

11.9 Waivers

Any Party may waive the terms and conditions of this Agreement in writing with signatures of the Parties. No waiver by any Party in certain circumstances with respect to a breach by other Parties shall operate as a waiver by such a Party with respect to any similar breach in other circumstances.

[The remainder of this page intentionally left blank.]

[Signature Page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

Biao Liu

Signature: /s/ Biao Liu

Zhongyuan Zhang

Signature: /s/ Zhongyuan Zhang

Shanghai Qyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Lei Li

Name: Lei Li

Title: Legal Representative

Shanghai DragonS Information Technology Co., Ltd.

(Seal)

Signature: /s/ Biao Liu

Name: Biao Liu

Title: Legal Representative

The Signature Page of Exclusive Option Agreement

Schedule I

Company Name: Shanghai DragonS Information Technology Co., Ltd.

Shareholding Structure:

Shareholder Name	Amount of Contribution of Company's registered capitals (RMB/Yuan)	Shareholding Ratio
Biao Liu	6,000,000	60%
Zhongyuan Zhang	4,000,000	40%
Total	10,000,000	100%

LOAN AGREEMENT

THIS Loan Agreement (this “**Agreement**”) is executed on January 1, 2019 in Shanghai, the People's Republic of China (“**PRC**”) by and among the following parties:

1. **Biao Liu**, Chinese, ID No.: [REDACTED];
2. **Zhongyuan Zhang**, Chinese, ID No.: [REDACTED] (together with Biao Liu hereinafter referred to as “**Borrower**”); and
3. **Shanghai Quyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Lender**”).

In this Agreement, the above parties are individually referred to as a “**Party**” and are collectively referred to as “**Parties**”.

Whereas:

1. The Lender is a wholly foreign-owned enterprise registered and established under the PRC law;
2. As of the date of this Agreement, the Borrowers collectively own 100% of the equity interests in the Shanghai DragonS Information Technology Co., Ltd. (the “**Domestic Company**”), and their respective capital contribution amount and shareholding ratios are shown in Schedule I attached hereto;
3. The Lender intends to provide the Borrowers with a loan for the purposes as specified in this Agreement.

Therefore, the Parties reached the agreements through negotiation as follows:

Article 1 Definitions

- 1.1 In this Agreement:

“**Loan**” means any and all loans provided by the Lender to the Borrower under this Agreement;

“**Due date**” shall have the meaning under Article 4.1 of this Agreement;

“**Notice of Repayment**” shall have the meaning under Article 4.2 of this Agreement;

“**Repayment Application**” shall have the meaning under Article 4.3 of this Agreement.

1.2 Relevant capitalized terms used and mentioned herein shall have the meanings given to them as below:

“**Articles**” shall be interpreted as articles in this Agreement unless the context of this Agreement stipulates otherwise;

“**Taxes and Fees**” shall be interpreted as a charge of any tax, fee, tariff, or other charges of equivalent nature (including, but not limited to, any fine or interest relating to the taxes and fees that are not paid or delayed).

The “**Borrower**” or “**Borrowers**” and the “**Lender**” shall be interpreted as including successors and assignees of all Parties.

1.3 Unless otherwise specified, any reference made herein to this Agreement or any other agreement or document shall, depending on the situation, be interpreted as references made to the amendments, changes, substitutions or supplements that have been made or could be made from time to time to this Agreement or to such other agreements or documents.

Article 2 Loan

2.1 Based on the terms and conditions of this Agreement, the Lender agrees to provide loans to the Borrowers in accordance with the terms and conditions stipulated herein. The actual amount of the Loan shall be separately determined by the Borrowers and the Lender in written. The Borrowers agree to accept the aforesaid Loan provided by the Lender in accordance with the conditions and terms stipulated in this Agreement and to provide funds to the Domestic Company to develop its business. Without the consent of the Lender, the Borrower shall not use the Loan for any purpose other than those stipulated herein.

2.2 The Parties confirm that the Borrowers shall perform repayment obligations and other obligations under this Agreement to the Lender in accordance with the provisions of this Agreement.

2.3 According to the requirements of the Lender, the Borrowers has executed an Equity Pledge Agreement with the Lender, the Domestic Company and other shareholders of the Domestic Company on the date the same as the execution date hereof, pursuant to which the Borrowers have pledged all the shares of the Domestic Company owned by them to the Lender as a guarantee for the Loan.

Article 3 Interest

Unless otherwise agreed herein, the Lender acknowledges and confirms that the Loan under this Agreement shall be free of any interest whatsoever.

Article 4 Repayment

- 4.1 Unless the Parties unanimously agree to extend the Loan, any loan under this Agreement shall be fully repaid by the Borrowers at one time on one of the following dates whichever occurs earlier (“**Due Date**”): (i) upon the expiration of ten (10) years after the execution of this Agreement, or (ii) upon the expiration of the operation term of the Lender, or (iii) upon the expiration of the operation term of the Domestic Company. Under such circumstance, to the extent that there is no violation of applicable laws and regulations, the Lender shall have the right to purchase or appoint a third party to purchase all the shares of the Domestic Company held by the Borrowers at that time at the lowest price permitted by the laws and regulations. The Parties agree to sign a separate agreement with other relevant parties with regard to the above matters.
- 4.2 From the execution date of this Agreement to the Due Date, the Lender may, at any time, decide to accelerate the maturity of the Loan on its absolute sole discretion by issuing a notice of repayment (“**Repayment Notice**”) to the Borrowers thirty (30) days in advance, requiring the Borrowers to repay part or all of the Loan amount. Under the circumstance that the Lender requests the Borrowers to repay according to the aforesaid provisions, the Parties agree and confirm that the Borrowers shall repay the Loan provided by the Lender to the Borrowers hereunder only by way of the following: to the extent permitted under PRC laws and regulations, the Borrowers shall, according to the requirements specified in the written notice of the Lender, transfer the equity interests of the Domestic Company to the Lender or its designated person, and repay the Loan hereunder to the Lender with the proceeds gained from their equity transfer. The Lender shall provide unconditional financial support to the Domestic Company based on this Agreement or any other agreement. Regardless of any provision otherwise agreed under this Agreement, the Lender irrevocably agrees that, if Borrowers are not able to (i.e. not permitted by law) repay the Loan in accordance with the provisions of this Agreement, it shall waive the right of requesting the repayment of the Borrowers.
- 4.3 When the Loan is due and the Borrowers are required to transfer the equity interests to the Lender or the person designated by the Lender, if, due to legal requirements or other reasons, the actual transfer price of the equity interests (the “**Equity**”) of the Domestic Company received by the Borrowers is higher than the principal of the Loan, the difference between the proceeds obtained from the Borrowers’ assignment of the Equity and the principal of the Loan shall be deemed as the interest of the Loan or as the cost for the occupation of funds, and shall be repaid to the Lender along with the principal of the Loan.
- 4.4 The Borrowers shall repay the aforementioned corresponding amount in cash or repay it in other forms determined by the resolution made by the Lender’s board of directors appropriately.

4.5 When the Borrowers repay the aforementioned corresponding amount in accordance with this Article 4, all Parties shall complete the agreed equity transfer matters at the same time, and ensure that the payment has been fully made. Meanwhile, the Lender or the third party designated by the Lender shall have legally and completely accepted the Equity of the Domestic Company according to the above-mentioned agreement, and there is no pledge or any other encumbrance on such equity interest. The Borrowers shall provide all reasonable assistance according to the foregoing agreement for the equity transfer of the Domestic Company, and cause other shareholders of the Domestic Company to waive their rights of first refusal.

4.6 Only when the Borrowers transfer all the equity interests in the Domestic Company they hold to the Lender or the third party designated by the Lender in accordance with this Article 4, and after the Loan is fully repaid (including the principal of the Loan and the maximum interest or cost of funds of the Loan as allowed by the applicable law at that time), it shall be deemed as a complete performance of the Borrower's repayment obligations under this Agreement.

Article 5 Taxes and Fees

All taxes and fees related to the Loan shall be borne by the Lender.

Article 6 Confidentiality

6.1 Whether or not this Agreement has been terminated, the Borrowers shall maintain confidentiality of all the information relating to the Lender's trade secret, proprietary information, client information ("**Confidential Information**") known to or obtained by the Borrowers during the course of execution and performance of this Agreement. The Borrowers shall only use such Confidential Information for purpose of their performance of their obligations hereunder. Without the Lender's written consent, any of the Borrowers shall not disclose any Confidential Information to any third party, otherwise such Borrower shall bear the default liabilities and compensate the losses incurred to the Lender.

6.2 The following information is not deemed as Confidential Information:

- (a) Any information is known and obtained by the recipient previously through legitimate form which could be evidenced by proof;
- (b) Information of the public which is not due to the recipient's fault; or
- (c) Information obtained through other legitimate form by the recipient after the recipient received the information.

6.3 Subsequent to the termination of this Agreement, the Borrowers shall return, destroy all the documents, materials or software containing the Confidential Information or dispose in other corresponding ways upon request from the Lender, and refrain from using such Confidential Information.

6.4 Notwithstanding any other provision hereunder, the effect of this Article 6 shall not be influenced by suspension or termination of this Agreement.

Article 7 Representations and Warranties

7.1 The Borrowers hereby irrevocably covenant and warrant that, without the prior written consent from the Lender, the Borrowers shall not make or authorize other person (including but not limited to the director of the Domestic Company nominated by the Lender) to make any resolution, instruction, consent or order in any way, to prompt the Domestic Company to make any transaction which will or may substantially affect the assets, rights, obligations or business (“Prohibited Transactions”) of the Domestic Company (including their branches and/or subsidiaries), including but not limited to:

- (1) borrow money from a third party or undertake any debt (except for the debts or guarantees arising from normal daily business activities and beyond the annual budget which amount does not exceed RMB 10,000,000 each);
- (2) provide guarantees to third parties for its own debt or provide any guarantee to a third party;
- (3) transfer any business, major assets, actual or potential business opportunities to a third party;
- (4) transfer or license any domain name, trademark, or other intellectual property (if any) that are legally owned by the Domestic Company to a third party;
- (5) transfer part or all of its equity interests in the Domestic Company to a third party;
- (6) any other major transaction;

or shall not execute any agreement, contract, memorandum or other form of transaction documents (“**Prohibited Document**”) concerning the Prohibited Transaction, and shall not indulge the process of any Prohibited Transaction or the execution of any Prohibited Document by any omission.

7.2 It will cause the directors and managers of the Domestic Company to strictly abide by this Agreement when performing their duties as the directors or managers, and do not conduct any action or omission which is contrary to any covenant aforementioned in any way.

Article 8 Notice

8.1 All notices and other communications required or sent under this Agreement shall be delivered personally, through registered mail, postage paid or business express service or fax to the Party’s following address. Each notice shall also be delivered by email at the same time. The dates on which the notices deemed to have been effectively delivered shall be determined as follows:

- 8.1.1 For notices delivered by personal delivery, express service or registered mail, postage paid, the effective delivery date shall be deemed as the date of delivery or refusal of receipt at the address specified for notices.

8.1.2 For notices delivered by fax, the effective delivery date shall be the date of successful transmit (as evidenced by an automatically generated confirmation of transmission)

8.2 For the purpose of notice, the addresses of the Parties are as follows:

The Borrowers:

Biao Liu

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

Zhongyuan Zhang

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

The Lender: Shanghai Quyun Internet Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

8.3 Any Party may at any time change its address for notices by a notice delivered to the other Parties in accordance with the terms hereof.

Article 9 Default Liability

9.1 The Borrowers covenant that it will undertake the corresponding liability to compensate to the Lender for any action, charge, claim, cost, damage, request, fee, liability, loss and procedure suffered or caused by the Borrower's violation of any obligation under this Agreement.

9.2 Notwithstanding any other provision of this Agreement, the effectiveness of this Article will not be influenced by suspension or termination of this Agreement.

Article 10 Miscellaneous

10.1 This Agreement is written in Chinese and executed in three (3) copies. Each party of this Agreement shall have one (1) and all the copies shall have equal legal effect.

10.2 The conclusion, effectiveness, implementation, modification, interpretation and termination of this Agreement shall all be governed by PRC laws.

- 10.3 Any dispute arising under this Agreement or related to this Agreement shall be resolved through negotiation among the disputing Parties. If the disputing Parties cannot reach an agreement within thirty (30) days after the dispute arose, the dispute shall be submitted to China International Economic and Trade Arbitration Commission. The arbitration shall be conducted in Shanghai according to the valid arbitration rules when submitting. The award of the arbitral tribunal shall be final and binding on all disputing Parties.
- 10.4 Any right, power, and remedy given to the Parties by any provision in this Agreement shall not exclude any other right, power or remedy the Party enjoys in accordance with the laws and other provisions under this Agreement. In addition, the exercise by one Party of its rights, powers and remedies shall not exclude such Party's exercise of other rights, powers and remedies it enjoys.
- 10.5 Any Party's failure or delay to exercise any right, power and remedy enjoyed by this Agreement or laws ("**Such Party's Rights**") will not cause waiver of such rights. In addition, waiver of any single or part of Such Party's Right will not exclude such Party's exercising of such rights in other ways and exercising other rights.
- 10.6 The title of Articles in this Agreement is only set for reference only, and such titles shall not be used to or affect the interpretation of Articles in this Agreement under any circumstance.
- 10.7 Each Article of this Agreement can be severable and independent from any other Article. If at any time any one or several Articles of this Agreement are found to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining Articles of this Agreement shall not be affected thereby.
- 10.8 This Agreement and the schedules hereof shall replace all verbal or written agreements, understandings and communications which covenanted previously by all Parties in respect of the standard contents of this Agreement and its schedules. Any amendment and supplement to this Agreement shall be made in writing and shall take effect after properly executed by the Parties hereto.
- 10.9 Without the prior written consent from the Lender, any Borrower shall not transfer any of its rights and/or obligations under this Agreement to any third party; The Lender shall have the right to transfer any of its rights under this Agreement to any third party it designated without prior notice to any Borrower or consent from any Borrower.
- 10.10 This Agreement shall be binding on legitimate assignees or successors of the Parties.

[The remainder of this page intentionally left in blank.]

[Signature Page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

Biao Liu

Signature: /s/ Biao Liu

Zhongyuan Zhang

Signature: /s/ Zhongyuan Zhang

Shanghai Qyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Lei Li

Name: Lei Li

Title: Legal Representative

The Signature Page of Loan Agreement

SCHEDULE I

Company Name: Shanghai DragonS Information Technology Co., Ltd.

Shareholding Structure:

Shareholder Name	Amount of Contribution of Company's registered capitals (RMB/Yuan)	Shareholding Ratio
Biao Liu	6,000,000	60%
Zhongyuan Zhang	4,000,000	40%
Total	10,000,000	100%

Share Pledge Agreement

THIS Share Pledge Agreement (this “**Agreement**”) is executed on June 1, 2019 by and among the following parties in Shanghai, the People’s Republic of China (the “**PRC**” or “**China**”):

1. **Linhong Wang**, Chinese, ID No.: [REDACTED];
2. **Jun Sun**, Chinese, ID No.: [REDACTED] (together with Linhong Wang hereinafter referred to respectively or collectively as “**Pledgor**” or “**Pledgors**”);
3. **Shanghai Quyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (the “**Pledgee**”); and
4. **Hubei Rapid Information Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Company**”).

In this Agreement, the above parties hereto may be individually referred to as a “**Party**” and collectively referred to as the “**Parties**”.

Whereas:

1. The Pledgors are registered shareholders of the Company, collectively hold 100% of the Company’s equity interests. As of the date of this Agreement, the respective amount of capital contribution and proportion of shareholding of the Pledgors in the Company are as stated in Schedule I.
2. Pursuant to the Exclusive Option Agreement (including the Agreement itself and any of its amendments or restatements, hereinafter referred to as the “**Option Agreement**”) executed by and among the Parties on the date of this Agreement, the Pledgors and/or the Company shall, as per requested by the Pledgee and to the extent permitted under the PRC law, transfer all or part of the equity interest held by the Pledgors and/or all or part of the assets in the Company to the Pledgee and/or any other entity or individual designated by the Pledgee.
3. Pursuant to the Loan Agreement (including the Agreement itself and any of its amendments or restatements, hereinafter referred to as the “**Loan Agreement**”) executed by the Pledgors and the Pledgee on the date of this Agreement, the Pledgee agrees to provide loans to the Pledgors in accordance with the terms and conditions stipulated in the Loan Agreement.
4. Pursuant to the Voting Rights Proxy Agreement (including the Agreement itself and any of its amendments or restatements, hereinafter referred to as the “**Voting Rights Proxy Agreement**”) executed by the Parties on the date of this Agreement, the Pledgors have irrevocably and fully authorized the person appointed by the Pledgee at that time to represent the Pledgors to exercise all their voting rights as shareholders in the Company.

5. Pursuant to the Exclusive Technical and Consulting Services Agreement (including the Agreement itself and any of its amendments or restatements, hereinafter referred to as the “**Consulting Services Agreement**”) executed by the Company and the Pledgee on the date of this Agreement, the Company has exclusively engaged the Pledgee to provide the Company relevant technical support and consultation services, and has agreed to pay corresponding service fees to the Pledgee for such provision of services.
6. To secure the performance of the Pledgors and the Company of the Contractual Obligations (as defined below) and the repayment of the Secured Indebtedness (as defined below), the Pledgors agree to pledge all of their equity interests in the Company in favor of the Pledgee, and grant the Pledgee the first priority right of pledge.

By friendly negotiation, the Parties agree as follows:

1. Definitions

Unless otherwise provided herein, the following words and terms shall have the respective meanings set forth below:

- 1.1 “**Contractual Obligations**” means all Contractual Obligations of the Pledgors and/or the Company under the Loan Agreement, the Consulting Service Agreement, the Option Agreement, the Voting Rights Proxy Agreement and this Agreement (and any of its amendments or restatements thereof).
- 1.2 “**Pledge**” means the security interest granted by the Pledgors to the Pledgee in accordance with Article 2 of this Agreement, which refers to the right to be compensated on a preferential basis with the conversion, auction or sales price of the equity interest enjoyed by the Pledgee.
- 1.3 “**Transaction Agreements**” means the Loan Agreement, the Option Agreement, the Voting Rights Proxy Agreement and the Consulting Service Agreement.
- 1.4 “**Secured Indebtedness**” includes all service fees as well as the interests incurred accordingly that shall be payable to the Pledgee and the repayment of the loan along with the interests incurred that shall be made by the Pledgors to the Pledgee under the Transaction Agreements; the amount of all direct, indirect and predictable loss of benefits arising out of any Event of Default (as defined below) caused by the Pledgors and/or the Company as determined by the Pledgee on its sole discretion (to the extent permitted by PRC law) which shall be fully binding on the Pledgors and the Company; all expenses of the Pledgee incurred from forcing the the Pledgors and/or the Company to perform the Contract Obligations, and fees and expenses for the enforcement of the Pledge (including but not limited to the legal fees, arbitration fees, costs of assessment and auction of the Pledged Interests and etc.).
- 1.5 “**Pledged Interests**” means all of the Company’s equity interests legally owned by the Pledgors as of the date of effectiveness of this Agreement which shall, pursuant to this Agreement, be pledged to the Pledgee as collateral security for the performance of the Contractual Obligations (as specifically stated in Schedule I).

- 1.6 “**Term of the Pledge**” refers to the term set forth in Article 3 of this Agreement.
- 1.7 “**Event of Default**” refers to any of the circumstances listed in Article 7 of this Agreement.
- 1.8 “**Notice of Default**” refers to the notice issued by the Pledgee in accordance with this Agreement declaring an Event of Default.

2. **Pledge of Equity Interests**

Pursuant to this Agreement, the Pledgors hereby agree to pledge, all of the equity interest which are legally held and are entitled to be disposed by the Pledgors (collectively representing 100% equity interest in the Company) to the Pledgee, as a jointly liability guarantee to secure the performance of the Contractual Obligations and the repayment of the Secured Indebtedness of the Pledgors and the Company.

3. **Term of the Pledge**

- 3.1 This Pledge shall become effective on such date when the pledge of the equity interest contemplated herein is registered with competent authority of Administration for Industry and Commerce (“**AIC**”). The Pledge shall continue until all Contractual Obligations have been fully performed by the Pledgors and the Company and all Secured Indebtedness have been paid in full, or all of the Transaction Agreements have been terminated or turned invalid, or the Contractual Obligations have been terminated for legal reasons.
- 3.2 The Pledgors and the Company shall (1) record the Pledge made under this Agreement on the Company’s register of shareholders when appropriate after the execution of this Agreement, and (2) file the Pledge with the appropriate AIC to complete the pledge registration of the Pledged Interests under this Agreement after the execution of this Agreement when appropriate. Such registration of Pledged Interests shall be completed within 20 working days after the date of this Agreement or other time period agreed by the Parties, and the certification documents concerning the registration with AIC shall be delivered to and kept by the Pledgee. The Parties jointly confirm that, in order to complete the procedure of pledge registration with AIC, the Parties and other shareholders of the Company shall submit this Agreement, or, a Pledge Contract executed in the way complying with the requirements of the AIC of the registered place of the Company in which truly reflects the information of the Pledge under this Agreement (“**Pledge Agreement for AIC Registration**”) to AIC. Matters that are not specified in the Pledge Agreement for AIC Registration shall be subject to the provisions of this Agreement. The Pledgors and the Company shall, as per required by relevant AIC and pursuant to the PRC laws and regulations, submit all necessary documents and complete all necessary procedures to ensure that the Pledge will be registered as soon as possible after filing the application.
- 3.3 In case of any Event of Default, the Pledgee shall be entitled to dispose the Pledged Interests in accordance with Article 8 of this Agreement.

- 3.4 Within the Term of Pledge, the Pledgors may, after obtaining prior consent from the Pledgee, receive dividends, bonuses or other profits generated from the Pledged Interests. The Pledgors agree that during the duration of the pledge of the equity interests, the Pledgee shall have the right to receive any dividend or bonus generated from the Pledged Interests. The Company shall pay such portion of fund to the bank account designated by the Pledgee.

4. Custody of Pledge Certificate

Within the Term of Pledge set forth in this Agreement, the Pledgors shall deliver the capital contribution certificate for the equity interest in the Company and the register of shareholders containing the Pledge to the Pledgee for the Pledgee's custody of such items. The Company shall not set up any register of shareholders other than the aforesaid one. The Pledgors shall deliver the above-mentioned capital contribution certificate and the register of shareholders to the Pledgee on the date of this Agreement, and the Pledgee shall maintain custody of such items throughout the entire Term of Pledge.

5. Representations and Warranties of the Pledgors

- 5.1 The Pledgors are the legal owners of the Pledged Interests and there is no existing dispute in relation to the ownership of the Pledged Interests.
- 5.2 The Pledged Interests are free to be pledged and transferred according to laws, and the Pledgors have full rights and authorities to pledge the Pledged Interests to the Pledgee in accordance with the provisions of this Agreement.
- 5.3 The Pledgors have not placed any right of pledge or other security interests on the Pledged Interests except for the Pledge.
- 5.4 The Pledge under this Agreement constitutes the first priority right of pledge placed on the Pledged Interests.
- 5.5 The Pledgors and the Company warrant to the Pledgee that the above-mentioned representations and warranties are true and correct and will be completely complied with in any case before the Contract Obligations have been fully performed or the Secured Indebtedness has been completely repaid.

6. The Pledgors' Covenants and Acknowledgements

- 6.1 The Pledgors hereby covenant to the Pledgee, that during the term of this Agreement, the Pledgors shall:
- 6.1.1 not transfer the Pledged Interests or create or permit the existence of any guarantee or other encumbrance on the Pledged Interests without prior written consent from the Pledgee, except for the performance of the Option Agreement;
- 6.1.2 comply with and execute all the laws and regulations applicable to the pledge of rights, present the notice, order or recommendation issued or promulgated by relevant competent authorities regarding the Pledge to the Pledgee within 5 days upon receipt such item, and comply with the aforementioned notice, order or recommendation, or, as per reasonable requested or consent of the Pledgee, submit objections and representations with respect to the aforementioned matters;

- 6.1.3 promptly notify the Pledgee of any event or notice received by the Pledgors that may have an impact on the Pledgee's rights to the equity interests or any portion thereof, and any event or notice received by the Pledgors that may have an impact on any warrant, obligation of the Pledgors or their performance of this Agreement.
- 6.2 The Pledgors agree that the right enjoyed by the Pledgee under the terms of this Agreement with respect to the Pledge shall not be interrupted or harmed by the Pledgors or any successor or representative of the Pledgors or any other person through any legal proceeding.
- 6.3 The Pledgors guarantee the Pledgee that, in order to protect or perfect the security interests granted under this Agreement securing the payment of the consulting and service fees under the Transaction Agreements, the Pledgors agree to execute in good faith and to cause other parties who have an interest in the Pledge to execute all certificates, agreements, and/or perform and cause other parties who have an interest in the Pledge to perform as required by the Pledgee. The Pledgors further agree to facilitate the exercise by the Pledgee of its rights and authorities granted thereto by this Agreement, and to enter into all relevant documents regarding the ownership of equity interest with the Pledgee or designees of the Pledgee (individuals/legal entities). The Pledgors agree to provide the Pledgee within a reasonable time with all notices, orders and decisions regarding the Pledge that are required by the Pledgee.
- 6.4 The Pledgors guarantee the Pledgee that the Pledgors will comply with and perform all the guarantees, promises, agreements, representations and conditions under this Agreement. If the Pledgors is not performing or fail to fully perform its guarantees, promises, agreements, representations and conditions, the Pledgors shall compensate the Pledgee for all losses suffered thereby.

7. Event of Default

- 7.1 Each of the following circumstances shall be considered as Event of Default:
- 7.1.1 Any breach of any of the Pledgors and/or the Company of any Contractual Obligation under the Loan Agreement, the Option Agreement, the Voting Rights Proxy Agreement, the Consulting Service Agreement, and/or this Agreement (and any amendment or restatement thereof);
- 7.1.2 Except for Article 6.1.1 of this Agreement, any waiver of the Pledgors of the Pledged Interests or any transfer or intended transfer of the Pledged Interests without written consent from the Pledgee;
- 7.1.3 Any external loan, guarantee, compensation, commitment or other payment liability of any of the Pledgors and/or the Company is required to be repaid or performed in advance, or is expired but cannot be repaid or performed as scheduled, which, at Pledgee's discretion, may be considered materially and adversely affect the ability of the Pledgors and/or the Company to perform its obligations hereunder;

- 7.1.4 Any occurrence of any material adverse change to the property of the Pledgors and/or the Company, which, at Pledgee's discretion, may be considered materially affect the ability of the Pledgors and/or the Company to perform its obligations hereunder; and
- 7.1.5 Occurrence of any event that prevents the Pledgee to exercise its right with respect to the Pledge.
- 7.2 Upon notice or awareness of the occurrence of any circumstance or event that may lead to the above-mentioned circumstances described in Article 7.1, the Pledgors shall immediately notify the Pledgee in writing accordingly.

8. Exercise of the Pledge

- 8.1 The Parties hereby agree that in the Event of Default, the Pledgee shall have the right to exercise all the rights and authorities of remedy for breach of contract enjoyed under the PRC laws, Transaction Agreements and this Agreement, including (but not limited to) auction or sale of the Pledged Interests and to be compensated in priority from what it gains after giving written notice to the Pledgors. The Pledgee is not responsible for any loss caused by its lawful and reasonable exercise of such rights and authorities.
- 8.2 Before the full payment of the consultation service fees and other fees under the Transaction Agreements has been made, the Pledgors shall not transfer the Pledge or the equity interest held in the Company without the Pledgee's written consent.
- 8.3 For reasonable expenses incurred when the Pledgee exercises any or all of the above-mentioned rights and authorities, the Pledgee shall have the right to deduct such expenses from the funds obtained from the exercise of its rights and authorities, based on the actual situation.
- 8.4 The fund obtained from the exercise of the Pledgee of its rights and authorities shall be processed in the following order:

Firstly, to pay for all expenses (including paying the emoluments of its attorneys and agents) arising from the disposal of the Pledged Interests and the exercise of the Pledgee of its rights and authorities;

Secondly, to pay payable taxes arising from the disposal of the Pledged Interests;

Thirdly, repay the Secured Indebtedness to the Pledgee;

The remaining fund after the deduction of the aforesaid items shall be returned by the Pledgee to the Pledgors or other person who enjoyed the right to the fund under relevant laws and regulations, or be deposited to the local notary office of the location of the Pledgee (any cost generated arising from such deposit shall be undertaken by the Pledgee).

- 8.5 The Pledgee has the right to appoint its legal counsels or other agents to exercise the Pledge on its behalf, and the Pledgor or the Company shall not raise any objections.
- 8.6 When the Pledgee disposes the Pledge in accordance with this Agreement, the Pledgors and the Company shall provide necessary assistance to enable the Pledgee to realize its Pledge.
- 8.7 The Pledgee shall be entitled to choose to, simultaneously or successively, exercise any of the remedies it enjoys for breach of contract. The Pledgee is not required to exercise any other remedy for breach of contract before exercising the right to auction or sell the Pledged Interests under this Agreement. The Pledgors or the Company does not have the right to challenge the Pledgee whether to exercise part of the Pledge or the sequential order of the exercise of the Pledge.

9. Liability of Breach

- 9.1 The Pledgee has the right to terminate this Agreement and/or require the the Pledgor and the Company to fully indemnify the Pledgee if the Pledgor or the Company substantially breach any articles hereof; this article 9 shall not preclude any other rights of the Plegeee hereunder.
- 9.2 Unless otherwise provided for by applicable laws, the Pledgor or the Company have no right to terminate or cancel this Agreement.

10. Assignment

- 10.1 The Pledgors shall not grant or transfer its rights and obligations under this Agreement without prior consent from the Pledgee.
- 10.2 This Agreement shall be binding on the Pledgors, their successors and authorized assignees, and shall be valid to the Pledgee and each of its successors and assignees.
- 10.3 The Pledgee may assign all or any of its rights and obligations under the Transaction Agreements to its designees (individuals/legal entities) at any time. In such case, the assignee shall have the rights and obligations that the Pledgee enjoys and undertakes under this Agreement, as if it was the original party to this Agreement. When the Pledgee assigns the rights and obligations under the Transaction Agreements, the Pledgors shall, upon the Pledgee's request, execute relevant agreements and/or documents relating to such assignment.
- 10.4 In the event of a change of the Pledgee due to the assignment, at the request of the Pledgee, the Pledgors shall execute a new pledge agreement with the new Pledgee on the same terms and conditions as this Agreement, and shall register such pledge with the relevant AIC.
- 10.5 The Pledgors shall strictly comply with the provisions of this Agreement and other relevant agreements jointly or respectively executed by the Parties, including the Exclusive Option Agreement and the Power of Attorney granted to the Pledgee, fulfill the obligations under each agreement, and refrain from any action/omission that may affect the effectiveness and enforceability of the Agreement. Any remaining right of the Pledgors with respect to the Pledged Interests hereunder shall not be exercised by the Pledgors except in accordance with written instructions from the Pledgee.

11. Termination

11.1 Upon fully fulfilled its obligations hereunder and paid all the guaranteed debts, the Pledgor shall have the right to require the Pledgee to release the Pledge under this Agreement, within a reasonable time period, and the Pledgee shall take necessary actions to deregister the Pledge with the relevant AIC.

11.2 Articles 9, 13, 14 and this article 11.2 will survive the termination of the Agreement.

12. Service fees and other expenses

All fees and actual expenses relating to this Agreement, including but not limited to legal fees, costs of production, stamp duties, and any other tax, fee and etc. shall be borne by the Company.

13. Confidentiality

Each Party hereto acknowledges and confirms to treat any oral or written material relating to this Agreement, the content of this Agreement and exchanged among for preparing or performing this Agreement as confidential information. Each party shall maintain the confidentiality of all such confidential information and shall not disclose any confidential information to any third party without the written consent of the other Parties, except for (a) any information is or will be acknowledged by the public (provided that it is not the result of a disclosure to the public without authorization made by a party who receives the confidential information); (b) any information required to disclose under the applicable laws and regulations, stock trading rules, or orders of government departments or courts; or (c) information required to be disclosed by any Party to its shareholders, investors, legal or financial counsels regarding the transaction stated in this Agreement, and such shareholders, legal or financial counsels shall also be required to comply with the confidentiality duties similar to the duties contained under this clause. Any disclosure by staff or agencies hired by a Party should be deemed as a disclosure by such party and such party shall be liable for breach of this Agreement. This article shall survive regardless of the termination of this Agreement for any reason.

14. Applicable Law and Dispute Resolution

14.1 The execution, effectiveness, interpretation, implementation, amendment and termination of this Agreement and the resolution of disputes shall be governed by PRC law.

14.2 Any dispute arising from interpretation and implementation of this Agreement shall be firstly solved by the Parties through friendly negotiation. If the dispute cannot be resolved within 30 days after the written notice sent from one party to the other for negotiation and resolution, any party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules then effective. The arbitration shall be conducted in Shanghai and the language used is Chinese. The award of the arbitral tribunal shall be final and binding on the Parties.

14.3 When any dispute arising from interpretation and implementation of this Agreement occurs and when any dispute is under arbitration, except for the matters under dispute, the Parties shall continue to exercise their other rights under this Agreement and perform their other obligations under this Agreement.

15. Notices

15.1 All notices and other communications required or sent under this Agreement shall be delivered personally, registered post, postage paid or business express service or fax to the Party's following address. Each notice shall also be delivered by email. The dates on which the notices shall be deemed to have been effectively delivered shall be determined as follows:

15.2 For notices delivered by personal delivery, express service or registered post, postage paid, the effectively delivered date shall be deemed as the date of delivery or refusal at the address specified for notices.

15.3 For the notices delivered by fax, the effectively delivered date shall be deemed as the date of delivered successfully. (as evidenced by an automatically generated confirmation of transmission)

15.4 For the purpose of notice, the addresses of the Parties are as follows:

The Pledgors:

Linhong Wang

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

Jun Sun

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

The Pledgee: Shanghai Quyun Internet Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

The Company: Hubei Rapid Information Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

15.5 Any Party may at any time send notice to other Parties in accordance with this Article to change its address for the purpose of receiving notice.

16. Severability

If one or several provisions of this Agreement are found to be invalid, illegal or unenforceable according to any law or regulation in any aspect, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or damaged in any aspect. The Parties shall strive for replacing those invalid, illegal or unenforceable provisions with effective provisions within the highest limit of permission of laws and expectation of the Parties by sincerely negotiation, and the economic effects of such effective provisions shall as close as possible to that of those invalid, illegal or unenforceable provisions.

17. Effectiveness

17.1 This Agreement shall become effective upon execution of the Agreement by all Parties.

17.2 Any amendment, supplement or change to this Agreement shall be made in writing and shall become effective upon completion of the governmental filing procedures (if applicable) after execution or affixing with seals of the Parties.

17.3 This Agreement is written in Chinese in four (4) originals. Each Party of this Agreement shall have one (1) and all the originals shall have equal legal validity.

[The remainder of this page intentionally left blank.]

[Signature Page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

Linhong Wang

Signature: /s/ Linhong Wang

Jun Sun

Signature: /s/ Jun Sun

Shanghai Quyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Fei Shen

Name: Fei Shen

Title: Legal Representative

Hubei Rapid Information Technology Co., Ltd.

(Seal)

Signature: /s/ Linhong Wang

Name: Linhong Wang

Title: Legal Representative

Schedule I

Company Name: Hubei Rapid Information Technology Co., Ltd.

Shareholding Structure:

Shareholder Name	Amount of Contribution of Company's registered capitals (RMB/Yuan)	Shareholding Ratio
Linhong Wang	6,000,000	60%
Jun Sun	4,000,000	40%
Total	10,000,000	100%

Shareholders' Voting Rights Proxy Agreement

THIS Shareholders' Voting Rights Proxy Agreement (this "**Agreement**") is executed on June 1, 2019 by and among the following parties in Shanghai, the People's Republic of China ("**PRC**"):

1. **Linhong Wang**, Chinese, ID No.: [REDACTED];
2. **Jun Sun**, Chinese, ID No.: [REDACTED] (together with Linhong Wang hereinafter referred to as "**Shareholders**");
3. **Shanghai Quyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] ("**Sole Corporation**"); and
4. **Hubei Rapid Information Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] ("**Company**").

In this Agreement, the above parties hereinafter shall be individually referred to as a "**Party**" and collectively referred to as the "**Parties**".

Whereas:

1. The Shareholders, being the Company's current shareholders, collectively hold 100% equity interest of the Company. As of the date of this Agreement, the amount of contribution and proportion of shareholding in the Company are as stated in Schedule I;
2. The Shareholders intend to delegate a person appointed by the Sole Corporation to exercise the Shareholders' voting rights in the Company and the Sole Corporation intend to appoint a person to accept such delegation.

The Parties come to an agreement as follows by friendly negotiation:

Article 1 Voting Rights Proxy

- 1.1 The Shareholders hereby irrevocably agree that after the Sole Corporation appoint someone other than staff of the Sole Corporation as an Assignee (definite as follows), the Shareholders will execute the Power of Attorney of which the content and format are as stated in Schedule II of this Agreement, authorizing the person designated by the Sole Corporation at that time (the "**Assignee**") to, at his own will and discretion and on behalf of the Shareholders, exercise the following rights respectively enjoyed by the Shareholders under the articles of association of the Company then effective. ("**Delegated Right**"):

- (1) propose to convene and attend a shareholders meeting of the Company according to the Company's articles of association as the proxy of each of the Shareholders;
- (2) exercise the voting rights on behalf of the Shareholders on the matters which are required to be discussed and resolved in the shareholders meeting, including, but not limited to the appointment and election of the directors of the Company and other senior management that should be appointed or dismissed by the Shareholders;
- (3) exercise other Shareholder's voting rights under the Company's article of association (including any other voting right of the Shareholders specified after the modification of such article of association).

1.2 The above-mentioned authorization and delegation shall subject to the condition that the Assignee is a Chinese and the Sole Corporation agrees with such authorization and delegation. The Assignee has the right to recommit. In terms of the above-mentioned matters, the Assignee may recommit other person or entity to handle such matters by neither sending prior notice to relevant shareholders nor obtaining the consent from relevant shareholders. When and only when the Sole Corporation sends a written notice to the Shareholders to dismiss or replace the Assignee, the Shareholders shall immediately authorize another Chinese person designated by the Sole Corporation to exercise such right. The new appointment shall replace the former one immediately upon execution and except for such situation, the Shareholders shall not revoke the delegation and authorization to the Assignee.

1.3 The Assignee shall prudently and diligently perform the Delegated Right within the scope of authorization specified in this Agreement. The Shareholders agree to recognize and be responsible for the corresponding liability of any legal consequence caused by the Assignee exercising the above-mentioned Delegated Right.

1.4 The Shareholders hereby confirm that the Assignee may exercise such Delegated Right without asking for the Shareholders' opinion in advance. However, the Assignee shall inform the Shareholders in time of the resolutions or proposals of convening temporary shareholders meeting are made.

1.5 The Shareholders hereby confirm that any action taken by the Assignee shall be deemed as an action of the Shareholders, and any documents or materials executed by the Assignee shall be deemed dully executed by the Shareholders with an authentic intention to do so.

Article 2 Right to Know

- 2.1 For the purpose of exercising the rights hereunder, the Assignee shall be entitled to get access to related information with respect to the Company's operation, business, client, finance, staff, etc. and to look up related materials. The Company shall cooperate sufficiently to this.

Article 3 Exercise of the Delegated Right

- 3.1 The shareholders will provide sufficient assistance with respect to the exercise of the Delegated Right by the Assignee, including promptly executing the Resolution of the shareholders meeting or other related legal documents made by the Assignee when necessary (to satisfy the requirements of the governmental authorities with respect to the documents submitted for approval, registration and filing).
- 3.2 If, at any time during the term of this Agreement, the authorization or exercise of the Delegated Right under this Agreement becomes unenforceable for any reason (except for breach of contract of the Shareholders or the Company), the Parties shall seek for an alternative solution most similar to the unenforceable provision and, if necessary, execute the supplementary agreement to amend or adjust the terms of this Agreement to make sure the purpose of this Agreement can be realized.

Article 4 Exemption and Indemnification

- 4.1 The Parties acknowledge that the Sole Corporation shall not be required to be liable for any responsibility to other parties or any third party or compensate in economic or other aspect due to the exercise of Delegated Right by Assignee under this Agreement.
- 4.2 The Shareholders and the Company agree to indemnify in full and hold harmless the Sole Corporation for any loss incurred or likely to incur by appointing the Assignee to exercise the Delegated Right, including but not limited to any loss caused by lawsuit, recovery, arbitration, claim bring by any third party against it or administrative investigation, punishment made by government departments, unless such loss is resulting from wilful misconduct or gross negligence of the Assignee.

Article 5 Representations and Warranties

- 5.1 The Shareholders hereby respectively and jointly represent and warrant the Sole Corporation that:
- 5.1.1 He/It is a Chinese citizen with full capacity or a limited liability company/limited partnership duly registered and validly existing under laws of domicile. He/It has complete and independent legal status and ability and is properly authorized to execute, deliver and perform this Agreement and can be a subject of litigation independently.
 - 5.1.2 He/It has the complete right and authorization to execute and deliver this Agreement and all other documents he/it is going to execute related to the transaction stated hereunder and has the full right and authorization to complete such transaction. This Agreement is executed and delivered legally and appropriately. This Agreement constitutes a legal and binding obligation of him/it and can be enforceable according to the provisions of this Agreement.
 - 5.1.3 He/It is a legally registered shareholder of the Company as of the effectiveness of this Agreement. Except for the rights set according to this Agreement, the Share Pledge Agreement and the Exclusive Option Agreement executed on the same date of this Agreement among the Shareholders, the Company and the Sole Corporation, there is no other third-party rights on the Delegated Right. In accordance with this Agreement, the Assignee may completely and sufficiently exercise its Delegated Right according to the Company's article of association then effective.
- 5.2 The Sole Corporation and the Company hereby respectively represents and warrants that:
- 5.2.1 It is a limited liability company duly registered and validly existing under the laws of domicile and has independent legal personality. It has complete and independent legal status and the ability to execute, deliver and perform this Agreement and can be a subject of litigation independently.
 - 5.2.2 It has the complete internal right and authorization of the Company to execute and deliver this Agreement and all other documents it is going to execute related to the transaction stated hereunder and has the full right and authorization to complete such transaction.

5.3 The Company further represents and warrants that:

5.3.1 The Shareholders are legally registered shareholders of the Company as of the effectiveness of this Agreement. Except for the right set according to this Agreement, the Share Pledge Agreement and Exclusive Option Agreement executed among the Shareholders, the Company and the Sole Corporation, there is no other third-party rights on the Delegated Right. In accordance with this Agreement, the Assignee may completely and sufficiently exercise its Delegated Right according to the Company's article of association then effective.

Article 6 Term of Agreement

6.1 Subject to Article 6.2 of this Agreement, this Agreement shall come into effect on the date the Parties executed formally. Unless and until earlier terminated with the Parties' written agreement or in accordance with Article 9.1 of this Agreement, this Agreement shall remain effective and in force.

6.2 This Agreement shall be terminated under the situation that the Company or the Sole Corporation does not complete the approval and registration procedure of extending the operating period when it expires.

6.3 This Agreement shall automatically be terminated if the Shareholders transfer all the equity interest of the Company they held to the Sole Corporation or the entity appointed by the Sole Corporation with the Sole Corporation's prior written consent.

Article 7 Notice

7.1 All notices and other communications required or sent under this Agreement shall be delivered personally, registered post, postage paid or business express service or fax to the Party's following address. Each notice shall also be delivered by email. The dates on which the notices shall be deemed to have been effectively delivered shall be determined as follows:

7.1.1 For notices delivered by personal delivery, express service or registered post, postage paid, the effectively delivered date shall be deemed as the date of delivery or refusal at the address specified for notices.

7.1.2 For the notices delivered by fax, the effectively delivered date shall be deemed as the date of delivered successfully. (as evidenced by an automatically generated confirmation of transmission)

7.2 For the purpose of notice, the addresses of the Parties are as follows:

Shareholders□

Linhong Wang
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

Jun Sun
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

The Sole Corporation: Shanghai Quyun Internet Technology Co., Ltd.
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

The Company: Hubei Rapid Information Technology Co., Ltd.
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

7.3 Any Party may at any time send notice to other Parties in accordance with this Article to change its address for the purpose of receiving notices.

Article 8 Confidentiality

8.1 Regardless of the termination of this Agreement, the Parties shall maintain the confidentiality of all information relating to other party's trade secret, proprietary information, client information and all other information with confidentiality acknowledged during the course of execution and performance of this Agreement ("**Confidential Information**"). The Party receiving the Confidential Information shall not disclose any Confidential Information to any third party except with the disclosing party of the Confidential Information's prior written consent or required by provisions of related laws, regulations or the listing location of the affiliated company of One Party to disclose to third parties; Except for the purpose of performing this Agreement, the recipient shall not use or indirectly use any Confidential Information.

8.2 The following information is not deemed as Confidential Information:

- (a) Any information is acknowledged by the recipient previously through legitimate form which could be evidenced by written proof;
- (b) Information of the public which is not due to the recipient's fault; or

(c) Information obtained through other legitimate form by the recipient after the recipient received the information.

- 8.3 The Party receiving the Confidential Information can disclose the information to its related staff, agents or professionals hired by the Party. However, the recipient shall make sure that such person will comply with the related terms and conditions of this Agreement and the recipient shall be liable for such person's breaching relating terms and conditions of this Agreement.
- 8.4 The effect of this Article shall not be influenced by the termination of this Agreement regardless of other provisions of this Agreement.

Article 9 Default Liability

- 9.1 The Parties agree and confirm that any substantial violation of any of the provisions under this Agreement of any Party ("**Defaulting Party**"), or any substantial failure of, or any delay on, performing any obligation under this Agreement will constitute a default under this Agreement (the "**Default**") and any party who is not a Defaulting Party ("**Non-Defaulting Party**") shall have the right to require the Defaulting Party to correct or take remedial measures in reasonable time period. If the Defaulting Party does not correct or take remedial measures in reasonable time period or ten (10) days after the other party informs the Defaulting Party in written of compensation requirements, then:
- 9.1.1 If the Shareholders or the Company is the Defaulting Party, the Sole Corporation shall have the right to terminate this Agreement and require the Defaulting Party to compensate.
- 9.1.2 If the Sole Corporation is the Defaulting Party, the Non-Defaulting Parties shall have the right to require the Defaulting Party to compensate. However, unless otherwise specified in laws, the Non-Defaulting Parties are not entitled to terminate or relieve this Agreement under any circumstance.
- 9.1.3 Regardless of any provision otherwise agreed under this Agreement, the effectiveness of this Article shall not be affected by suspension or termination of this Agreement.

Article 10 Miscellaneous

- 10.1 This Agreement is written in Chinese in four (4) originals. Each Party of this Agreement shall have one (1) and all the originals shall have equal legal validity.

- 10.2 PRC law will apply to the execution, effectivity, implementation, amendment, interpretation and termination of this Agreement.
- 10.3 Any dispute arising from interpretation and implementation of this Agreement shall be firstly resolved by the Parties through friendly negotiation. If the dispute cannot be resolved in thirty (30) days after the written notice sent from one party to the other for negotiation and resolution, any party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules then effective. The arbitration shall be conducted in Shanghai and the language used is Chinese. The award of the arbitral tribunal shall be final and binding on all Parties.
- 10.4 Any right, power and remedy empowered to any Party by any provision of this Agreement shall not exclude any other right, power and remedy enjoyed by such Party in accordance with laws and other provisions under this Agreement, and a Party's exercise of its rights, powers and remedies shall not exclude its exercise of other rights, powers and remedies enjoyed.
- 10.5 Any Party's failure or delay to exercise any right, power and remedy enjoyed by this Agreement or laws ("**the Party's Rights**") shall not cause waiver of such rights. In addition, the waiver of any single or part of the Party's Right shall not exclude such Party's exercising such rights in other ways and exercising other rights.
- 10.6 The title of Articles in this Agreement is set for reference only, and such titles shall not be used to or affect the interpretation of Articles in this Agreement under any circumstance.
- 10.7 Each provision of this Agreement can be severable and independent from any other provision. If one or several provisions of this Agreement are found to be invalid, illegal or unenforceable at any time, the validity, legality or enforceability of remaining provisions of this Agreement shall not be affected.
- 10.8 Any amendment, supplement of this Agreement shall be made in written and come into effect after proper execution of the Parties of this Agreement. Regardless of any provision otherwise agreed in this Agreement, without Sole Corporation's prior written consent, any Shareholder shall not revoke delegation of the Delegated Right under this Agreement and any Shareholder and the Company shall not terminate this Agreement. However, the Sole Corporation may, at any time inform the Shareholders and the Company to terminate this Agreement by sending written notice thirty (30) days in advance.

- 10.9 Without prior written consent from the Sole Corporation, other Parties are not allowed to transfer any right and/or obligation under this Agreement to any third party; the Shareholders and the Company hereby agree that the Sole Corporation has the right to transfer its any right and/or obligation under this Agreement to any third party without prior notice to related Shareholders or the Company or their consent.
- 10.10 This Agreement shall be binding on the legal successors of the Parties.
- 10.11 Every of the Shareholders shall be jointly liable for the obligations of the other Shareholders under this Agreement.

[The remainder of this page intentionally left blank.]

[Signature Page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

Linhong Wang

Signature: /s/ Linhong Wang

Jun Sun

Signature: /s/ Jun Sun

Shanghai Quyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Fei Shen

Name: Fei Shen

Title: Legal Representative

Hubei Rapid Information Technology Co., Ltd.

(Seal)

Signature: /s/ Linhong Wang

Name: Linhong Wang

Title: Legal Representative

□□□□□□□□□□

The Signature Page of the Voting Rights Proxy Agreement

Schedule I

Company Name: Hubei Rapid Information Technology Co., Ltd.

Shareholding Structure:

Shareholder Name	Amount of Contribution of Company's registered capitals (RMB/Yuan)	Shareholding Ratio
Linhong Wang	6,000,000	60%
Jun Sun	4,000,000	40%
Total	10,000,000	100%

Power of Attorney

This Power of Attorney (hereinafter referred to as the “**POA**”) is executed by Linhong Wang (ID No.: [REDACTED]) on _____, 2019 and provided to _____ (ID No. _____) (hereinafter referred to as “**Assignee**”).

I, Linhong Wang, hereby irrevocably grant the Assignee a comprehensive power of attorney, authorize the Assignee to represent me as my proxy, in the name of me, at his/her own will and discretion to exercise the following rights enjoyed for being a shareholder of Hubei Rapid Information Technology Co., Ltd. Co., Ltd. (hereinafter referred to as the “**Company**”):

- (1) propose to convene and attend shareholders meeting of the Company according to the Company’s articles of association as my proxy;
- (2) exercise the voting rights as my proxy on the matters which are required to be discussed and resolved on the shareholders meeting, including, but not limited to the appointment and election of the directors of the Company and other senior management that shall be appointed or dismissed by the shareholders meeting;
- (3) exercise other Shareholder’s voting rights as my proxy under the Company’s article of association (including any other voting right of Shareholders specified after the modification of such article of association).

The Assignee has the right to recommit. In terms of the above-mentioned matters, the Assignee may recommit other person or entity to handle such matters by neither sending prior notice to me nor obtaining consent from me.

I, hereby irrevocably confirm that, unless [] (“**Sole Corporation**”) requires me to change the Assignee, the period of validity of this POA shall continue until the Voting Rights Proxy Agreement executed by the Sole Corporation, the Company and the Shareholders on [] [], 2019 expires or early terminates.

Hereby authorized.

Name:

Signature: _____

Date: _____, 2019.

Power of Attorney

This Power of Attorney (hereinafter referred to as the “**POA**”) is executed by Jun Sun (ID No.: [REDACTED]) on _____, 2019 and provided to _____ (ID No. _____) (hereinafter referred to as “**Assignee**”)

I, Jun Sun, hereby irrevocably grant the Assignee a comprehensive power of attorney, authorize the Assignee to represent me as my proxy, in the name of me, at his/her own will and discretion to exercise the following rights enjoyed for being a shareholder of Hubei Rapid Information Technology Co., Ltd. (hereinafter referred to as the “**Company**”):

- (1) propose to convene and attend shareholders meeting of the Company according to the Company’s articles of association as my proxy;
- (2) exercise the voting rights as my proxy on the matters which are required to be discussed and resolved on the shareholders meeting, including, but not limited to the appointment and election of the directors of the Company and other senior management that shall be appointed or dismissed by the shareholders meeting;
- (3) exercise other Shareholder’s voting rights as my proxy under the Company’s article of association (including any other voting right of Shareholders specified after the modification of such article of association).

The Assignee has the right to recommit. In terms of the above-mentioned matters, the Assignee may recommit other person or entity to handle such matters by neither sending prior notice to me nor obtaining consent from me.

I, hereby irrevocably confirm that, unless [] (“**Sole Corporation**”) requires me to change the Assignee, the period of validity of this POA shall continue until the Voting Rights Proxy Agreement executed by the Sole Corporation, the Company and the Shareholders on [] [], 2019 expires or early terminates.

Hereby authorized.

Name:

Signature: _____

Date: _____, 2019.

Exclusive Technical and Consulting Service Agreement

THIS Exclusive Technical and Consulting Service Agreement (this “**Agreement**”) is made on June 1, 2019 by the following two parties in Shanghai, the People’s Republic of China (“**PRC**”):

1. **Shanghai Quyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Party A**”); and
2. **Hubei Rapid Information Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Party B**”).

Party A and Party B are hereinafter referred to individually as “**a Party**” and collectively as “**Parties**”.

Whereas: Party A is a wholly foreign owned company established in the Republic of China (“**PRC**”), with the necessary and appropriate resources to provide technical and consulting services.

Whereas: Party B is a domestic company established in the PRC, with a business scope of providing services such as information technology, computer science, technical services, technology research, technology transfer, technical consulting, design, make, act as agent for advertisement, making plans for cultural and art exchange, enterprise image, marketing strategy, and so on (the activities conducted by Party B currently or from time to time during the term of this Agreement, collectively “**Main Business**”)

Whereas: Party B wishes to engage Party A to provide Party B with certain technical support and consulting services.

By friendly negotiation, the Parties agree as follows:

1. **Service Provision**

- 1.1 Pursuant to the terms and conditions of this Agreement, during the term of this Agreement, Party B hereby appoints Party A as Party B’s exclusive service provider to provide Party B with comprehensive technical support, business support and related consulting services, which shall include services as determined necessary by Party A from time to time within the approved business scope of Party B, including but not limited to technical services, business consultations, assets equipment leasing, market consultancy, system integration, product research and system maintenance.
- 1.2 Party B agrees to accept the consultations and services provided by Party A. Party B further agrees that during the term of this Agreement, in terms of the services or other matters stipulated in this Agreement, it shall neither, directly or indirectly, accept any consultation and/or service that is the same as or similar to which under this Agreement provided by any third party, nor establish any similar cooperative relationship with any third party regarding the matters stated in this Agreement without Party A’s prior written consent. The Parties agree that Party A may appoint any other party (who may be designated to enter into certain agreements with Party B as described in Article 1.3), to provide Party B with the services and/or supports described under this Agreement.

1.3 Services Delivery

- 1.3.1 Party A and Party B agree that during the term of this Agreement, Party B may further enter into technical service agreement and consulting service agreement with Party A or other parties designated by Party A, as appropriate, in which shall describe the specific contents, manner, personnel and fees for each technical service and consulting service.
- 1.3.2 For better performance of this Agreement, the Parties agree that within the term of this Agreement, Party B will, as appropriate, based on the needs of business development, enter into Equipment/Asset Leasing Agreement with Party A or its designated party pursuant to which Party A or its designated party shall provide related equipment and assets to Party B.
- 1.3.3 Party B hereby grants to Party A an irrevocable and exclusive right to purchase, at Party A's option and in compliance with the laws and regulations of PRC, all or part of Party B's assets and business, at the lowest price as permitted by the PRC law. The Parties will enter into a separate agreement with respect to the terms and conditions of such transfer.
- 1.3.4 Party A has the right to assign part of the services to be performed under this Agreement to a third party.

2. Service Fees and Payment

The Parties agree that in consideration of the all the services provided by Party A to Party B under this Agreement, Party A shall provide bills to Party B on the basis of the price determined by Party A as well as the workload of services provided to Party B. Party B shall pay relevant service fees ("**Service Fees**") to Party A in accordance with the date and amount specified in the bills. Party A may unilaterally make other arrangements with respect to the payment of Service Fees at any time. If Party A adjusts the amount of Service Fees and informs Party B by prior written notice for such adjusted Service Fees, Party B shall pay the Service Fees at the adjusted amount. Service Fees shall be settled monthly on the basis of the actual services provided by Party A to Party B; Party B shall, within 30 days from the last day of each month, (a) provide Party A with the management statement, operating statistics and other financial information for the current month, including the income of Party B during the month; (b) pay the monthly Service Fees to Party A ("**Monthly Service Fee**"). Party B shall, within 90 days from the end of every financial year, (a) provide Party A with the audited financial statement of the current financial year, which shall be audited and certified by the independent chartered accountant approved by Party A; (b) If according to the audited financial statement, the total amount of the payment by Party B to Party A have any deficiency within the financial year, Party B shall pay Party A the balance.

3. **Intellectual Property and Confidentiality**

- 3.1 To the extent permitted under the PRC law, Party A shall have the exclusive rights and interests in all rights, ownership, interests and intellectual properties arising out of or created during the performance of this Agreement, which shall include, but not limited to, copyrights, patents, patent applications, software, technology secrets, trade secrets and other rights and interests. Party B shall sign all necessary documents, take all appropriate actions, submit all the documents and/or applications, provide all proper assistances and take all other actions solely determined by Party A as necessary to give all the ownership, rights and interests of such intellectual property to Party A, and/or perfect the protection of Party A's intellectual property rights.
- 3.2 Party B agrees to indemnify Party A for any and all economic losses that Party A suffers as a result of Party B's infringement of the intellectual property right of any third party (including copyright, trademark, patent and know-how).
- 3.3 The Parties acknowledge and confirm that any oral or written information exchanged between the Parties related to this Agreement, the content of this Agreement, and for preparing or performing this Agreement is confidential information. Each party shall maintain the confidentiality of the information and without the written consent of the other party, it shall not disclose any confidential information to any third parties, excluding the following: (a) any information is or will be acknowledged by the public (provided that it is not the result of a disclosure to the public without authorization made by a party who receives the confidential information); (b) any information required to disclose under the applicable laws and regulations, stock trading rules, or orders of government departments or courts; or (c) information required to be disclosed by any Party to its shareholders, investors, legal or financial counsels regarding the transaction stated in this Agreement, and such shareholders, legal or financial counsels shall also be required to comply with the confidentiality duties similar to the duties contained under this clause. Any disclosure by staff or agencies hired by a Party should be deemed as a disclosure by such party and such party shall be liable for breach of this Agreement. This article shall survive regardless of the termination of this Agreement for any reason.
- 3.4 Both Parties agree that this article shall survive and remain in full force and effect regardless of any modification, rescission or termination of this Agreement.

4. **Representations and Warranties**

- 4.1 Party A hereby represents and warrants as follows:
- 4.1.1 Party A is an exclusively foreign-owned enterprise legally registered and validly existing in accordance with PRC laws.

- 4.1.2 Party A has taken necessary corporate actions, achieved necessary authorizations, and obtained all consents and approvals by third parties and governmental authorities (if needed) for the execution and performance of this Agreement. The execution and performance of this Agreement by Party A does not violate any specific provision of laws or regulations.
- 4.1.3 This Agreement constitutes legal, valid and binding obligations of Party A, enforceable against it pursuant hereto.

4.2 Party B hereby represents and warrants as follows:

- 4.2.1 Party B is an enterprise legally registered and validly existing in accordance with PRC laws. Party B has obtained the permits and licenses issued by the governmental authorities required for engaging in main business.
- 4.2.2 Party B has taken necessary corporate actions, achieved necessary authorizations, and obtained all consents and approvals by third parties and governmental authorities (if needed) for the execution and performance of this Agreement. The execution and performance of this Agreement by Party B does not violate any specific provision of laws or regulations.
- 4.2.3 This Agreement constitutes legal, valid and binding obligations of Party B, enforceable against it pursuant hereto.

5. **Effectiveness and Term of the Agreement**

- 5.1 This Agreement is executed and taken effect on the date written first above. Unless earlier terminated in accordance with the terms of this Agreement or determined by Party B, this Agreement shall be effective indefinitely.
- 5.2 In case that either Party's business period expires, such Party shall, in a timely manner, to extend its business period to the extent such that this Agreement could be in effect and carried out on an ongoing basis. If either party's application to extend its business term is declined, this Agreement shall be void and null when the business term of such Party expires.
- 5.3 The rights and obligations of both Parties under sections 3,6,7,9 and this section 5.3 shall survive after the termination of this Agreement .

6. **Applicable Law and Dispute Resolution**

- 6.1 The execution, effectiveness, interpretation, implementation, amendment and termination of this Agreement and the resolution of disputes shall be governed by PRC law.

- 6.2 Any dispute arising from interpretation and implementation of this Agreement shall be firstly solved by both Parties through friendly negotiation. If the dispute cannot be resolved within 30 days after the written notice sent from one party to the other for negotiation and resolution, any party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules then effective. The arbitration shall be conducted in Shanghai and the language used is Chinese. The award of the arbitral tribunal shall be final and binding on both Parties.
- 6.3 When any dispute arising from interpretation and implementation of this Agreement occurs and when any dispute is under arbitration, except for the matters under dispute, both Parties shall continue to exercise their other rights under this Agreement and perform their other obligations under this Agreement.

7. **Indemnification**

- 7.1 Party A has the right to terminate this Agreement and/or require Party B to fully indemnify Party A if Party B substantially breach any sections hereof; this section 7.1 shall not preclude any other rights of Party A hereof.
- 7.2 Unless specifically provided for by applicable laws, Party A has no right, under any circumstances, to terminate or cancel this Agreement.
- 7.3 Party B shall indemnify in full and hold harmless of Party A for any loss, damage, liability or fee arising from the lawsuits, requests or other demands against Party A arising from the consulting and service provided to Party B according to this Agreement, unless such losses, damages, liabilities or fees are resulting from gross negligence or willful misconduct of Party A.

8. **Force Majeure**

- 8.1 Neither Party is responsible for any failure to perform its obligation under this Agreement, if it is prevented or delayed in performing those obligations by an event or circumstance which is beyond the control, unforeseeable, and unavoidable by such Party including, but not limited to, earthquake, typhoon, flood, fire, epidemic, war, strike (“Force Majeure”).
- 8.2 Where there is an event of force majeure, the Party prevented from or delayed in performing its obligations under this Agreement shall immediately notify the other Party of such event, and within 15 days thereafter provide the other Party with full particulars of the event of force majeure, and the reasons for the event of force majeure preventing that Party from, partially or fully, or delaying that Party in performing its obligations under this Agreement.
- 8.3 Failure to notify the other Party and to provide the particulars and reasons will subject that Party to liabilities for not fully performing its obligations under this Agreement. The Party claiming an event of force majeure shall use its reasonable efforts to mitigate the effect of the event of force majeure, and upon the termination of such event of force majeure, immediately fulfil its obligation hereunder. Failure to perform its obligations hereunder after the termination of an event of force majeure will subject such Party to liabilities.

9. **Notice**

9.1 All notices and other communications required or sent under this Agreement shall be delivered personally, registered post, postage paid or business express service or fax to the Party's following address. Each notice shall also be delivered by email. The dates on which the notices shall be deemed to have been effectively delivered shall be determined as follows:

9.1.1 For notices delivered by personal delivery, express service or registered post, postage paid, the effectively delivered date shall be deemed as the date of delivery or refusal at the address specified for notices.

9.1.2 For the notices delivered by fax, the effectively delivered date shall be deemed as the date of delivered successfully (as evidenced by an automatically generated confirmation of transmission).

9.2 For the purpose of notice, the addresses of the Parties are as follows:

Party A Shanghai Qyun Internet Technology Co., Ltd.

Address: [REDACTED]

Recipient:[REDACTED]

Mobile: [REDACTED]

Party B: Hubei Rapid Information Technology Co., Ltd.

Address: [REDACTED]

Recipient:[REDACTED]

Mobile: [REDACTED]

9.3 Any Party may at any time change its address for notices by a notice delivered to the other Party in accordance with the terms hereof.

10. **Assignment**

10.1 Without Party A's prior written consent, Party B shall not assign its rights and obligations to any third party.

10.2 Party B hereby agrees that Party A is entitled to assign its rights and obligations under this Agreement to any third party when necessary without prior notice to Party B or consent from Party B.

11. **Severability**

If one or several provisions of this Agreement are found to be invalid, illegal or unenforceable according to any law or regulation in any aspect, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or damaged in any aspect. The Parties shall strive for replacing those invalid, illegal or unenforceable provisions with effective provisions within the highest limit of permission of laws and expectation of both Parties by sincerely negotiation, and the economic effects of such effective provisions shall as close as possible to that of those invalid, illegal or unenforceable provisions.

12. **Amendments and supplements**

Both Parties may make amendments and supplements to this Agreement by written agreement. The amendments and supplements regarding this Agreement executed by both Parties are the constituent parts of this Agreement and shall have equivalent legal effect as this Agreement.

13. **Language and Copies**

This Agreement is written in Chinese in two originals. Each party shall retain one and all the originals shall be equally valid.

[The remainder of this page intentionally left blank.]

Shanghai Quyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Fei Shen
Name: Fei Shen
Title: Legal Representative

Hubei Rapid Information Technology Co., Ltd.

(Seal)

Signature: /s/ Linhong Wang
Name: Linhong Wang
Title: Legal Representative

The Signature Page of Exclusive Technical and Consulting Service Agreement

Exclusive Option Agreement

THIS Exclusive Option Agreement (this “**Agreement**”) is executed on June 1, 2019 by and among the following parties in Shanghai, the People’s Republic of China (“**PRC**”):

1. **Linhong Wang**, Chinese, ID No.: [REDACTED];
2. **Jun Sun**, Chinese, ID No.: [REDACTED] (together with Linhong wang hereinafter referred to as “**Shareholders**”);
3. **Shanghai Quyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Sole Corporation**”); and
4. **Hubei Rapid Information Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Company**”).

In this Agreement, the above parties hereinafter shall be individually referred to as a “**Party**” and collectively referred to as the “**Parties**”.

Whereas:

1. The Shareholders collectively hold 100% equity interests of the Company. As of the date of this Agreement, the amount of contribution and proportion of shareholding in the Company are as stated in Schedule I;
2. The Shareholders intend to grant the Sole Corporation an irrevocable and exclusive option to buy all the equity interest of the Company held by shareholders.

The Parties come to an agreement as follows by friendly negotiation:

1. Sales and Purchase of Equity Interests

1.1 Option Granted

The Shareholders hereby irrevocably grant the Sole Corporation an irrevocable and exclusive right to purchase the equity interest without any additional condition (“**Equity Interest Purchase Option**”), pursuant to which the Sole Corporation is granted to require the Shareholders to perform and complete all the approval and registration procedure required by PRC law so as the Sole Corporation may, at the price stated in Article 1.3 in this Agreement and in accordance with the steps decided solely by itself to the extent permitted by PRC law, to purchase, or designate a person or several persons (each, a “**Designee**”) to purchase, once or at multiple times at any time, all or part of the equity interest held by the Shareholders. The Sole Corporation agrees to accept such Equity Interest Purchase Option. The

Equity Interest Purchase Option shall be exclusive. Except for the Sole Corporation and its Designees, no other third parties shall have the Equity Interest Purchase Option or other rights related to the Shareholders' equity interest. The Company hereby agrees to the Shareholder's grant of the Equity Interest Purchase Option to the Sole Corporation. The term "**Person**" used in this Article and this Agreement shall refer to individuals, corporations, cooperative enterprises, partnerships, enterprises, trusts or non-corporate organizations.

1.2 Steps for Exercise

Subject to the compliance with PRC laws and regulations, the Sole Corporation may exercise its Equity Interest Purchase Option by sending a written notice to the Shareholders ("**Equity Interest Purchase Option Notice**"), in which shall specify: (a) the decision of the Sole Corporation to exercise its Equity Interest Purchase Option; (b) the percentage of equity interest the Sole Corporation intend to purchase from the Shareholders ("**Optioned Interests**"); and (c) the date for purchasing/transferring the Optioned Interests ("**Transferring Date**").

1.3 Equity Interest Purchase Price

When exercising its option, before the Shareholders are required to process the related Industry and Commerce Modification Registration, the Sole Corporation or its appointed entities or persons shall pay the Shareholders the corresponding transfer price which is the lowest price permitted under the PRC law and in accordance with the corresponding percentage of the Company's equity interest to be transferred. The Shareholders agree that upon receiving such amount of transfer price, it shall, following specific instructions of the Sole Corporation, (i) use such transfer price to repay the loan under the Loan Contract (including the amendments, supplements and restatements from time to time) executed by the Shareholders and the Sole Corporation on the same date of this Agreement, and/or (ii) return to the Sole Corporation or its Designees by legal means.

1.4 Transfer of Optioned Interests

For each exercise of the Equity Interest Purchase Option by the Sole Corporation:

1.4.1 the Shareholders shall instruct the Company to convene a shareholders meeting in time, at which a resolution shall be adopted to approve the Shareholder's transfer of the Optioned Interests to the Sole Corporation and/or the Designees.

1.4.2 the Shareholders shall obtain written statements from the other shareholders of the Company in which such shareholders shall agree with such transfer and to waive the right of first refusal in terms of transferring the Optioned Interests to the Sole Corporation and/or the Designees from the Shareholders.

- 1.4.3 the Shareholders shall execute an Equity Transfer Contract for every transfer with the Sole Corporation and/or (if applicable) the Designee according to the provisions of this Agreement and the Equity Interest Purchase Option Notice.
- 1.4.4 the relevant Parties shall execute all other necessary contracts, agreements or documents, obtain all necessary government permits and approvals and take all necessary actions to transfer the valid ownership of the Optioned Interests to the Sole Corporation and/or the Designees under the circumstances that there is no additional security interests, and cause the Sole Corporation and/or the Designees to become the registered owners of the Optioned Interests. For the purpose of this Article and this Agreement, the “**Security Interests**” shall include securities, mortgages, third party’s rights or interests, any purchase right, acquisition right, right of first refusal, right to offset, ownership retention or other guarantee arrangement; but for sake of clarity, it does not include any security interest created by this Agreement and the Share Pledge Agreement. The “**Share Pledge Agreement**” specified in this Article and this Agreement refers to the Share Pledge Agreement executed by the Sole Corporation, the Shareholders and the Company on the date of this Agreement. (“**Share Pledge Agreement**”)

2. **Covenants**

2.1 Covenants concerning the Company.

The Shareholders and the Company hereby covenant as follows:

- 2.1.1 without prior written consent of the Sole Corporation, not to supplement, change or amend the Company’s articles of association, increase or decrease its registered capital, or change its registered capital structure in any other manner;
- 2.1.2 to maintain the Company’s existence, manage its business and deal with its affairs prudently and effectively in accordance with good financial and business standards and practices;
- 2.1.3 without prior written consent of the Sole Corporation, not to sell, transfer, mortgage, or in any other manner dispose, or to create any other security interest on any asset, business or legal right to collect interests or beneficial interest of the Company at any time after the execution of this Agreement;
- 2.1.4 without prior written consent of the Sole Corporation, not to create, succeed to, guarantee or permit any debt, except for (i) any debt incurred in the course of the ordinary or daily business operation other than through loans, and (ii) any debt disclosed to and agreed by the Sole Corporation in writing;

- 2.1.5 to manage all the business in the course of the ordinary business operation to maintain the asset value of the Company, not to conduct any action/omission which is sufficient to affect its operating conditions and asset value;
- 2.1.6 without prior written consent of the Sole Corporation, not to execute any material contract, except for contracts executed in the course of the ordinary business operation (a contract will be deemed material if its total value exceeds RMB 1,000,000 in this Article);
- 2.1.7 without prior written consent of the Sole Corporation, not to provide a loan or financial credit to anyone;
- 2.1.8 to provide all material related to operation and financial condition of the Company as required by the Sole Corporation;
- 2.1.9 to purchase and hold, if required by the Sole Corporation, the insurance related to its assets and business from insurance companies acceptable to the Sole Corporation, at an amount and type of coverage typical for companies that operate similar businesses;
- 2.1.10 without prior written consent of the Sole Corporation, not to merge or combine with any person, or acquire or invest in any person with transaction value exceeding US\$2,000,000;
- 2.1.11 to inform the Sole Corporation immediately upon the occurrence or possible occurrence of any litigation, arbitration or administrative proceeding concerning the assets, business or income of the Company;
- 2.1.12 to the extent necessary to maintain the Company's ownership of its all assets, to execute all necessary or appropriate documents, take all necessary or appropriate actions and bring all necessary or appropriate lawsuits or make all necessary and appropriate defense against all claims;
- 2.1.13 without prior written consent of the Sole Corporation, not to distribute dividends in any way to each shareholder, except required by the Sole Corporation, the Company shall immediately distribute all the allocable profit to each shareholder;
- 2.1.14 in the event that the Company admits any new shareholder with the prior written consent of the Sole Corporation, to procure that the new shareholder sign an accession agreement to accede to this Agreement and assume the same obligations under this Agreement as the Shareholders;
- 2.1.15 to appoint anyone designated by the Sole Corporation to be the director or senior manager of the Company as required by the Sole Corporation;

- 2.1.16 not to engage in any business or activities that compete with the business of the Sole Corporation without the written consent of the Sole Corporation; and
- 2.1.17 not to dissolve the company or applying for a liquidation without the written consent of the Sole Corporation, unless mandatorily required by PRC laws.

2.2 Covenants concerning the Shareholders

The Shareholders hereby covenant as follows:

- 2.2.1 without prior written consent of the Sole Corporation, not to sell, transfer, mortgage, or in any other manner dispose, or to create any security interest on the legal interest or beneficial interest of the shares of the Company held by the Shareholders, except for the pledge set according to the Shareholder's Share Pledge Agreement;
- 2.2.2 to procure the Company's Shareholders Meeting and/or Board of Directors to disapprove to sell, transfer, mortgage, or in any other manner dispose, or to create any security interest on the legal interest or beneficial interest of the equity interest of the Company held by the shareholders without prior written consent of the Sole Corporation, except for the pledge set according to the Shareholder's Share Pledge Agreement;
- 2.2.3 without prior written consent of the Sole Corporation, to procure the Company's Shareholders Meeting or the Board of Directors not to approve the Company to merge or combine with, acquire or invest in, any person;
- 2.2.4 to inform the Sole Corporation upon the occurrence or possible occurrence of any litigation, arbitration or administrative proceeding concerning the equity interest they held;
- 2.2.5 to procure the Company's Shareholders Meeting or the Board of Directors to vote to approve the transferring of the Optioned Interest stated in this Agreement and take any other action as required by the Sole Corporation;
- 2.2.6 to the extent necessary to maintain its ownership of the equity interests, to execute all necessary or appropriate documents, take all necessary or appropriate actions and bring all necessary or appropriate lawsuits or make all necessary and appropriate defense against all claims.

- 2.2.7 to appoint anyone designated by the Sole Corporation to be the director and/or the executive director of the Company as required by the Sole Corporation.
- 2.2.8 as required by the Sole Corporation at any time, to transfer its equity interest immediately to the representative appointed by the Sole Corporation at any time without any condition according to the Equity Interest Purchase Option under this Agreement and waive its right of first refusal of transferring corresponding equity interest of any other shareholder;
- 2.2.9 to, in compliance with applicable PRC laws, donate the profits, dividend, and distributions from liquidation of the Company to the Sole Corporation or a person designated by the Sole Corporation in a timely manner; and
- 2.2.10 to strictly comply with this Agreement and any provision of other contracts executed by the Shareholders, the Company and the Sole Corporation jointly or respectively, to practically perform each of the obligations under such contracts and do not conduct any action/omission which is sufficient to affect the validity and enforceability of such contracts;

3. **Representations and Warranties**

The Shareholders and the Company hereby represent and warrant to the Sole Corporation, jointly and respectively, as of the date of this Agreement and as of each Transferring Date, that:

- 3.1 They have the authority to execute and deliver this Agreement, any share transfer contract executed for each assignment of the Optioned Interests (each referred to as a “**Transfer Contract**”) to which they are parties according to this Agreement, and have the authority and ability to perform their obligations under this Agreement and any of the Transfer Contracts. The Shareholders and the Company agree to enter into the Transfer Contracts consistent with the terms of this Agreement when the Sole Corporation exercises the purchase options. This Agreement and the Transfer Contracts to which they are parties constitute or shall constitute their legal, valid and binding obligations and shall be enforceable against them in accordance with the provisions upon execution;
- 3.2 The execution and delivery of this Agreement or any of the Transfer Contracts and the performance of the obligations under this Agreement or any of the Transfer Contracts shall not: (i) cause the violation of any related PRC law; (ii) be inconsistent with the articles of association or other constitutional documents; (iii) cause the violation of any contract or document to which they are parties or are binding to them, or constitute breach of contract under any contract or document to which they are parties or are binding to them; (iv) cause the violation of any condition for the grant and/or continued effectiveness of any permit or approval issued to any party; or (v) cause the suspension, or revocation of, or additional conditions to any permit or approval issued to any party;

- 3.3 The shareholders have a good and merchantable title on the equity interest of the Company, and have not placed any security interest on such equity interests except for the pledge set pursuant to Shareholders' Share Pledge Agreements;
- 3.4 The Company has a good and merchantable title to all the assets and the Company has not set any security interest on such assets.
- 3.5 The Company does not have any outstanding debt, except for (i) debts incurred in the ordinary course of business, and (ii) debts disclosed to and agreed by the Sole Corporation in writing;
- 3.6 The Company complies with all the laws and regulations applicable to the acquisition of equity interest and assets; and
- 3.7 There are no pending or threatening lawsuits, arbitrations or administrative proceedings related to equity interest, assets of the Company or the Company at present.

4. Effective Date

This Agreement shall come into effect upon the execution of this Agreement of the Parties, and remain effect and force until the Shareholders have transferred the whole Equity Interest in accordance with terms of this Agreement to the Sole Corporation or designated person of the Sole Corporation.

5. Applicable Law and Dispute Resolution

5.1 Applicable Law

The execution, effectiveness, interpretation, implementation, amendment and termination of this Agreement and the resolution of disputes shall be governed by officially issued PRC laws publically available. For the matters that are not regulated under officially issued PRC laws publically available, International laws and conventions shall apply.

5.2 Dispute Resolution

Any dispute arising from interpretation and implementation of this Agreement shall be firstly solved by the Parties through friendly negotiation. If the dispute cannot be resolved in 30 days after the written notice sent from one party to the other for negotiation and resolution, any party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules then effective. The arbitration shall be conducted in Shanghai and the language used is Chinese. The award of the arbitral tribunal shall be final and binding on the Parties.

6. Taxes and Expenses

Each Party shall pay any and all of the taxes, costs and expenses for transfer and registration incurred thereby or levied thereon under PRC law in connection with the preparation and execution of this Agreement and other Transfer Contracts and the consummation of the transactions contemplated under this Agreement and other Transfer Contracts.

7. Notice

7.1 All notices and other communications required or sent under this Agreement shall be delivered personally, registered post, postage paid or business express service or fax to the Party's following address. Each notice shall also be delivered by email. The dates on which the notices shall be deemed to have been effectively delivered shall be determined as follows:

7.1.1 For notices delivered by personal delivery, express service or registered post, postage paid, the effectively delivered date shall be deemed as the date of delivery or refusal at the address specified for notices.

7.1.2 For the notices delivered by fax, the effectively delivered date shall be deemed as the date of delivered successfully (as evidenced by an automatically generated confirmation of transmission).

7.2 For the purpose of notice, the addresses of the Parties are as follows:

Shareholders:

Linhong Wang

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

Jun Sun

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

The Sole Corporation: Shanghai Quyun Internet Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

The Company: Hubei Rapid Information Technology Co., Ltd.

Address: [REDACTED]

Recipient: [REDACTED]

Mobile: [REDACTED]

7.3 Any Party may at any time send notice to other Parties in accordance with this Article to change its address for the purpose of receiving notices.

8. Confidentiality

Each Party hereto acknowledges and confirms to treat any oral or written materials relating to this Agreement, the content of this Agreement and exchanged among for preparing or performing this Agreement as confidential information. Each party shall maintain the confidentiality of all such confidential information and not disclose any confidential information to any third party without the written consent of the other Parties, except for (a) any information is or will be acknowledged by the public (provided that it is not a result of a disclosure to the public without authorization made by a party who receives the confidential information); (b) any information required to disclose under the applicable laws and regulations, stock trading rules, or orders of government departments or courts; or (c) information required to be disclosed by any Party to its shareholders, investors, legal or financial counsels regarding the transaction stated in this Agreement, and such shareholders, legal or financial counsels shall also be required to comply with the confidentiality duties similar to the duties contained under this clause. Any disclosure by staff or agencies hired by a Party should be deemed as a disclosure by such party and such party shall be liable for breach of this Agreement. This article shall survive regardless of the termination of this Agreement for any reason.

9. Further Covenants

The Parties agree to promptly execute documents that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement and take further actions that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement.

10. Liability of Breach

10.1 The Sole Corporation has the right to terminate this Agreement and/or require the Shareholders and the Company to fully indemnify the Sole Corporation if the Shareholders or the Company substantially breach any sections hereof; this section 10 shall not preclude any other rights of the Sole Corporation hereunder.

10.2 Unless otherwise provided for by applicable laws, the Shareholders or the Company have no right to terminate or cancel this Agreement.

11. Miscellaneous

11.1 Revision, Amendment and Supplement

Any revision, amendment or supplement to this Agreement shall be executed in a written agreement by each Party.

11.2 Entire Contract

Except for the revisions, supplements or amendments in writing executed after the execution of this Agreement, this Agreement shall constitute an entire contract reached by and among the Parties hereto with respect to the subject matter hereof, replacing all prior oral or written negotiations, statements and contracts beforehand in terms of the object of this Agreement.

11.3 Title

The title of this Agreement is only set for convenience, which shall not be used to interpret, state or otherwise affect the meaning of all the provisions in this Agreement.

11.4 Language

This Agreement is written in Chinese in four (4) originals. Each Party of this Agreement shall have one (1) and all the originals shall have equal legal validity.

11.5 Severability

If one or several provisions of this Agreement are found to be invalid, illegal or unenforceable according to any law or regulation in any aspect, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or damaged in any aspect. The Parties shall strive for replacing those invalid, illegal or unenforceable provisions with effective provisions within the highest limit of permission of laws and expectation of the Parties by sincerely negotiation, and the economic effects of such effective provisions shall as close as possible to that of those invalid, illegal or unenforceable provisions.

11.6 Assignment

Without prior written consent from the Sole Corporation, the Shareholders or the Company are not allowed to transfer any right and/or obligation under this Agreement to any third party; the Shareholders and the Company hereby agree that the Sole Corporation has the right to transfer its any right and/or obligation under this Agreement to any third party without prior notice to the Shareholders or the Company or their consent.

11.7 Successors

This Agreement shall be binding on the successor of each party and the permitted transferee.

11.8 Survival

11.8.1 Any obligation caused or due by this Agreement upon the expiration or early termination of this Agreement shall survive and remain in force after the expiration or early termination of this Agreement.

11.8.2 Article 5, 7, 8 and 11.8 of this Agreement shall survive and remain in force after the termination of this Agreement.

11.9 Waivers

Any Party may waive the terms and conditions of this Agreement in writing with signatures of the Parties. No waiver by any Party in certain circumstances with respect to a breach by other Parties shall operate as a waiver by such a Party with respect to any similar breach in other circumstances.

[The remainder of this page intentionally left blank.]

[Signature Page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

Linhong Wang

Signature: /s/ Linhong Wang

Jun Sun

Signature: /s/ Jun Sun

Shanghai Quyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Fei Shen

Name: Fei Shen

Title: Legal Representative

Hubei Rapid Information Technology Co., Ltd.

(Seal)

Signature: /s/ Linhong Wang

Name: Linhong Wang

Title: Legal Representative

Schedule I

Company Name: Hubei Rapid Information Technology Co., Ltd.

Shareholding Structure:

Shareholder Name	Amount of Contribution of Company's registered capitals (RMB/Yuan)	Shareholding Ratio
Linhong Wang	6,000,000	60%
Jun Sun	4,000,000	40%
Total	10,000,000	100%

LOAN AGREEMENT

THIS Loan Agreement (this “**Agreement**”) is executed on June 1, 2019 in Shanghai, the People's Republic of China (“**PRC**”) by and among the following parties:

1. **Linhong Wang**, Chinese, ID No.: [REDACTED];
2. **Jun Sun**, Chinese, ID No.: [REDACTED] (together with Linhong Wang hereinafter referred to as “**Borrower**”); and
3. **Shanghai Quyun Internet Technology Co., Ltd.**, a limited liability company established and validly existing under PRC law with its registered address at [REDACTED] (“**Lender**”).

In this Agreement, the above parties are individually referred to as a “**Party**” and are collectively referred to as “**Parties**”.

Whereas:

1. The Lender is a wholly foreign-owned enterprise registered and established under the PRC law;
2. As of the date of this Agreement, the Borrowers collectively own 100% of the equity interests in the Hubei Rapid Information Technology Co., Ltd. (the “**Domestic Company**”), and their respective capital contribution amount and shareholding ratios are shown in Schedule I attached hereto;
3. The Lender intends to provide the Borrowers with a loan for the purposes as specified in this Agreement.

Therefore, the Parties reached the agreements through negotiation as follows:

Article 1 Definitions

- 1.1 In this Agreement:

“**Loan**” means any and all loans provided by the Lender to the Borrower under this Agreement;

“**Due date**” shall have the meaning under Article 4.1 of this Agreement;

“**Notice of Repayment**” shall have the meaning under Article 4.2 of this Agreement;

“**Repayment Application**” shall have the meaning under Article 4.3 of this Agreement.

1.2 Relevant capitalized terms used and mentioned herein shall have the meanings given to them as below:

“**Articles**” shall be interpreted as articles in this Agreement unless the context of this Agreement stipulates otherwise;

“**Taxes and Fees**” shall be interpreted as a charge of any tax, fee, tariff, or other charges of equivalent nature (including, but not limited to, any fine or interest relating to the taxes and fees that are not paid or delayed).

The “**Borrower**” or “**Borrowers**” and the “**Lender**” shall be interpreted as including successors and assignees of all Parties.

1.3 Unless otherwise specified, any reference made herein to this Agreement or any other agreement or document shall, depending on the situation, be interpreted as references made to the amendments, changes, substitutions or supplements that have been made or could be made from time to time to this Agreement or to such other agreements or documents.

Article 2 Loan

2.1 Based on the terms and conditions of this Agreement, the Lender agrees to provide loans to the Borrowers in accordance with the terms and conditions stipulated herein. The actual amount of the Loan shall be separately determined by the Borrowers and the Lender in written. The Borrowers agree to accept the aforesaid Loan provided by the Lender in accordance with the conditions and terms stipulated in this Agreement and to provide funds to the Domestic Company to develop its business. Without the consent of the Lender, the Borrower shall not use the Loan for any purpose other than those stipulated herein.

2.2 The Parties confirm that the Borrowers shall perform repayment obligations and other obligations under this Agreement to the Lender in accordance with the provisions of this Agreement.

2.3 According to the requirements of the Lender, the Borrowers has executed an Equity Pledge Agreement with the Lender, the Domestic Company and other shareholders of the Domestic Company on the date the same as the execution date hereof, pursuant to which the Borrowers have pledged all the shares of the Domestic Company owned by them to the Lender as a guarantee for the Loan.

Article 3 Interest

Unless otherwise agreed herein, the Lender acknowledges and confirms that the Loan under this Agreement shall be free of any interest whatsoever.

Article 4 Repayment

4.1 Unless the Parties unanimously agree to extend the Loan, any loan under this Agreement shall be fully repaid by the Borrowers at one time on one of the following dates whichever occurs earlier (“**Due Date**”): (i) upon the expiration of ten (10) years after the execution of this Agreement, or (ii) upon the

expiration of the operation term of the Lender, or (iii) upon the expiration of the operation term of the Domestic Company. Under such circumstance, to the extent that there is no violation of applicable laws and regulations, the Lender shall have the right to purchase or appoint a third party to purchase all the shares of the Domestic Company held by the Borrowers at that time at the lowest price permitted by the laws and regulations. The Parties agree to sign a separate agreement with other relevant parties with regard to the above matters.

- 4.2 From the execution date of this Agreement to the Due Date, the Lender may, at any time, decide to accelerate the maturity of the Loan on its absolute sole discretion by issuing a notice of repayment (“**Repayment Notice**”) to the Borrowers thirty (30) days in advance, requiring the Borrowers to repay part or all of the Loan amount. Under the circumstance that the Lender requests the Borrowers to repay according to the aforesaid provisions, the Parties agree and confirm that the Borrowers shall repay the Loan provided by the Lender to the Borrowers hereunder only by way of the following: to the extent permitted under PRC laws and regulations, the Borrowers shall, according to the requirements specified in the written notice of the Lender, transfer the equity interests of the Domestic Company to the Lender or its designated person, and repay the Loan hereunder to the Lender with the proceeds gained from their equity transfer. The Lender shall provide unconditional financial support to the Domestic Company based on this Agreement or any other agreement. Regardless of any provision otherwise agreed under this Agreement, the Lender irrevocably agrees that, if Borrowers are not able to (i.e. not permitted by law) repay the Loan in accordance with the provisions of this Agreement, it shall waive the right of requesting the repayment of the Borrowers.
- 4.3 When the Loan is due and the Borrowers are required to transfer the equity interests to the Lender or the person designated by the Lender, if, due to legal requirements or other reasons, the actual transfer price of the equity interests (the “**Equity**”) of the Domestic Company received by the Borrowers is higher than the principal of the Loan, the difference between the proceeds obtained from the Borrowers’ assignment of the Equity and the principal of the Loan shall be deemed as the interest of the Loan or as the cost for the occupation of funds, and shall be repaid to the Lender along with the principal of the Loan.
- 4.4 The Borrowers shall repay the aforementioned corresponding amount in cash or repay it in other forms determined by the resolution made by the Lender’s board of directors appropriately.
- 4.5 When the Borrowers repay the aforementioned corresponding amount in accordance with this Article 4, all Parties shall complete the agreed equity transfer matters at the same time, and ensure that the payment has been fully made. Meanwhile, the Lender or the third party designated by the Lender shall have legally and completely accepted the Equity of the Domestic Company according to the above-mentioned agreement, and there is no pledge or any other encumbrance on such equity interest. The Borrowers shall provide all reasonable assistance according to the foregoing agreement for the equity transfer of the Domestic Company, and cause other shareholders of the Domestic Company to waive their rights of first refusal.

4.6 Only when the Borrowers transfer all the equity interests in the Domestic Company they hold to the Lender or the third party designated by the Lender in accordance with this Article 4, and after the Loan is fully repaid (including the principal of the Loan and the maximum interest or cost of funds of the Loan as allowed by the applicable law at that time), it shall be deemed as a complete performance of the Borrower's repayment obligations under this Agreement.

Article 5 Taxes and Fees

All taxes and fees related to the Loan shall be borne by the Lender.

Article 6 Confidentiality

6.1 Whether or not this Agreement has been terminated, the Borrowers shall maintain confidentiality of all the information relating to the Lender's trade secret, proprietary information, client information ("**Confidential Information**") known to or obtained by the Borrowers during the course of execution and performance of this Agreement. The Borrowers shall only use such Confidential Information for purpose of their performance of their obligations hereunder. Without the Lender's written consent, any of the Borrowers shall not disclose any Confidential Information to any third party, otherwise such Borrower shall bear the default liabilities and compensate the losses incurred to the Lender.

6.2 The following information is not deemed as Confidential Information:

- (a) Any information is known and obtained by the recipient previously through legitimate form which could be evidenced by proof;
- (b) Information of the public which is not due to the recipient's fault; or
- (c) Information obtained through other legitimate form by the recipient after the recipient received the information.

6.3 Subsequent to the termination of this Agreement, the Borrowers shall return, destroy all the documents, materials or software containing the Confidential Information or dispose in other corresponding ways upon request from the Lender, and refrain from using such Confidential Information.

6.4 Notwithstanding any other provision hereunder, the effect of this Article 6 shall not be influenced by suspension or termination of this Agreement.

Article 7 Representations and Warranties

7.1 The Borrowers hereby irrevocably covenant and warrant that, without the prior written consent from the Lender, the Borrowers shall not make or authorize other person (including but not limited to the director of the Domestic Company nominated by the Lender) to make any resolution, instruction, consent or order in any way, to prompt the Domestic Company to make any transaction which will or may substantially affect the assets, rights, obligations or business

("Prohibited Transactions") of the Domestic Company (including their branches and/or subsidiaries), including but not limited to:

- (1) borrow money from a third party or undertake any debt (except for the debts or guarantees arising from normal daily business activities and beyond the annual budget which amount does not exceed RMB 10,000,000 each);
- (2) provide guarantees to third parties for its own debt or provide any guarantee to a third party;
- (3) transfer any business, major assets, actual or potential business opportunities to a third party;
- (4) transfer or license any domain name, trademark, or other intellectual property (if any) that are legally owned by the Domestic Company to a third party;
- (5) transfer part or all of its equity interests in the Domestic Company to a third party;
- (6) any other major transaction; or shall not execute any agreement, contract, memorandum or other form of transaction documents ("**Prohibited Document**") concerning the Prohibited Transaction, and shall not indulge the process of any Prohibited Transaction or the execution of any Prohibited Document by any omission.

7.2 It will cause the directors and managers of the Domestic Company to strictly abide by this Agreement when performing their duties as the directors or managers, and do not conduct any action or omission which is contrary to any covenant aforementioned in any way.

Article 8 Notice

8.1 All notices and other communications required or sent under this Agreement shall be delivered personally, through registered mail, postage paid or business express service or fax to the Party's following address. Each notice shall also be delivered by email at the same time. The dates on which the notices deemed to have been effectively delivered shall be determined as follows:

8.1.1 For notices delivered by personal delivery, express service or registered mail, postage paid, the effective delivery date shall be deemed as the date of delivery or refusal of receipt at the address specified for notices.

8.1.2 For notices delivered by fax, the effective delivery date shall be the date of successful transmit (as evidenced by an automatically generated confirmation of transmission)

8.2 For the purpose of notice, the addresses of the Parties are as follows:

The Borrowers:

Linhong Wang
Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

Jun Sun

Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

The Lender: Shanghai Quyun Internet Technology Co., Ltd.

Address: [REDACTED]
Recipient: [REDACTED]
Mobile: [REDACTED]

8.3 Any Party may at any time change its address for notices by a notice delivered to the other Parties in accordance with the terms hereof.

Article 9 Default Liability

9.1 The Borrowers covenant that it will undertake the corresponding liability to compensate to the Lender for any action, charge, claim, cost, damage, request, fee, liability, loss and procedure suffered or caused by the Borrower's violation of any obligation under this Agreement.

9.2 Notwithstanding any other provision of this Agreement, the effectiveness of this Article will not be influenced by suspension or termination of this Agreement.

Article 10 Miscellaneous

10.1 This Agreement is written in Chinese and executed in three (3) copies. Each party of this Agreement shall have one (1) and all the copies shall have equal legal effect.

10.2 The conclusion, effectiveness, implementation, modification, interpretation and termination of this Agreement shall all be governed by PRC laws.

10.3 Any dispute arising under this Agreement or related to this Agreement shall be resolved through negotiation among the disputing Parties. If the disputing Parties cannot reach an agreement within thirty (30) days after the dispute arose, the dispute shall be submitted to China International Economic and Trade Arbitration Commission. The arbitration shall be conducted in Shanghai according to the valid arbitration rules when submitting. The award of the arbitral tribunal shall be final and binding on all disputing Parties.

- 10.4 Any right, power, and remedy given to the Parties by any provision in this Agreement shall not exclude any other right, power or remedy the Party enjoys in accordance with the laws and other provisions under this Agreement. In addition, the exercise by one Party of its rights, powers and remedies shall not exclude such Party's exercise of other rights, powers and remedies it enjoys.
- 10.5 Any Party's failure or delay to exercise any right, power and remedy enjoyed by this Agreement or laws ("**Such Party's Rights**") will not cause waiver of such rights. In addition, waiver of any single or part of Such Party's Right will not exclude such Party's exercising of such rights in other ways and exercising other rights.
- 10.6 The title of Articles in this Agreement is only set for reference only, and such titles shall not be used to or affect the interpretation of Articles in this Agreement under any circumstance.
- 10.7 Each Article of this Agreement can be severable and independent from any other Article. If at any time any one or several Articles of this Agreement are found to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining Articles of this Agreement shall not be affected thereby.
- 10.8 This Agreement and the schedules hereof shall replace all verbal or written agreements, understandings and communications which covenanted previously by all Parties in respect of the standard contents of this Agreement and its schedules. Any amendment and supplement to this Agreement shall be made in writing and shall take effect after properly executed by the Parties hereto.
- 10.9 Without the prior written consent from the Lender, any Borrower shall not transfer any of its rights and/or obligations under this Agreement to any third party; The Lender shall have the right to transfer any of its rights under this Agreement to any third party it designated without prior notice to any Borrower or consent from any Borrower.
- 10.10 This Agreement shall be binding on legitimate assignees or successors of the Parties.

[The remainder of this page intentionally left in blank.]

[Signature Page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

Linhong Wang

Signature: /s/ Linhong Wang

Jun Sun

Signature: /s/ Jun Sun

Shanghai Quyun Internet Technology Co., Ltd.

(Seal)

Signature: /s/ Fei Shen

Name: Fei Shen

Title: Legal Representative

The Signature Page of Loan Agreement

SCHEDULE I

Company Name: Hubei Rapid Information Technology Co., Ltd.

Shareholding Structure:

Shareholder Name	Amount of Contribution of Company's registered capitals (RMB/Yuan)	Shareholding Ratio
Linhong Wang	6,000,000	60%
Jun Sun	4,000,000	40%
Total	10,000,000	100%

**LIST OF PRINCIPAL SUBSIDIARIES AND CONSOLIDATED VARIABLE INTEREST ENTITY AND ITS SUBSIDIARIES OF
QUTOUTIAO INC.**

Subsidiaries	Jurisdiction of Incorporation
InfoUniversal Limited	Hong Kong
Qtech USA Inc.	Delaware, United States
QTT Asia Ltd.	British Virgin Islands
Fun Literature Limited	Cayman Islands
Fun Literature (HK) Limited	Hong Kong
Shanghai Qyun Internet Technology Co., Ltd.* 上海趣云网络科技有限公司	PRC
Shanghai Dianguan Internet Technology Co., Ltd.* 上海迪观网络科技有限公司	PRC
Shanghai Zhicao Information Technology Co., Ltd.* 上海智巢信息技术有限公司	PRC
Consolidated Variable Interest Entity ("VIE")	
Shanghai Jifen Culture Communications Co., Ltd.* 上海积芬文化传播有限公司	PRC
Beijing Churun Internet Technology Co., Ltd.* 北京楚润网络科技有限公司	PRC
Shanghai Big Rhinoceros Horn Information Technology Co., Ltd.* 上海大犀牛角信息技术有限公司	PRC
Anhui Zhangduan Internet Technology Co., Ltd.* 安徽张段网络科技有限公司	PRC
Shanghai DragonS Information Technology Co., Ltd.* 上海龙S信息技术有限公司	PRC
Hubei Rapid Information Technology Co., Ltd.* 湖北瑞普信息技术有限公司	PRC
Subsidiaries of the Consolidated VIE	
Beijing Qukandian Internet Technology Co., Ltd.* 北京趣坎典网络科技有限公司	PRC
Shanghai Xike Information Technology Service Co., Ltd.* 上海兮科信息技术服务有限公司	PRC
Shanghai Tuile Information Technology Co., Ltd.* 上海推乐信息技术有限公司	PRC
Tianjin Quwen Internet Technology Co., Ltd.* 天津趣文网络科技有限公司	PRC
Beijing Supreme Pole International Sports Promotion Co., Ltd.* 北京 Supreme Pole International Sports Promotion Co., Ltd.*	PRC

* The English name of this subsidiary, consolidated VIE or subsidiary of consolidated VIE, as applicable, has been translated from its Chinese name.

**Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Eric Siliang Tan, certify that:

1. I have reviewed this annual report on Form 20-F of Qutoutiao Inc. (the “Company”);
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
 4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has
-

materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;
and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 23, 2020

By: /s/ Eric Siliang Tan
Name: Eric Siliang Tan
Title: Chairman and Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Xiaolu Zhu, certify that:

1. I have reviewed this annual report on Form 20-F of Qutoutiao Inc. (the “Company”);
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
 4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has
-

materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;
and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 23, 2020

By: /s/ Xiaolu Zhu
Name: Xiaolu Zhu
Title: Chief Financial Officer

**Certification by the Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of Qutoutiao Inc. (the "Company") on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric Siliang Tan, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 23, 2020

By: /s/ Eric Siliang Tan
Name: Eric Siliang Tan
Title: Chairman and Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of Qutoutiao Inc. (the “Company”) on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Xiaolu Zhu, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 23, 2020

By: /s/ Xiaolu Zhu
Name: Xiaolu Zhu
Title: Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-229673) and Registration Statement on Form F-3 (No. 333-234779) of Qutoutiao Inc. of our report dated April 23, 2020 relating to the financial statements, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China
April 23, 2020

Exhibit 15.2

April 23, 2020

To: Qutoutiao Inc.

11/F, Block 3, XingChuang Technology Center
Shen Jiang Road 5005,
Pudong New Area, Shanghai, 200120
People's Republic of China
+86-21-6858-3790

Re: Annual Report on Form 20-F of Qutoutiao Inc.

Dear Sirs:

We are qualified lawyers of the People's Republic of China (the "**PRC**", for purposes of this consent, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan) and as such, are qualified to advise on the laws and regulations of the PRC effective as at the date hereof.

We are acting as the PRC counsel to Qutoutiao Inc (the "**Company**"), an exempted company incorporated under the laws of the Cayman Islands, in connection with the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2019 (the "**2019 Annual Report**").

We consent to the reference to our firm under the headings "Risk Factors" and "Organizational Structure" in the Company's 2019 Annual Report, which will be filed with the Securities and Exchange Commission (the "**SEC**"). We also consent to the filing with the SEC of this consent letter as an exhibit to the 2019 Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully,
/s/ King & Wood Mallesons
King & Wood Mallesons