



PILLAR LEGAL

# Deep Dive into Draft Rules that Crashed China Game Stocks

## [CHINA REGULATION WATCH](#)<sup>1</sup>

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On December 22, 2023, China’s National Press and Publication Administration (国家新闻出版总署) (the “NPPA”) released for public comment a draft of the Online Game Administrative Measures (网络游戏管理办法) (the “Draft Measures”), which included spending limits and prohibitions on rewards to entice frequent gameplay. In reaction to the Draft Measures, the market capitalization of China’s leading game companies fell by nearly US\$80 billion.<sup>2</sup>

Although the new Draft Measures largely restate existing rules and practices (as explained further below), the new spending limits and prohibitions on frequent use incentives alarmed investors who have fresh memories of regulatory crackdowns on the tech sector in general and the game industry in specific. In recent years, China’s already heavily regulated video game industry<sup>3</sup> was the target of many new rules from the NPPA, including additional game approval requirements,<sup>4</sup> tightened limits on youth gameplay,<sup>5</sup> and not one but two eight-month long “pauses” on game censorship approvals.<sup>6</sup> In 2022, these regulatory challenges together with the difficult economic environment led to the first annual decline in game industry revenue.<sup>7</sup>

In 2023, China’s game market returned to growth,<sup>8</sup> helped by a stable pace of game approvals,<sup>9</sup> the lack of new regulatory burdens, and favorable statements about having solved the

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<sup>2</sup> See “[Tencent Leads \\$80 Billion Rout as China Rekindles Crackdown Fear](#)” posted by Bloomberg on December 22, 2023.

<sup>3</sup> Please find more information about the restrictions on game industry in our China Regulation Watch (“CRW”) - [Legal Primer: Regulation Of China’s Digital Game Industry](#).

<sup>4</sup> Please find more information about NPPA’s new requirements for game approvals in our CRW - [China’s New Game Approval Requirements](#).

<sup>5</sup> Please find more information about the minor anti-addiction rules in our CRW - [China Limits Minor Online Game Time to Three Hours Per Week](#).

<sup>6</sup> During the past seven years, the government “paused” game approval issuances for two extended periods. The first period lasted eight months from April to November of 2018, and the second period lasted another eight months from August 2021 to March 2022.

<sup>7</sup> According to 2022 China Game Industry Report (2022 年中国游戏产业报告), the total revenue of China’s game market dropped for the first time in the past twenty years, with a total decline of 10.33%, to RMB265.89 billion (US\$36.35 billion).

<sup>8</sup> According to 2023 China Game Industry Report (2023 年中国 游戏产业报告), the total revenue of China’s game market increased by 13.95% in 2023, to RMB302.96 billion (US\$42.6 billion).

<sup>9</sup> Please find more information about the new game approval trends in our CRW - [Trends in China Game Approvals: The New Normal](#).



problem of youth game addiction.<sup>10</sup> The industry and the market thought that regulatory tightening was in the past, in particular with the increased focus on improving the economy.<sup>11</sup> As a result, investors and industry insiders alike were surprised by the Draft Measures.

In response to the market reaction, on December 23, 2023, an NPPA official indicated that the Draft Measures aim to safeguard and promote the prosperous and healthy development of the online game industry, and that the NPPA “will carefully study the concerns and opinions raised” in order to further revise and improve the Draft Measures. In addition, on December 29, 2023, the China Audio-Video and Digital Publishing Association (中国音像与数字出版协会) (the “CADPA”), a semi-official game industry association affiliated with the Publicity Department of the Communist Party of China (中共中央宣传部), issued a notice to encourage its members to submit comments on the Draft Measures.<sup>12</sup> On January 3, 2024, foreign news sources reported that an official responsible for overseeing the NPPA was removed from office and that the removal was linked to the release of the Draft Measures.<sup>13</sup>

In this article we first provide background on the existing rules and practices in China’s video game industry. Then we look at the content of the Draft Measures, indicating which elements restate existing regulations and market practice, and which elements are new, with special focus on the one new rule that was directly responsible for the large drop in video game stock prices.

## I. Consolidating the Game Industry’s Rules

Prior to March 2018, two regulators exercised primary authority over the video game industry: the NPPA and the Ministry of Culture (文化部) (“MOC”). Both of them were involved with game censorship review and approval, game publication and operation licenses and the creation as well as enforcement of various industry regulations.<sup>14</sup> On March 21, 2018, the Communist Party of China (中国共产党) (the “CPC” or the “Party”) released the Plan to Deepen Reform of Party and State Institutions (深化党和国家机构改革方案), which consolidated

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<sup>10</sup> CADPA issued the 2022 China Game Industry Progress Report on the Protection of Minors (2022 中国游戏产业未成年人保护进展报告), which stated that the problem of youth game addiction in China is more or less solved. At the 2023 Game Conference, the secretary general of the CADPA also indicated that the government and parents are generally satisfied with the initial results from implementing the 2021 anti-addiction rules for minors.

<sup>11</sup> On June 2, 2023, Li Qiang, the Prime Premier of China, emphasized at a State Council executive meeting that “it is important to prioritize the creation of a business environment that is characterized by market orientation, adherence to the laws, and international standards.” He emphasized the aims to further stabilize societal expectations, boost confidence in development, stimulate market dynamism, and facilitate the sustained improvement of the economy’s performance. See the government official news report about the meeting [here](#).

<sup>12</sup> CADPA later removed the notice from its official website, but the news can be found on other social media websites including [here](#).

<sup>13</sup> See: “[Exclusive: China removes official after video games rules spark turmoil](#)” posted by Reuters on January 3, 2024.

<sup>14</sup> NPPA and MOC often clashed when attempting to assert regulatory control over the lucrative online game industry. A June 2008 government reorganization, for example, left some ambiguity as to whether MOC or NPPA was the primary regulator for China’s online game industry. When Blizzard announced a change in domestic operator for the World of Warcraft from The9 to NetEase, MOC and NPPA, each wanting to assert their authority, declared that the game needed to undergo another round of censorship review in connection with this change in operator. While NPPA and MOC struggled for regulatory control, World of Warcraft’s China operations were suspended for almost nine months. For additional background on the World of Warcraft transition saga, see the following articles by Greg Pilarowski at The Escapist: “[China and the World of Warcraft](#)”, posted on August 16, 2009, and “[Mind the GAPP: Update on WoW in China](#)”, posted on November 6, 2009.



primary game industry regulatory authority in NPPA, and moved NPPA from the government structure under the State Council (国务院) to the Party structure under the Propaganda Department of the Central Committee (中央宣传部) (the “CPD”).<sup>15</sup>

Prior to the reorganization in 2018, the MOC issued multiple rules regulating the industry including but not limited to:

- The Online Game Administration Interim Measures (网络游戏管理暂行办法), issued by MOC on June 3, 2010, which was a single comprehensive regulation for the industry (the “MOC Game Measures”);
- The Notice on Strengthening the Administration of Virtual Currency in Online Games (关于加强网络游戏虚拟货币管理工作的通知), jointly issued by MOC and the Ministry of Commerce (商务部) on June 4, 2009 (the “Virtual Currency Notice”); and
- The Notice on Regulating Online Game Operation and Strengthening Monitoring Work (关于规范网络游戏运营加强事中事后监管工作的通知), issued by MOC on December 5, 2016 (the “MOC Game Operation Notice”).

Following the reorganization, MOC ended its involvement with game content censorship review and the issuance of required licenses. In addition, during the summer of 2019 MOC officially abolished the MOC Game Measures and the MOC Game Operation Notice. The Virtual Currency Notice, which was jointly issued with the Ministry of Commerce, remains in effect. Since the 2018 reorganization, NPPA has become China’s sole regulator for the online game industry, but the relevant rules are scattered throughout different laws and regulations.<sup>16</sup> In addition, game companies generally continue to follow existing market practices established based on requirements from the now repealed MOC Game Measures and MOC Game Operation Notice. As a result, China has not had a comprehensive regulation governing the online game industry since the summer of 2019.

As reflected in the provisions of the Draft Measures, the NPPA intends to consolidate existing regulations in a single place, in addition to introducing select new obligations and restrictions.

<sup>15</sup> See “[Tencent and Chinese Gaming Rivals Shudder as Government Tightens Grip](#),” posted by Wall Street Journal on August 31, 2018.

<sup>16</sup> Laws and regulations that relate to online game industry include, among others, the Administrative Provisions on Online Publishing Service (网络出版服务管理规定) (the “Online Publishing Provisions”), issued by NPPA and MIIT (as defined below) on February 4, 2016; the Notice Regarding the Administration of Mobile Game Publication Services (关于移动游戏出版服务管理的通知), issued by NPPA on May 24, 2016; the Notice on Further Strengthening Regulation to Effectively Prevent Online Gaming Addictions Among Minors (进一步严格管理 切实防止未成年人沉迷网络游戏的通知), issued by NPPA on August 30, 2021; the Virtual Currency Notice.



## II. Restatement of Existing Rules

Many provisions in the Draft Measures restate existing regulations and market practices. Below we have summarized select restated rules with an emphasis on those that have caused the greatest confusion. The sections of the Draft Measures summarized below, because they simply restate existing rules, will not have a material impact on game company operations.

### A. Loot Box Rules.

The Draft Measures reconfirm that loot box features are permitted in games. Many of the current rules related to loot boxes were not restated in the Draft Measures, including the prohibition on direct purchases with legal currency and various disclosure obligations. When the proposed Draft Measures are finalized and become effective, our expectation is that current rules not restated will no longer be effective. Game operators are, however, required to establish reasonable winning odds and reasonable maximum draws to win, and should not encourage players to purchase an excessive number of loot boxes.<sup>17</sup> Unfortunately, the Draft Measures do not provide any details regarding what odds or maximum draws would be reasonable or what would qualify as encouraging excessive purchases. The table below compares the current loot box rules with the proposed loot box rules under the Draft Measures.

Current Loot Box Rules	Proposed Loot Box Rules
<u>No Legal Currency Purchases.</u> Players cannot use legal currency to directly purchase loot boxes. <sup>18</sup>	Requirement not restated in the proposed rules.
<u>Disclose Items.</u> Game operators shall disclose all information regarding the potential virtual items or value-added services that might be obtained through loot box features, including the names, functions, content and quantity of such virtual items or value-added services. <sup>19</sup>	Requirement not restated in the proposed rules.
<u>Disclose Odds.</u> Game operators shall disclose the odds of obtaining such potential virtual items or value-added services through the loot box features. <sup>20</sup>	The odds disclosure requirement was not restated in the proposed rules. Game operators are, however, required to establish reasonable winning odds and reasonable maximum draws to win. In addition, game operators should not encourage players to purchase an excessive number of loot boxes.

<sup>17</sup> See Article 27 of the Draft Measures.

<sup>18</sup> See Article 2, Section 6 of the MOC Game Operation Notice.

<sup>19</sup> See Article 2, Section 6 of the MOC Game Operation Notice.

<sup>20</sup> See Article 2, Section 6 of the MOC Game Operation Notice.



Current Loot Box Rules	Proposed Loot Box Rules
<u>Alternative Means to Acquire.</u> Online game operators shall provide and disclose alternative methods for players to acquire the same or similar virtual items or value-added services available through loot boxes, such as by exchanging other virtual items or directly purchasing such items or services. <sup>21</sup>	The same requirement is set forth in Article 27 of the Draft Measures.
<u>Disclose Results.</u> Online game operators shall disclose the results of user participation in loot box features on their official websites or in prominent locations in their games, and shall retain the records of such results for at least 90 days. <sup>22</sup>	Requirement not restated in the proposed rules.

B. No Forced Battle.

Article 17 of the Draft Measures bans forced player versus player battles, meaning game operators cannot allow a player to initiate a battle with another player without the consent of the second player. Player vs player battles are a core gameplay function for many simulation games (SLG), such as Clash of Clans, and multiplayer online battle arena games (MOBA), such as Dota 2 and League of Legends. Accordingly, many commenters suggested this proposed rule would have a significant impact on SLG and MOBA games in China.

The rule against forced player versus player battles is not, however, a new rule. The MOC Game Measures prohibited forced battle between players without the consent of all players,<sup>23</sup> and game companies in China have implemented this rule for many years. In practice, MOBA games require a player to click a “matching” button to find other players to battle, and many SLG games have a “PVP” toggle on – off button to allow players to avoid being “attacked” by other players. As a result, the “No Forced Battle” rule will not change existing market practice in China.

C. Server Hosting Inside China.

Articles 6.5 and 8.5 of the Draft Measures require game companies to locate their servers inside China to obtain the Online Publishing License (as defined below), which is required to publish and operate games in China. Many commenters remarked that this requirement is yet another example of China’s tightening control over user data.

<sup>21</sup> See Article 2, Section 8 of the MOC Game Operation Notice.

<sup>22</sup> See Article 2, Section 7 of the MOC Game Operation Notice.

<sup>23</sup> See Article 18.1 of the MOC Interim Measures.





Although China has implemented measures to require data localization, this particular game industry requirement is not new.<sup>24</sup> Article 8 of the Administrative Provisions on Online Publishing Services (网络出版服务管理规定) requires publishing entities to host each game's technical equipment, servers and storage equipment inside China. In addition, operating entities must locate their servers inside China to obtain an ICP License (as further explained below), which is required to operate games in China. As a result, the local server hosting requirement already applies to game companies operating in China.

D. Prohibition on Marketing Unapproved Games.

Article 29 of the Draft Measures requires marketing service providers to confirm that a game has received the required game approval from NPPA before providing marketing services for that game. This means that it is not permitted to conduct user acquisition activities inside China for unapproved games. Although this requirement appears to be new, user acquisition service providers and the platforms through which they operate already require submission of the game approval and software copyright registration before permitting any user acquisition activities for a game. As a result, this requirement won't have a material impact on game operators.

E. No Payment Services for Illegal Games.

Article 28 of the Draft Measures prohibits providing payment services for illegal games and illegal online game operations. Although the Draft Measures restate Article 27 of the MOC Game Measures, this old rule was not strictly enforced with respect to the international version of Steam, which currently can accept payments through Alipay and WeChat pay from players inside China. In addition, NPPA is not the primary regulator for online payment service providers, which means there is uncertainty whether NPPA will be able to enforce this requirement after the Draft Measures become effective.

F. Ad-Only Games.

Under the new Draft Measures, if a game technical test meets any of the following criteria, that test will be deemed to be operating an online game, and thus the game must first successfully complete the NPPA game censorship approval procedure.

- Publicly distributing client software allowing direct registration and server login (“publicly” meaning not a “closed” beta test with less than 20,000 users, which is further discussed below);
- Charging fees to online game users (i.e. must be free to users, no commercialization);
- Generating income through commercial cooperation or **advertising** (emphasis added); or

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<sup>24</sup> Please find more information about China's data localization requirements in our CRW – [Security Assessment for Cross-Border Data Transfers](#), and [Standard Contract for Cross-Border Transfers of Personal Information](#).



- Engaging in other actions that qualify as operating an online game.<sup>25</sup>

The above rules require games that monetize only through in-app advertising, or “ad-only games,” to obtain a game approval before public launch. This is not a new requirement and can be found in the MOC Game Operation Notice.<sup>26</sup> The prior MOC rule has not, however, always been enforced with respect to mobile ad-only games. For example, even after Apple began enforcing the game approval rule in 2020,<sup>27</sup> Apple continued to allow the distribution of ad-only games through its China App Store even when those games did not have the required game approval.<sup>28</sup>

### G. Protection of Minors.

Articles 37 to 44 of the Draft Measures focus on the protection of minors. Most of the requirements restate existing rules, such as playtime limits and spending limits, minor personal information protection requirements,<sup>29</sup> and age labeling requirements.<sup>30</sup> Article 39 of the Draft Measures does, however, introduce a new rule prohibiting game companies from providing loot boxes to minors under the age of 18. Due to the existing strict spending limits and playtime limits for minors,<sup>31</sup> this new loot box restriction is unlikely to have a substantial financial impact on China’s game companies. For example, according to Tencent’s 2023 first quarter financial report, minors under 18 accounted for only 0.4% and 0.7% of Tencent games’ total gameplay hours and revenue, respectively.<sup>32</sup>

## III. Select New Requirements

Although many rules in the Draft Measures simply restate existing rules or market practices, some of new rules target current market practices, and thus if implemented would have a significant negative impact on the profitability of China’s game companies.

### A. Spending Limits and Ban on Frequent Use Incentives.

Article 18 is the most controversial clause in the Draft Measures. This section would require online game companies to set user spending limits, disclose those limits in their terms of service, and provide pop-up warnings when users demonstrate irrational spending behavior.

<sup>25</sup> See Article 21 of the Draft Measures.

<sup>26</sup> See Article 1.1 and 1.2 of the MOC Game Operation Notice.

<sup>27</sup> Please find more information in our CRW - [Apple to Enforce Game Approval Rules in China](#).

<sup>28</sup> Ad-only games refers to those unapproved games without in-game purchases but monetizing through in-game ads. Please find more information in our CRWs on the topic: [Is Apple China Removing Ad-Only Games?](#); Section 4.4 of [Legal Primer: Regulation Of China’s Digital Game Industry](#); [Apple to Enforce Game Approval Rules in China](#).

<sup>29</sup> Please find more information in our CRW - [Implementing China’s Personal Information Protection Law](#).

<sup>30</sup> Please find more information about the age labeling requirement in Section 7 of the CRW - [Legal Primer: Regulation Of China’s Digital Game Industry](#).

<sup>31</sup> Please find more information about minor restrictions in our CRW - [China Limits Minor Online Game Time to Three Hours Per Week](#).

<sup>32</sup> See “[Tencent Announces 2023 First Quarter Results](#).”



This is not the first time that regulators established player spending limits. Previously, however, spending limits only applied to minors under the age of 18. The table below summarizes the current spending limits that apply to minors, which have been in effect since 2019.<sup>33</sup>

Age of Minors	Each Transaction Limits	Monthly Spending Limits
Under 8	RMB 0 Transactions Prohibited	RMB 0 Transactions Prohibited
From 8 to 16	RMB 50	RMB 200
From 16 to 18	RMB 100	RMB 400

Although the Draft Measures did not propose any specific numbers for spend limits, the mere suggestion that spending limits would apply to adults, in addition to children, caused uncertainty for China’s game companies and panic selling in the marketplace.

Article 18 of the Draft Measures would also prohibit online game companies from offering rewards as inducements for daily logins, initial account funding, or consecutive account funding, all of which are common practices among mobile and PC game publishers. In addition, Article 18 also prohibits game companies from using speculative or auction-based approaches to offer or condone high-priced transactions in virtual items.

NPPA’s might have intended for Article 18 to guide domestic game companies toward developing high-quality games rather than focusing on optimizing monetization tactics. Games with a high number of daily active users (DAU) but low average revenue per daily active user (ARPPDAU), such as Mihoyo’s Genshin Impact and NetEase’s Eggy Party, would not be materially affected by Article 18.

**B. Online Publishing License Scope Adjustment.**

The Draft Measures re-introduce an old requirement for game operating entities to obtain a government license before engaging in online game operations.

In China, under the applicable rules, there are two main game publishing service roles: (i) the “publishing entity” (出版单位), and (ii) the “operating entity” (运营单位). The publishing entity is responsible for completing an internal self-censorship review of the game content and for submitting the game approval application to NPPA. The publishing entity, which is often a government publishing house instead of a video game company, must hold an online publishing service license (网络出版服务许可证) (the “Online Publishing License”), which is issued by NPPA.<sup>34</sup> The operating entity is always a video game company, and under current rules is only required to hold a value-added telecommunication license for internet information services (互联

<sup>33</sup> See Article 3 of the Notice on Preventing Minors from Indulging in Online Games (关于防止未成年人沉迷网络游戏的通知) issued by NPPA on November 6, 2019.

<sup>34</sup> See Article 7 of the Online Publishing Provisions.





网信息服务增值电信业务经营许可证) (often referred to as an “ICP License”), which is issued by the Ministry of Industry and Information Technology (工业和信息化部) (“MIIT”).

Prior to the 2018 government reorganization, a company engaging in online game operation or online game virtual currency issuance or trading, was required to obtain an internet culture license (网络文化经营许可证) (the “Internet Culture License”) issued by MOC. Holders of that license were qualified to serve as the operating entity for a game. After the 2018 government reorganization, however, the Internet Culture License was no longer required to operate online games in China.<sup>35</sup>

The new Draft Measures essentially “restore” the license requirement for online game operation and online game virtual currency issuance or trading business, which would require an Online Publishing License (with online game operation service scope).<sup>36</sup> When the Draft Measures are implemented, commercially launching an online game will thus once again require three licenses:

- Publishing Entity. An online game publishing entity will continue to be required to hold an Online Publishing License (with online publishing service scope), issued by the central level of NPPA;<sup>37</sup> and
- Operating Entity. An online game operating entity will continue to be required to hold an ICP License issued by MIIT, and now to also hold an Online Publishing License (with online game operation service scope) to be issued by the provincial level offices of NPPA.<sup>38</sup>

The Draft Measures do not change the NPPA review period for game approvals. Article 7 of the Draft Measures requires a publishing entity to obtain the Online Publishing License from the central level of NPPA before conducting any online publishing related business, and indicates that the central level of NPPA shall review the application within 60 days. Article 9 of the Draft Measures requires the operating entity to obtain the Online Publishing License from the provincial-level offices of NPPA before conducting any online game operation related business, and indicates that the provincial-level offices of NPPA shall review the application within 60 days. Multiple foreign media outlets misread Article 7 and 9 to indicate that NPPA would complete the review of game approval application within 60 days of submission, which would have been a dramatic reduction in review period. Unfortunately, that is not what these articles say.

### C. One Year to Launch the Game after Obtaining Game Approval.

Article 12 of the Draft Measures requires companies to launch their games within one year after obtaining the game approval. If a game launch cannot be completed on time, the

<sup>35</sup> See the Notice on Adjusting the Scope of Online Cultural Business License (关于调整网络文化经营许可证审批范围的通知), issued by MOC on May 14, 2019.

<sup>36</sup> See Article 9 of the Draft Measures.

<sup>37</sup> See Article 6 and 7 of the Draft Measures.

<sup>38</sup> See Article 8 and 9 of the Draft Measures.



company must provide NPPA with a reasonable explanation. Under current practices, game companies must indicate the expected commercial launch date when applying for a game approval, and if the company doesn't launch the game on time, they are required to provide NPPA with an explanation.<sup>39</sup> In practice, given the unpredictable timing and often long wait periods for receiving a game approval, it is difficult to accurately estimate a commercial launch date at the time of applying for a game approval. In any event, the new requirement to launch a game within one year after receipt of the game approval does follow the logic of the existing rules, and would be an improvement if it replaces the current obligation to guess the commercial launch date far in advance.

#### D. Closed Beta Tests.

Article 21 of the Draft Measures permits game companies to conduct technical tests of a game prior to obtaining the required game approval, provided that the game company (i) limits the number of users to 20,000, (ii) reports the technical test to the relevant NPPA provincial level office, and (iii) deletes the gameplay data, including virtual items, from user accounts after the test ends. The first requirement is consistent with informal regulatory guidance that the industry has followed for many years. The last two requirements, NPPA reporting and deletion of gameplay data at the end of the test, are new requirements.

#### E. Mini-Game Exception.

Article 63 of the Draft Measures specifies that domestic mini-program games with no storyline, simple gameplay and no in-game monetization functions are not subject to the requirements of the Draft Measures.<sup>40</sup> This specific exclusion, however, implies that NPPA may issue other requirements to regulate mini-games. Currently, mini-games without in-app purchases distributed through other platforms like Wechat or Douyin are not required to obtain a game approval. They just need to register with MIIT as required under the new app registrations rules.<sup>41</sup>

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<sup>39</sup> See Article 3.4 of the Notice Regarding the Administration of Mobile Game Publication Services (关于移动游戏出版服务管理的通知).

<sup>40</sup> Mini-program games means those games distributed within WeChat or DouYin (TikTok China), such as “Sheep A Sheep (羊了个羊)”, a hit matching mini-game. Please find more information in the article “[Matching Mini-game “Sheep A Sheep” Hits It off in China, Arouses Controversy](#)” released by Pandaily on September 26, 2022.

<sup>41</sup> See the Notice on Conducting Registration for Mobile Internet Applications (关于开展移动互联网应用程序备案工作的通知) issued by MIIT on July 21, 2023.