

# CMGE Technology Group Limited

## 中手游科技集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0302)



### GLOBAL OFFERING

Joint Sponsors and Joint Global Coordinators



BNP PARIBAS

Joint Bookrunners



BNP PARIBAS



招銀国际  
CMB INTERNATIONAL



AMTD 尚乘



中投证券(香港)  
CHINA INVESTMENT SECURITIES (HK)

Joint Lead Managers



BNP PARIBAS



招銀国际  
CMB INTERNATIONAL



AMTD 尚乘



中投证券(香港)  
CHINA INVESTMENT SECURITIES (HK)



富途證券



茂宸證券有限公司  
MASON SECURITIES LIMITED



凱敏證券有限公司  
HERMES SECURITIES LIMITED

## IMPORTANT

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



### CMGE Technology Group Limited

中手游科技集团有限公司

(Incorporated in the Cayman Islands with limited liability)

### GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	461,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	46,100,000 Shares (subject to reallocation)
Number of International Offer Shares	:	414,900,000 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price (subject to a Downward Offer Price Adjustment)	:	HK\$2.83 per Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund) (If the Offer Price is set at 10% below the bottom end of the indicative Offer Price range after making a Downward Offer Price Adjustment, the Offer Price will be HK\$1.98 per Offer Share)
Nominal value	:	US\$0.0001 per Share
Stock code	:	0302

### Joint Sponsors and Joint Global Coordinators



### Joint Bookrunners



### Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection," in Appendix V to this prospectus has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered and sold within the United States or to, or for the account or benefit of any U.S. person, except that Offer Shares may be offered or sold to qualified institutional buyers in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or outside the United States in accordance with Regulation S.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, October 24, 2019 and, in any event, not later than Wednesday, October 30, 2019, or such other date as agreed between parties. The Offer Price will be no more than HK\$2.83 per Offer Share and is currently expected to be no less than HK\$2.19 per Offer Share (subject to the Downward Offer Price Adjustment) unless otherwise announced. If, for any reason, the Offer Price is not agreed by Wednesday, October 30, 2019, or such other date as agreed between parties between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors".

The Joint Global Coordinators may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.cmge.com](http://www.cmge.com) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Details of the arrangement will then be announced by us as soon as practicable. For further details, see the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. For further details, see the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination" in this prospectus.

October 19, 2019

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## EXPECTED TIMETABLE<sup>(1)</sup>

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*If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese).*

Latest time to complete electronic applications under

**White Form eIPO** service through the

designated website [www.eipo.com.hk](http://www.eipo.com.hk)<sup>(2)</sup> ..... 11:30 a.m. on Thursday,  
October 24, 2019

Application lists of the Hong Kong Public

Offering open<sup>(3)</sup> ..... 11:45 a.m. on Thursday,  
October 24, 2019

Latest time to lodge **WHITE** and **YELLOW**

application forms ..... 12:00 noon on Thursday,  
October 24, 2019

Latest time to give **electronic application**

**instructions** to HKSCC<sup>(4)</sup> ..... 12:00 noon on Thursday,  
October 24, 2019

Latest time to complete payment of

**White Form eIPO** applications by

effecting internet banking transfers or

PPS payment transfer(s) ..... 12:00 noon on Thursday,  
October 24, 2019

Application lists of the Hong Kong Public

Offering close ..... 12:00 noon on Thursday,  
October 24, 2019

Expected Price Determination Date<sup>(5)</sup> ..... Thursday, October 24, 2019

Where applicable, announcement of the Offer Price

being set below HK\$2.19 (the bottom end of the

indicative Offer Price range) after making

a Downward Offer Price Adjustment

(see the section headed “Structure of the Global Offering –

Pricing and Allocation – Announcement of Offer Price Reduction”)

on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and

the Company’s website at [www.cmge.com](http://www.cmge.com)

on or before<sup>(6)</sup> ..... Wednesday, October 30, 2019

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## EXPECTED TIMETABLE<sup>(1)</sup>

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(1) Announcement of:

- the Offer Price;
- the level of applications in Hong Kong Public Offering;
- an indication of the level of interest in the International Offering; and
- the basis of allocation of the Hong Kong Offer Shares,

to be published in the South China Morning Post  
(in English) and Hong Kong Economic Times  
(in Chinese) and on the websites of the Stock Exchange  
at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at  
[www.cmge.com](http://www.cmge.com) on or before<sup>(7)</sup> . . . . .Wednesday, October 30, 2019

- (2) Announcement of results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers where appropriate) to be available through a variety of channels including the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk)<sup>(8)</sup> and our Company at [www.cmge.com](http://www.cmge.com)<sup>(9)</sup> (see the section headed "How to Apply for Hong Kong Offer Shares – Publication of Results" in this prospectus) from . . . . .Wednesday, October 30, 2019
- (3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above will be published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.cmge.com](http://www.cmge.com) from . . . . .Wednesday, October 30, 2019

Results of allocations in the Hong Kong Public Offering will be available at [www.iporesults.com.hk](http://www.iporesults.com.hk)  
(alternatively: English <https://www.eipo.com.hk/en/Allotment>;  
Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a  
"search by ID" function . . . . .Wednesday, October 30, 2019

Dispatch/collection of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before<sup>(7)</sup> . . . . .Wednesday, October 30, 2019

Dispatch of **White Form e-Refund** payment instructions/ refund cheques in respect of wholly or partially unsuccessful applications on or before<sup>(10)</sup> . . . . .Wednesday, October 30, 2019

Dealings in Shares on the Stock Exchange expected to commence on . . . . .Thursday, October 31, 2019



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## EXPECTED TIMETABLE<sup>(1)</sup>

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- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning at any time between 9:00 a.m. and 12:00 noon on Thursday, October 24, 2019, the application lists will not open on that day. For further details, see the section headed “How to Apply for the Hong Kong Offer Shares – Effect of Bad Weather on the Opening and Closing of the Application Lists” in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for the Hong Kong Offer Shares – Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or around Thursday, October 24, 2019 and, in any event, no later than Wednesday, October 30, 2019, or such other date as agreed between parties. If, for any reason the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company by Wednesday, October 30, 2019, or such other date as agreed between parties, the Global Offering will not proceed and will lapse.
- (6) To be announced as soon as practicable after the Price Determination Date but before the allotment results announcement.
- (7) Share certificates are expected to be issued on Wednesday, October 30, 2019 but will only become valid provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at around 8:00 a.m. on Thursday, October 31, 2019. Investors who trade Shares on the basis of publicly available allocation details before the receipt of Share certificates and before they become valid do so entirely of their own risk.
- (8) The announcement will be available for viewing on the “Main Board – Allotment of Results” page on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.cmge.com](http://www.cmge.com).
- (9) None of the websites or any of the information contained on the website forms part of this prospectus.
- (10) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price per Offer Share payable on application.

The above expected timetable is a summary only. You should read carefully the sections headed “Underwriting”, “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” for further details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and the expected timetable, including conditions, effect of bad weather and the dispatch of refund cheques and Share certificates.

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### IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

*This prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Hong Kong Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus for purposes of a public offering and the offering and sale of the Hong Kong Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Hong Kong Public Offering is made solely on the basis of the information contained and the representations made in this prospectus. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained nor made in this prospectus and the Application Forms must not be relied on by you as having been authorized by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, employees, agents or representatives of any of them or any other parties involved in the Global Offering.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.*

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

### OVERVIEW

We are a leading IP-based game operator and publisher, focusing primarily on IPs relating to well-known cultural products and art works, such as icons or characters from popular animations, novels, and motion pictures, which have a significant fan base, market acceptance and commercial value. According to Analysys, amongst all Chinese independent mobile game publishers, we:

- ranked first in terms of cumulative revenue generated from publishing IP-based games from January 1, 2015 to June 30, 2019;
- ranked first in terms of the total number of published IP-based games from January 1, 2015 to June 30, 2019; and
- had the largest IP reserve that can be used to develop into IP-based games as of June 30, 2019.

We supply players around the world with mobile games based on the IPs that we license and own. We develop mobile games based upon these IPs by cooperating with third-party game developers and through our own in-house development team and then publish these games on our extensive publishing network. We also actively invest in IP owners and game developers to strengthen our mobile game ecosystem. We plan to further enhance our operation of IP brands globally by developing pan-entertainment products based on our IPs that grow in popularity and eventually develop their own dedicated fan base and subculture.

As of the Latest Practicable Date, we held licenses over 31 IPs and owned 68 proprietary IPs. As a critical part of our strategy to expand our access to IPs, we directly and indirectly invest in companies that create IPs which appeal to mobile game players and have the potential to be developed into successful IP-based mobile games. For example, we acquired a 51% equity interest in Beijing Softstar, a former subsidiary of Taiwan Softstar, and as a result we now possess five series of popular IPs, namely *Legend of Sword and Fairy* (仙劍奇俠傳), *Xuan Yuan Sword* (軒轅劍), *Monopoly* (大富翁), *Stardom* (明星志願) and *Empire of Angels* (天使帝國), comprising 68 video and PC game IPs in total. Through this acquisition we also gained the right to use all the IPs owned by Taiwan Softstar. We aim to further cooperate with Taiwan Softstar in the pan-entertainment expansion of its top Chinese IPs, explore their global value, and together build popular global IP brands.

We have a diversified, commercially successful and extensive mobile game portfolio. From the beginning of the Track Record Period and up to the Latest Practicable Date, we launched 97 mobile games. As of the Latest Practicable Date, we operated 73 games, amongst which 64 had been launched from the beginning of the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, 11 of our published games had lifecycles of over three years. During the six months ended June 30, 2019, we had an average paying user conversion rate of 7.3%, which is significantly higher than the industry average, according to Analysys. We have a strong game pipeline, and as of the Latest Practicable Date, we had already identified 29 games to potentially launch by the end of 2020. To further expand our game portfolio, we strategically invest in game developers whose core team has a track record of successful game development and with whom we have a working history. As of the Latest Practicable Date, we held equity interests in 12 mobile game developing companies, which serve as an important source of our new games. We have also acquired two game developers, namely Beijing Softstar (as to 51% equity interest) and Wenmai Hudong (as to 100% equity interest), both of which have developed and launched successful IP-based mobile games.

We have industry-leading and multifaceted global publishing capabilities and one of the largest mobile game publishing networks in China, and we are capable of publishing on all major platforms in China. As of the Latest Practicable Date, we cooperated with over 400 third-party publishing channels, including application stores and third-party open platforms, application stores operated by mobile phone manufacturers, and social network platforms.



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## SUMMARY

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Revenue from our continuing business for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019 was RMB1,001.2 million, RMB1,012.8 million, RMB1,596.2 million, RMB672.5 million and RMB1,529.1 million, respectively. Our net profit from our continuing business for these periods was RMB188.5 million, RMB265.0 million, RMB316.0 million, RMB162.7 million and RMB249.9 million, respectively. For further details, see “Financial Information – Consolidated Statements of Profit or Loss” in this prospectus.

### OUR BUSINESS MODEL

We operate in a mobile game ecosystem founded on popular IPs, which forms the basis of our business model. Within this ecosystem, we work closely with our business partners, including IP owners, game developers and publishing channels to offer a wide range of games to our game players. We both license IPs from their owners and possess proprietary IPs. We develop mobile games based upon these IPs by cooperating with third-party game developers and through our own in-house development team. We also license games directly from third-party game developers. Prior to the launch of our games, we cooperate with game developers to optimize the games through beta testing, and conduct sales and marketing activities to promote our games. Our games are published and made available to players on publishing channels, which provide us with player feedback and player in-game behavior data. After launching our games, we continue cooperating with game developers to operate our games and provide player services and technical support. Our central role in this ecosystem allows us to take advantage of our diverse operational capabilities, and ensures that we are able to supply mobile games to our players while also maximizing our gross billings and revenue. The diagram below illustrates the mobile game ecosystem in which we operate.



We derive the majority of our revenue from providing game publishing services to game developers, and we share a portion of the gross billings paid by game players with other participants in our mobile game ecosystem. Third-party publishing channels collect gross billings from game players and remit a portion to us after deducting their share of the gross billings. We retain a prescribed percentage of the gross billings collected from publishing channels, and remit the remaining amounts to third-party game developers and IP owners. We acquired our own publishing platform, namely VClub (勝利俱樂部), in September 2018. For our games published on VClub (勝利俱樂部), we collect gross billings directly from payment channels. Most of our games are operated under a free-to-play basis whereby players can play our games free of charge and are charged for the purchase of virtual currency that they can exchange for in-game virtual items. We record the monetary value of virtual currency as gross billings. During the Track Record Period, the majority of our games were developed by and licensed from third-party game developers.

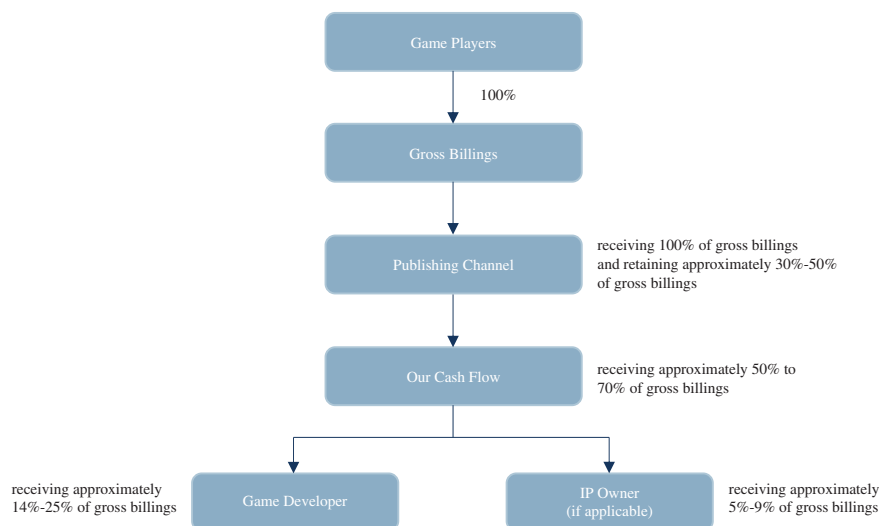
## SUMMARY

The following table sets forth a breakdown of our revenue and gross billings generated by games developed with or without IP during the Track Record Period.

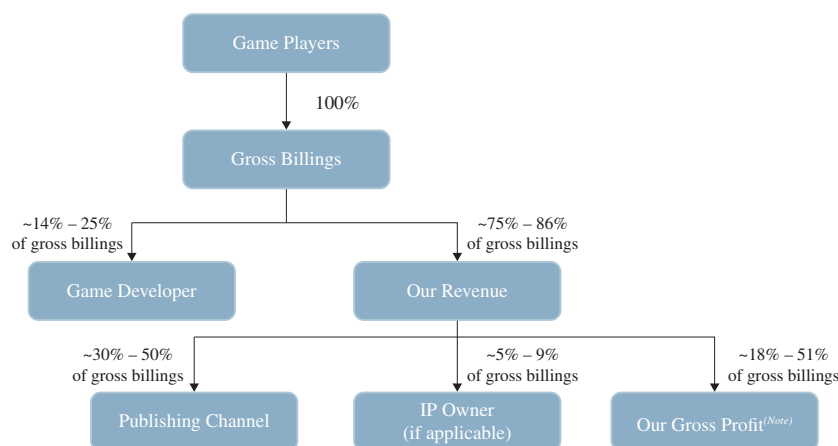
	Year ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	Revenue	Gross billings <sup>(Note)</sup>	Revenue	Gross billings <sup>(Note)</sup>	Revenue	Gross billings <sup>(Note)</sup>	Revenue	Gross billings <sup>(Note)</sup>	Revenue	Gross billings <sup>(Note)</sup>
	(in RMB thousands)						(Unaudited)			
IP-based games										
– our licensed/proprietary IP	518,609	786,537	447,057	629,723	490,215	1,005,107	321,647	625,370	996,797	1,289,528
– IP held by game developer	270,276	372,855	220,573	320,366	141,092	234,184	37,764	40,774	21,291	50,677
Non-IP based games	212,278	278,076	345,161	438,101	964,897	1,153,237	313,097	408,811	511,030	641,861
<b>Total</b>	<b>1,001,163</b>	<b>1,437,468</b>	<b>1,012,791</b>	<b>1,388,190</b>	<b>1,596,204</b>	<b>2,392,528</b>	<b>672,508</b>	<b>1,074,955</b>	<b>1,529,118</b>	<b>1,982,066</b>

*Note:* Our gross billings for the periods indicated are calculated based on our total revenue adjusted by factors including our IP licensing revenue and our gross billings shared with game developers, amongst others.

The diagram below sets out the typical fund flow of our game publishing business during the Track Record Period.



The following diagram illustrates the typical gross billing sharing process of our game publishing business during the Track Record Period.



*Note:* Not taking into consideration the amortization of game royalties, the amortization of IP royalties, and other costs that factor into our calculation of gross profit.

## SUMMARY

For our game publishing business, we view game developers as our customers, and consider ourselves to be their agent. Accordingly, we recognize our publishing revenue on the amount of the gross billings paid by our game players net of the amount remitted to third-party game developers. With respect to game publishing arrangements, as we are responsible for identifying, contracting with and maintaining relationships with publishing channels and IP owners, to the extent applicable, the revenue shared with and the royalties paid to publishing channels and IP owners are included in our cost of sales. For further details, see “Financial Information – Critical Accounting Policies, Judgments and Estimates – Revenue from Contracts with Customers – Mobile Game Publishing – Gross Versus Net Revenue Recognition” in this prospectus.

We also develop games internally, which we license to either our Group or other game publishers. For these games, we record the gross payments from players as revenue, and the amounts withheld by the publishing channels and game publishers are recorded as cost of sales. We recognize our game development revenues ratably over the estimated average playing period of paying users (the “**Player Relation Period**”), which was generally 13 days to three months during the Track Record Period. Our determination of the Player Relation Period for each game is based on our best estimate on a game-by-game basis, taking into account all known and relevant information at the time of the assessment. If a new game is launched and only limited paying user data are available, we consider other qualitative factors including the playing patterns of paying users for other games with similar characteristics. As the average Player Relation Period for any game can change over time, our estimates are subject to re-evaluation on a semi-annual basis. For further details, see “Financial Information – Critical Accounting Policies, Judgments and Estimates – Revenue from Contracts with Customers – Game Development” in this prospectus.

### Our IPs

We license IPs relating to well-known cultural products and art works that have an extensive and engaging fan base. We also acquire IPs by acquiring their owners. For a list of our licensed and proprietary IPs as of the Latest Practicable Date, see “Business – Our Business Model – Game Sourcing – Existing IP Reserve” in this prospectus.

### Our Game Portfolio and Pipeline

The majority of our games are licensed from third-party game developers. We also possess in-house development capabilities, and our game portfolio included nine games developed in-house during the Track Record Period. For a list of the games that we deem most important, see “Business – Our Business Model – Our Games – Existing Game Portfolio” in this prospectus.

The following table sets forth the key operating metrics of our games during the Track Record Period.

	Year ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
Average MAUs	13,115,117	7,076,510	11,058,128	8,585,213	13,990,023
Average MPUs	600,242	487,549	774,532	604,921	1,017,163
ARPPU ( <i>RMB</i> )	138.0	170.3	171.7	170.1	250.6
Total new registered users	59,690,969	34,795,776	66,849,648	29,907,024	39,998,231

The following table sets forth the key operating metrics and revenue contribution (both in absolute amount and as a percentage of our total revenue) of our top five revenue-generating games during the Track Record Period:

Year ended December 31,										Six months ended June 30,																			
2016					2017					2018					2019														
Game	Revenue (RMB'000)	%	Average MAUs	Average MPUs	ARPPU (RMB)	Game	Revenue (RMB'000)	%	Average MAUs	Average MPUs	ARPPU (RMB)	Game	Revenue (RMB'000)	%	Average MAUs	Average MPUs	ARPPU (RMB)	Game	Revenue (RMB'000)	%	Average MAUs	Average MPUs	ARPPU (RMB)						
One Piece – the Road of the Strong (航海王强者之路) (Note 1)	292,399	29.2	1,223,371	117,090	208.1	One Piece – the Road of the Strong (航海王强者之路) (Note 1)	190,569	18.8	966,234	68,905	230.5	The Land of the Dawn (曙光之地) (Note 1)	392,823	24.6	2,190,305	153,605	213.1	The Land of the Dawn (曙光之地) (Note 1)	168,238	25.0	1,949,390	120,173	233.3	The World of Legend – Thunder Empire (傳奇世界之雷霆霸業)	771,765	50.5	1,981,249	312,445	411.7
Heaven Sword and Dragon Slayer (倚天屠龍記) (Note 1)	233,215	23.3	911,803	116,811	249.6	Jue Zhan Sha Chang Zhi Ta Long (決戰沙城之屠龍) (Note 1)	136,040	13.4	925,342	82,333	137.7	One Piece – the Road of the Strong (航海王强者之路) (Note 1)	201,040	12.6	710,156	63,816	262.5	One Piece – the Road of the Strong (航海王强者之路) (Note 1)	132,874	19.8	757,544	66,860	331.2	The Land of the Dawn (曙光之地) (Note 1)	115,046	7.5	1,328,064	79,631	248.8
New Legend of Sword and Fairy (新仙劍奇俠傳) (Note 1)	123,969	12.4	285,023	20,170	512.2	Mystery of Wuxia (武林之謎) (Note 1)	130,132	12.9	687,436	66,029	197.1	The Story of the Flying Moral (凡人飛仙傳) (Note 1)	154,271	9.7	969,750	62,705	273.4	Magical Journey to the West (有魔性西游) (Note 1)	54,838	8.2	436,993	28,667	478.2	The Story of the Flying Moral (凡人飛仙傳) (Note 1)	99,843	6.5	1,876,686	105,085	138.4
Naruto – Ninja Master (火影忍者-忍者大師) (Note 1)	67,364	6.7	379,989	28,972	193.8	Eternal Myth (神話永恒) (Note 1)	98,003	9.7	571,508	51,130	191.7	The Attack – Advanced Version (攻沙加強版) (Note 1)	130,017	8.1	241,851	20,586	789.5	Fighter of Destiny (釋天記) (Note 1)	42,323	6.3	1,308,308	158,035	53.7	Dragon Ball – Awakening (龍珠覺醒) (Note 1)	91,375	6.0	982,408	91,314	200.1
National Gunfight (全民槍戰) (Note 2)	43,775	4.4	3,942,584	87,588	71.4	Heaven Sword and Dragon Slayer (倚天屠龍記) (Note 2)	76,737	7.6	144,353	19,357	330.4	The Battle (代號源門) (Note 1)	83,420	5.2	1,303,998	78,670	212.1	Naruto – Ninja Master (火影忍者-忍者大師) (Note 1)	30,245	4.5	265,451	18,405	273.9	One Piece – the Road of the Strong (航海王强者之路) (Note 1)	72,208	4.7	490,016	45,655	263.6
Total	760,722	76.0	6,742,770	370,611	171.1	Total	631,501	62.4	3,294,873	287,754	182.9	Total	961,571	60.2	5,416,060	379,382	211.2	Total	428,518	63.8	4,717,686	392,140	185.8	Total	1,150,237	75.2	6,658,423	634,130	302.3

- Notes:
- Games newly published in the year/period.
  - Our subsidiaries publishing *National Gunfight* (全民槍戰) were sold in July 2016. For further details, see “Financial Information – Description of Major Components of Our Results of Operations – Other Income and Gains from Continuing Operations” in this prospectus.



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## SUMMARY

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As of the Latest Practicable Date, we had identified 29 games to potentially launch by the end of 2020, amongst which 15 had obtained pre-approvals from PRC regulators as of the Latest Practicable Date, and two will only be published overseas and therefore do not require any pre-approvals from PRC regulators. For further details, see “Business – Our Business Model – Our Games – Our Game Pipeline” in this prospectus.

### MAJOR CUSTOMERS AND SUPPLIERS

#### Major Customers

In relation to our game publishing business, as we are responsible for optimizing, publishing and marketing mobile games, we view game developers as our customers, and consider ourselves their agent in our arrangements with game publishing channels and payment channels. In relation to our game development business, as we are responsible for providing ongoing services to game players who purchase virtual currency, we consider these game players to be our customers. Our largest customer accounted for approximately 29.2%, 18.8%, 24.6% and 7.5% of our revenue for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2019, respectively. Our top five customers accounted for approximately 77.1%, 63.4%, 56.2% and 27.8% of our revenue for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2019, respectively. During the Track Record Period, none of our Directors, their associates or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of our Company’s issued share capital) had any interest in any of our top five customer. For further details, see “Business – Our Customers” in this prospectus.

#### Major Suppliers

As we receive publishing service and payment collection service from third-party publishing channels and payment channels, respectively, we consider them our suppliers. As we pay IP owners for the IPs that we license from them, we also view IP owners as our suppliers. During the Track Record Period, our top suppliers were primarily game publishing channels. Our largest supplier accounted for approximately 20.0%, 10.9%, 10.4% and 11.2% of our cost of sales for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2019, respectively. Our top five suppliers accounted for approximately 37.5%, 33.3%, 33.3% and 34.3% of our cost of sales for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2019, respectively. During the Track Record Period, apart from Mr. TANG Yanwen (唐彦文), who is one of the five directors of the parent company of one of our top five suppliers for the six months ended June 30, 2019, none of our Directors, their associates or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of our Company’s issued capital) had any interest in any of our top five suppliers. For further details, see “Business – Our Suppliers” in this prospectus.

### OUR INDUSTRY AND COMPETITIVE LANDSCAPE

According to Analysys, the size of China’s online game market increased from RMB171.0 billion in 2016 to RMB231.0 billion in 2018, representing a CAGR of 16.2%, and is expected to reach RMB321.7 billion in 2021, representing a CAGR of 11.7% from 2018 to 2021. According to Analysys, the size of China’s IP-based game market expanded from RMB49.6 billion in 2016 to RMB97.2 billion in 2018, and is expected to reach RMB167.9 billion in 2021, representing a CAGR of 20.0% from 2018 to 2021. According to Analysys, during the period commencing from January 1, 2015 to June 30, 2019, amongst all Chinese independent mobile game publishers, we had the highest cumulative revenue generated from publishing IP-based games and the largest number of published IP-based games.

### COMPETITIVE STRENGTHS

We believe that the following strengths are key to our continued success and represent significant barriers to our competitors:

- Largest Chinese independent mobile game publisher of IP-based games with a popular and high-quality game portfolio;
- Pioneer and leader among IP-based game operators with the largest IP reserve amongst all Chinese independent mobile game publishers;

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## SUMMARY

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- Large and multifaceted publishing network;
- State-of-the-art game development capabilities and industry-leading game development talents; and
- Visionary and experienced management team.

For further details, see “Business – Competitive Strengths” in this prospectus.

### BUSINESS STRATEGIES

We are committed to remaining a leading IP-based game operator. We aim to cultivate our collaborative relationships with IP owners through in-house development and licensed publishing, and to invest in IP owners and game developers to strengthen our mobile game ecosystem founded on IPs. We intend to implement the following strategies to enhance our market competitiveness:

- Further our cooperation with other market participants;
- Explore international business opportunities and continue to enhance the scale of our global business;
- Diversify our income sources by developing pan-entertainment products based on our proprietary IPs; and
- Enhance our monetization and operational capabilities.

For further details, see “Business – Business Strategies” in this prospectus.

### RISK FACTORS

Our business and the Global Offering involve certain risks, which are set out in the section headed “Risk Factors” in this prospectus. You should read that section in its entirety before you decide to invest in the Offer Shares. Some of the major risks we face include:

- We may not be successful in licensing games and IPs;
- We may not be successful in developing games in-house;
- Our new games may not be commercially successful and we may not be able to attract new players;
- We may fail to maintain and grow our player base or keep our players engaged through popular games;
- The laws and regulations regulating mobile games in China continue to evolve and change, which may make it hard for us to obtain or maintain all applicable permits and approvals; and
- If we are required to write down goodwill and other intangible assets, our financial condition and results may be materially and adversely affected.

We also face risks relating to our Contractual Arrangements and regulation of our industry. For further details, see “Risk Factors – Risks Related to Our Contractual Arrangements” and “Risk Factors – Risks Related to Regulation of Our Industry” in this prospectus.

## SUMMARY

### GOODWILL

We acquired goodwill through the Reorganization which was completed on November 23, 2015, and goodwill was allocated to the cash-generating unit of mobile game publishing for impairment testing. On November 23, 2015, goodwill arose from the Reorganization, of which RMB470.3 million was allocated to us based on the relative value of the cash generating units that were acquired. In July 2016, goodwill associated with the disposal of our subsidiaries was included in the carrying amount of the disposed operations when determining whether the disposal resulted in a gain or loss. On May 31, 2018, we recorded goodwill in the amount of RMB698.0 million as a result of our acquisition of Wenmai Hudong. On August 28, 2018, we recorded goodwill in the amount of RMB95.7 million as a result of a change in the articles of association of Beijing Softstar making it our subsidiary. The following table sets forth our goodwill as of the dates indicated:

	As of December 31,			As of
	2016	2017	2018	June 30,
				2019
	<i>(in RMB thousands)</i>			
Cost	470,275	324,842	324,842	1,118,617
Disposal of subsidiaries	(145,433)	–	–	–
Acquisition of subsidiaries	–	–	793,775	–
Net carrying amount	<u>324,842</u>	<u>324,842</u>	<u>1,118,617</u>	<u>1,118,617</u>

For details on the possibility of recognizing impairment losses for our goodwill, see “Risk Factors – Risks Related to Our Business – If we are required to write down goodwill, our financial condition and results may be materially and adversely affected” and “Financial Information – Discussion of Certain Key Consolidated Statements of Financial Position – Non-current Assets and Non-current Liabilities – Goodwill” in this prospectus.

### OTHER INTANGIBLE ASSETS

Our other intangible assets primarily comprise IP copyrights and game copyrights. During the Track Record Period, our IP and game copyrights were purchased from IP owners and game developers, respectively, which constituted the majority of our other intangible assets. Our other intangible assets increased from RMB35.1 million as of December 31, 2017 to RMB119.3 million as of June 30, 2019, as a result of our acquisition of Wenmai Hudong and Beijing Softstar becoming our subsidiary in 2018. For details on the possibility of recognizing impairment losses for our other intangible assets, see “Risk Factors – Risks Related to Our Business – If we are required to write down other intangible assets, our financial condition and results may be materially and adversely affected” and “Financial Information – Discussion of Certain Key Consolidated Statements of Financial Position – Non-current Assets and Non-current Liabilities – Other Intangible Assets” in this prospectus.

### SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary consolidated financial information of our Group. We have derived the consolidated financial information for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019 from our consolidated financial statements set forth in the Accountants’ Report in Appendix I to this prospectus. This summary consolidated financial information should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements set forth in the Accountants’ Report, including the related notes. Our consolidated financial information was prepared in accordance with HKFRS.

## SUMMARY

### Selected Consolidated Statements of Profit or Loss

The following table presents items of the consolidated statements of profit or loss of our Group, as well as their percentage to the total revenue during the Track Record Period.

	Year ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(in thousands, except for percentages) (Unaudited)										
<b>CONTINUING OPERATIONS</b>										
Revenue	1,001,163	100.0	1,012,791	100.0	1,596,204	100.0	672,508	100.0	1,529,118	100.0
Cost of sales	(651,773)	(65.1)	(672,336)	(66.4)	(1,063,734)	(66.6)	(434,080)	(64.5)	(1,000,660)	(65.4)
<b>Gross profit</b>	<b>349,390</b>	<b>34.9</b>	<b>340,455</b>	<b>33.6</b>	<b>532,470</b>	<b>33.4</b>	<b>238,428</b>	<b>35.5</b>	<b>528,458</b>	<b>34.6</b>
Other income and gains	156,999	15.7	168,345	16.6	123,674	7.7	45,149	6.7	40,127	2.6
Selling and distribution expenses	(225,705)	(22.5)	(189,407)	(18.7)	(148,054)	(9.3)	(58,337)	(8.7)	(140,329)	(9.2)
Administrative expenses	(50,040)	(5.0)	(39,046)	(3.9)	(147,672)	(9.3)	(43,731)	(6.5)	(111,435)	(7.3)
Other expenses	(18,539)	(1.9)	(16,078)	(1.6)	(7,948)	(0.5)	(55)	(0.0)	(14,073)	(0.9)
Finance costs	(765)	(0.1)	(1,220)	(0.1)	(10,053)	(0.6)	(3,581)	(0.5)	(5,437)	(0.4)
Share of profits and losses of:										
A joint venture	–	–	–	–	(4,257)	(0.2)	(1,147)	(0.2)	(1,436)	(0.1)
Associates	(3,278)	(0.3)	2,002	0.2	17,887	1.1	1,586	0.2	(2,946)	(0.2)
<b>Profit before tax from continuing operations</b>	<b>208,062</b>	<b>20.8</b>	<b>265,051</b>	<b>26.1</b>	<b>356,047</b>	<b>22.3</b>	<b>178,312</b>	<b>26.5</b>	<b>292,929</b>	<b>19.2</b>
Income tax expense	(19,563)	(2.0)	(56)	(0.0)	(40,074)	(2.5)	(15,660)	(2.3)	(43,050)	(2.8)
<b>Profit for the year/period from continuing operations</b>	<b>188,499</b>	<b>18.8</b>	<b>264,995</b>	<b>26.1</b>	<b>315,973</b>	<b>19.8</b>	<b>162,652</b>	<b>24.2</b>	<b>249,879</b>	<b>16.3</b>
<b>DISCONTINUED OPERATION<sup>(Note)</sup></b>										
Profit for the year/period from a discontinued operation	12,074	1.2	42,469	4.2	–	–	–	–	–	–
<b>Profit for the year/period</b>	<b>200,573</b>	<b>20.0</b>	<b>307,464</b>	<b>30.3</b>	<b>315,973</b>	<b>19.8</b>	<b>162,652</b>	<b>24.2</b>	<b>249,879</b>	<b>16.3</b>
Earnings per share attributable to equity holders of the parent										
Basic and diluted (RMB)										
– for profit for the year/period	<u>1.44</u>		<u>2.21</u>		<u>2.27</u>		<u>1.17</u>		<u>1.80</u>	
– for profit from continuing operations	<u>1.35</u>		<u>1.90</u>		<u>2.27</u>		<u>1.17</u>		<u>1.80</u>	

**Note:** In December 2017, our Board determined to dispose of our card and board games business, which was completed on December 31, 2017. For further details, see “History, Reorganization and Corporate Structure – Reorganization – 1. Onshore Restructuring – 1.2 Exclusion of the Discontinued Operation” in this prospectus.

Our Group’s financial performance witnessed significant growth during the Track Record Period. We recorded significant gain on disposal of subsidiaries in 2016 as a result of our disposal of Shenzhen Qi Le Wu Xian Software Development Co., Ltd. (深圳市奇樂無限軟件開發有限公司) and Beijing Zhuoyue Chenxing Co., Limited (北京卓越晨星科技有限公司). As consideration for the disposal, we received cash of RMB130.0 million and 48,780,480 shares in Hero Entertainment, a company listed on the NEEQ. In 2017 and 2018, we sold 36,112,000 and 3,208,000 shares in Hero Entertainment, and recorded gains on disposal of financial assets at fair value through profit or loss of RMB124.9 million and RMB2.3 million, respectively. Our gain on disposal of subsidiaries and gains on disposal of financial assets at fair value through profit or loss recorded during the Track Record Period were non-recurring in nature. For further



## SUMMARY

details, see “Financial Information – Description of Major Components of Our Results of Operations – Other Income and Gains from Continuing Operations” and “History, Reorganization and Corporate Structure – Disposals, Acquisitions and Investments – Disposal of Zhuoyue Chenxing and QLWX Software” in this prospectus.

During the Track Record Period, we made investments in a joint venture and seven associates, and recorded our share of profits and losses from these joint ventures and associates. Our share of profits and losses from the joint venture was nil for the years ended December 31, 2016 and 2017, and losses of RMB4.3 million, RMB1.1 million and RMB1.4 million for the year ended December 31, 2018 and the six months ended June 30, 2018 and 2019, respectively, representing nil, nil, 0.2%, 0.2% and 0.1% of our total revenue for each period. Our share of the profits and losses from associates was a loss of RMB3.3 million, profits of RMB2.0 million, RMB17.9 million and RMB1.6 million, and a loss of RMB2.9 million for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively, representing 0.3%, 0.2%, 1.1%, 0.2% and 0.2%, respectively, of our total revenue for the same periods. For further details, see “Financial Information – Description of Major Components of our Results of Operations – Share of Profits and Losses of a Joint Venture from Continuing Operations” and “Financial Information – Description of Major Components of our Results of Operations – Share of Profits and Losses of Associates from Continuing Operations” in this prospectus.

### Selected Consolidated Statements of Financial Position Items

	As of December 31,			As of
	2016	2017	2018	June 30, 2019
	<i>(in RMB thousands)</i>			
Total non-current assets	639,452	580,913	2,053,163	1,986,829
Total current assets	649,774	534,614	960,041	1,280,763
<b>Total assets</b>	<b>1,289,226</b>	<b>1,115,527</b>	<b>3,013,204</b>	<b>3,267,592</b>
Total non-current liabilities	13,812	4,712	395,265	398,669
Total current liabilities	585,795	203,162	755,210	755,817
<b>Total liabilities</b>	<b>599,607</b>	<b>207,874</b>	<b>1,150,475</b>	<b>1,154,486</b>

### Selected Consolidated Statements of Cash Flows

	Year ended December 31,			Six months ended	
	2016	2017	2018	June 30, 2018	2019
	<i>(in RMB thousands)</i>			<i>(Unaudited)</i>	
Net cash flows from operating activities	25,622	164,075	59,631	69,209	171,424
Net cash flows (used in)/from investing activities	(21,923)	129,305	(428,363)	(187,553)	(255,674)
Net cash flows from/(used in) financing activities	23,926	(166,879)	264,888	225,234	114,915
Net increase/(decrease) in cash and cash equivalents	27,625	126,501	(103,844)	106,890	30,665
Cash and cash equivalents at beginning of year/period	90,815	120,460	245,762	245,762	144,445
Effect on foreign exchange rate changes, net	2,020	(1,199)	2,527	1,615	(1,183)
Cash and cash equivalents at end of the year/period	<b>120,460</b>	<b>245,762</b>	<b>144,445</b>	<b>354,267</b>	<b>173,927</b>

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## SUMMARY

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### Key Financial Metrics

The following table sets forth our key financial metrics during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
Current ratio (times) <sup>(1)</sup>	1.1	2.6	1.3	1.1	1.7
Gearing ratio <sup>(2)</sup>	—	1.1%	2.8%	—	8.5%
Gross profit margin	34.9%	33.6%	33.4%	35.5%	34.6%

(1) Current ratio is our current assets divided by our current liabilities at the end of each financial period.

(2) Gearing ratio is total debt divided by total equity at the end of each financial period. Total debt equals our total interest-bearing bank borrowings. We had no outstanding borrowings as of December 31, 2016 and June 30, 2018.

### OUR HISTORY, REORGANIZATION AND PRE-IPO INVESTMENTS

Our history can be traced back to October 2009 when V1 Group, a company listed on the Main Board of the Stock Exchange (Stock Code: 0082), tapped into the mobile game industry by acquiring a 70% equity interest in a mobile game developer, Huiyou Digital. The mobile game business of V1 Group continually expanded under the leadership of Mr. XIAO Jian (our executive Director and the founder of Huiyou Digital), Mr. SIN Hendrick (our executive Director and the then executive director and chief financial officer of V1 Group) and other senior management of V1 Group. In January 2011, CMGE Group was established as a subsidiary and a separate business arm of V1 Group to focus on mobile game development, and since then, CMGE Group has gradually transformed into a leading mobile game developer and publisher in China. We consider Mr. Xiao and Mr. Sin as our Co-Founders as they initiated and led the development of our mobile game business since V1 Group acquired Huiyou Digital in October 2009 to tap into the mobile game industry. In September 2012, CMGE Group was spun off from V1 Group and successfully listed its ADSs on Nasdaq under the symbol “CMGE”, and became China’s first mobile game company listed on a U.S. stock exchange. In August 2015, with the intention of eventually returning to one of the stock exchanges in Greater China, CMGE Group was taken private by a consortium of passive financial investors and delisted from Nasdaq. In November 2015, all issued shares of CMGE Group were acquired by CMGE Mobile Tech, a company established in China, which was owned as to 44.67% by Changpei Shanghai, 22.33% by Beijing Orient L.P., 18.90% by Shanghai Pegasus, 4.90% by Yichong Investment and 9.20% by Zhongshouyou Brothers PRC.

In preparation for the Listing, we underwent a series of reorganization steps upon which our Company became the holding company and listing vehicle of our mobile game publishing business. We received the Pre-IPO Investments of US\$20 million from each of Shengqu Technology and Big Achieve. In exchange, each of Shengqu Technology and Big Achieve acquired 1.43% indirect shareholding in our Company. We also acquired an indirect interest in Taiwan Softstar through the acquisition of a 26% interest in Angel Fund. In exchange, Mr. Tu Chun Kuang, the chairman of Taiwan Softstar, became our Shareholder through Angel Partners. See “History, Reorganization and Corporate Structure” in this prospectus.

Since the inception of our business in 2011, our day-to-day operations have been managed by a professional management team led by our Co-Founders who make all of the key business decisions. Subsequent to the Delisting and our Reorganization, our Co-Founders continue to exercise independent and complete management autonomy with regard to CMGE Mobile Tech and its subsidiaries (prior to the Reorganization) and our Group (after the Reorganization) as entrusted in writing by the same group of ultimate beneficial owners of CMGE Mobile Tech.

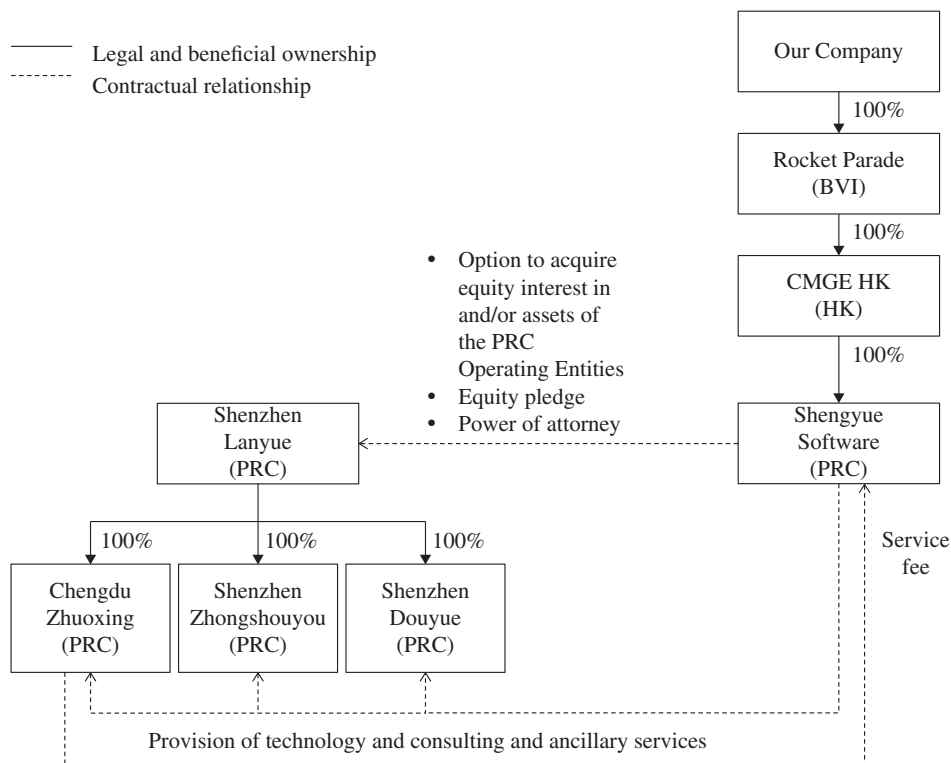
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## SUMMARY

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### CONTRACTUAL ARRANGEMENTS

Our Company and its direct wholly-owned subsidiary, Shengyue Software, as foreign investors, are prohibited from holding equity interests in the PRC Operating Entities, namely Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou, which operate mobile game publishing and operation businesses and are considered to be engaged in the provision of online publication business, online game operation business and value-added telecommunications business for which foreign investment is prohibited or restricted. In order to conduct our business in China through the PRC Operating Entities, our Group, through our wholly-owned subsidiary, Shengyue Software, entered into the Contractual Arrangements. The following diagram sets forth the structure of our current contractual arrangements:



For further details, see “Contractual Arrangements” in this prospectus.

### CONTROLLING SHAREHOLDERS

Mr. Xiao and Mr. Sin are the co-founders of our Group. Immediately after the completion of the Capitalization Issue and the Global Offering, (i) Zhongshouyou Brothers BVI will directly hold 91,360,432 Shares, and will be deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 64% by Zhongshouyou Brothers BVI); and (ii) Silver Joyce will directly hold 51,390,238 Shares, and will be deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 36% by Silver Joyce). Zhongshouyou Brothers BVI is indirectly controlled by CMB Wing Lung (Trustee) Limited (as the trustee of the Xiao Family Trust) through Antopex Limited (as the nominee for CMB Wing Lung (Trustee) Limited) and its wholly-owned subsidiary, Victory Aspire. Silver Joyce is directly held by Mr. Sin.

Since Mr. Xiao, Mr. Sin, Zhongshouyou Brothers BVI, Silver Joyce, Ambitious Profit, Changpei Cayman, Motion Game, Profound Power and Fairview Ridge together are able to control more than 30% of the voting rights in our Company, they will continue to be our Controlling Shareholders immediately after the Global Offering.

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## SUMMARY

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### DIVIDENDS

During the Track Record Period, our Group did not declare or pay any dividend to our Shareholders. Our Board has absolute discretion to recommend any dividend. In order to return capital to our Shareholders as and when appropriate, we intend to distribute approximately 30% of our annual distributable profit as dividends after Listing. However, we cannot assure you that we will be able to distribute dividends of such amount or any amount each year or in any year. Such intention does not amount to any guarantee, representation or indication that we must or will pay dividends in such manner or at all. We will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic environment. The determination to pay dividends will be made at the discretion of our Directors and will depend upon our earnings and financial condition, operating requirements, capital and investment requirements, level of indebtedness and any other factors that our Directors may deem relevant. Our Shareholders may in a general meeting also declare dividends, provided that no dividends shall exceed the amount recommended by our Directors. As advised by our Cayman Islands legal adviser, a position of accumulated losses does not necessarily restrict us from declaring and paying dividends to our Shareholders. Under Cayman Islands law, our Company may pay a dividend out of either our profits (realised or unrealised) or amounts standing to the credit of our share premium account, provided that this would not result in our Company being unable to pay debts as they fall due in the ordinary course of business.

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on, among other things, the availability of dividends received from our PRC subsidiaries. For further details, see “Financial Information – Dividends” in this prospectus.

### OFFER STATISTICS

	<b>Based on an Offer Price of HK\$1.98 per Offer Share, after a Downward Offer Price Adjustment of 10%</b>	<b>Based on an Offer Price of HK\$2.19 per Share</b>	<b>Based on an Offer Price of HK\$2.83 per Share</b>
Market capitalization of our Shares upon completion of the Global Offering <sup>(1)</sup>	HK\$4,476.8 million	HK\$4,951.6 million	HK\$6,398.6 million
Unaudited pro forma adjusted consolidated net tangible assets per Share <sup>(2)</sup>	HK\$0.75	HK\$0.79	HK\$0.92

*Notes:*

- (1) The calculation of market capitalization is based on 2,261,000,000 Shares expected to be in issue immediately upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which may be granted under the Post-IPO Share Option Scheme).
- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated on the basis that 2,261,000,000 Shares are expected to be in issue immediately upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without into account any Shares which may be issued upon the exercise of the options which may be granted under the Post-IPO Share Option Scheme).



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## SUMMARY

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### LISTING EXPENSES

Listing expenses consist primarily of underwriting commission and professional fees, and are estimated to be approximately RMB108.0 million (assuming an Offer Price of HK\$2.51 per Share, being the mid-point of the indicative offer price range stated in this prospectus), no listing expenses were incurred on or before December 31, 2017. For the year ended December 31, 2018, we recognized and charged to our consolidated statement of profit or loss RMB24.4 million and approximately RMB6.5 million will be accounted for as a reduction from equity upon completion of the Global Offering. For the six months ended June 30, 2019, we recognized and charged to our consolidated statement of profit or loss RMB7.4 million and approximately RMB2.0 million will be accounted for as a reduction from equity upon completion of Global Offering. We estimate we will further incur underwriting commission and other listing expenses of approximately RMB67.7 million after June 30, 2019, of which (i) RMB32.4 million will be charged to our consolidated statements of profit or loss, and (ii) RMB35.3 million is expected to be accounted for as a deduction from equity upon the completion of Global Offering.

### USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$1,037.3 million after deducting the underwriting fees and expenses payable by us in the Global Offering, assuming an Offer Price of HK\$2.51 per Share, being the mid-point of the indicative Offer Price range of HK\$2.19 to HK\$2.83 per Share in this prospectus. We intend to use the net proceeds we will receive from this offering for the following purposes:

<u>Amount of the estimated net proceeds</u>	<u>Intended use of net proceeds</u>
<ul style="list-style-type: none"><li>• Approximately 50%, or HK\$518.6 million</li></ul>	Expanding and enhancing our IP-based game publishing and development business
<ul style="list-style-type: none"><li>• Approximately 40%, or HK\$415.0 million</li></ul>	Conducting merger and acquisition activities of participants in the mobile game ecosystem
<ul style="list-style-type: none"><li>• Approximately 10%, or HK\$103.7 million</li></ul>	Working capital and general corporate purposes

If we make a Downward Offer Price Adjustment to set the final Offer Price at HK\$1.98 per Offer Share, the estimated net proceeds we will receive from the Global Offering will be further reduced by an additional amount of approximately HK\$93.4 million.

For further details, see “Future Plans and Use of Proceeds” in this prospectus.

### RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the date of this prospectus, our business model remained unchanged. Since the end of the Track Record Period and up to the date of this prospectus, we published nine new games, including *Destiny* (破曉戰歌) which ranked Top 8 in the Free Game Category on Apple’s App Store in the first week of its launch in July 2019, *The Gate to Adventures* (冒險之門) which was a recommended game on Apple’s App Store in September 2019, and *VGAME* which was recommended by Apple’s App Store as an editors’ pick and game of the month in September 2019. Since the end of the Track Record Period and up to the date of this prospectus, we entered into five game licensing agreements and one IP licensing agreement.

As of the Latest Practicable Date, approximately RMB238.0 million (equivalent to 36.1%) and RMB57.4 million (equivalent to 38.8%) of the trade receivables and trade payables outstanding as of June 30, 2019, respectively, had been settled.

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## SUMMARY

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From April to December 2018, PRC regulators ceased granting pre-approvals to new domestically developed online games. This change followed the issuance of the Plan for Deepening the Institutional Reform of the Party and the State (深化黨和國家機構改革方案) and the Institutional Reform Plan of the State Council (國務院機構改革方案) in March 2018. Since the resumption of the assessment and pre-approval procedures in December 2018, we have obtained pre-approval for five of the 11 games that we submitted for pre-approval. The majority of the remaining six games had only been recently submitted for pre-approval and as a result, they were still under assessment by the PRC regulators as of the date of this prospectus. It is unclear when the remaining pre-approvals will be obtained, which may delay our publishing schedule and negatively affect our ability to monetize our games. For further details of the suspension and resumption of the assessment and pre-approval procedures and the relevant impact on our Company, see “Risk Factors – Risks Related to Our Business – The laws and regulations regulating mobile games in China continue to evolve and change, which may make it difficult for us to obtain or maintain all applicable permits and approvals” and “Business – Recent Changes in the Regulatory Environment” in this prospectus.

The Foreign Investment Law (“**FIL**”) was adopted by the National People’s Congress on March 15, 2019 and will take effect on January 1, 2020. The FIL does not explicitly stipulate contractual arrangements such as our Contractual Arrangements as a form of foreign investment. Instead, the FIL stipulates that foreign investment includes foreign investors’ investment in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council. Our PRC Legal Adviser has confirmed that, after the promulgation of the FIL on March 15, 2019 and up to the date of this prospectus, no laws, administrative regulations or State Council provisions have been issued which specify contractual arrangements as a method of foreign investment. However, there is the possibility that future laws, administrative regulations or provisions of the State Council may stipulate that contractual arrangements are a form of foreign investment. As a result, whether our Contractual Arrangements will be recognized as foreign investment, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how our Contractual Arrangements will be handled are uncertain. For details of the FIL and its potential impact on our Company, please see “Risk Factors – Risks Related to Our Contractual Arrangements – Substantial uncertainties exist with respect to the interpretation and implementation of the FIL and how it may impact the viability of our current corporate structure, corporate governance and business operations” in this prospectus.

Our Directors confirm that our business operations and financial performance have remained stable after the Track Record Period and up to the date of this prospectus, as there were no material changes to our business model and the general economic and regulatory environment in which we operate, except as otherwise disclosed in this prospectus.

Our Directors confirm that, as of the date of this prospectus and except as otherwise disclosed in this prospectus, there had been no material adverse change in the financial conditions or prospects of our Group and there had been no event since June 30, 2019 which could materially affect the information shown in the Accountants’ Report as set out in Appendix I to this prospectus.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following words and expressions shall have the following meanings. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.*

“ADS”	American depositary shares
“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Ambitious Profit”	Ambitious Profit Investment Limited, an exempted company incorporated in the Cayman Islands with limited liability on January 5, 2018, one of our Controlling Shareholders
“Analysys”	Analysys Limited
“Angel Fund”	Angel Fund (Asia) Investments Limited (天使基金(亞洲)投資有限公司), an exempted company incorporated in the Cayman Islands with limited liability on July 2, 2013, a company which was indirectly owned as to 26% by us as of the Latest Practicable Date
“Angel Partners”	Angel (Partners) Investments Limited, an exempted company incorporated in the Cayman Islands with limited liability on January 5, 2016, and one of our Shareholders
“Application Form(s)”	<b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>GREEN</b> application form(s) or, where the context so requires, any of them that is (are) in relation to the application of the Hong Kong Public Offering
“Articles of Association”	the articles of association of our Company, conditionally adopted on September 20, 2019 to take effect on the Listing Date, as amended or supplemented from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules

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## DEFINITIONS

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“Beijing HT”	Beijing Haitong Capital Investment Management Co., Ltd. (北京海桐資本投資管理有限公司), a limited liability company established in the PRC, which was one of the passive financial investors taking CMGE Group private from Nasdaq, and an independent third party
“Beijing Orient L.P.”	Beijing Orient Zhike Equity Investment Centre (Limited Partnership) (北京東方智科股權投資中心(有限合夥)), one of our Substantial Shareholders and an investment fund established on May 22, 2015 in the form of a limited partnership under the laws of the PRC, is controlled by its executive general partner ultimately controlled by Mr. Ma. One of the non-executive general partners and one of the limited partners of Beijing Orient Zhike Equity Investment Centre (Limited Partnership) (北京東方智科股權投資中心(有限合夥)) are ultimately controlled by Orient Securities
“Beijing Softstar”	Softstar Technology (Beijing) Company Limited (軟星科技(北京)有限公司), a company established in the PRC on September 19, 2000, which is an indirect non-wholly owned subsidiary owned as to 51% by our Company
“Beijing Zhongrong Dingxin”	Beijing Zhongrong Dingxin Investment Management Co., Ltd. (北京中融鼎新投資管理有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of Zhongrong Trust. Beijing Zhongrong Dingxin is one of our Substantial Shareholders by virtue of the role of its wholly-owned subsidiary, Dazi Dingcheng, which is the general partner of Shanghai Pegasus and Yichong Investment
“Big Achieve”	Big Achieve Cayman LP, a company incorporated in the Cayman Islands, which is one of our Pre-IPO Investors
“Board”	the board of Directors
“business day”	any day (other than Saturday, Sunday and public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate

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## DEFINITIONS

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“Capitalization Issue”	the issue of 1,660,842,186 Shares on the Listing Date to be made upon the capitalization of part of the sum standing to the credit of the share premium account of our Company, details of which are set out in the section headed “History, Reorganization and Corporate Structure – Capitalization Issue” in this prospectus
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), formerly known as China Insurance Regulatory Commission
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Changpei Cayman”	Changpei Investment Centre, L.P., an exempted limited partnership registered in the Cayman Islands on March 2, 2018 and one of our Controlling Shareholders
“Changpei Shanghai”	Changpei (Shanghai) Investment Centre (Limited Partnership) (長需(上海)投資中心(有限合夥)), a limited partnership registered in the PRC on June 2, 2015
“Changpei Shanghai LPs”	Wang Yao (王瑤), Zheng Tao (鄭濤), Wang Lingdi (王凌迪), Zhao Liang (趙亮) and Shi Jian (施劍), each of whom is a limited partner of Changpei Shanghai and, through their respective holding companies in the BVI, is a beneficial owner of a limited partner of Changpei Cayman. The Changpei Shanghai LPs are presumed to be acting in concert with Mr. Xiao and Mr. Sin under the Takeovers Code by virtue of, among other things, being the ultimate beneficial owners of the limited partners of Changpei Cayman



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## DEFINITIONS

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“Chengdu Zhuoxing”	Chengdu Zhuoxing Technology Company Limited (成都卓星科技有限公司), a company established in the PRC on June 24, 2013 and wholly-owned by Shenzhen Lanyue, and is one of the PRC Operating Entities controlled by our Group through the Contractual Arrangements
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this prospectus only, Hong Kong, the Macau Special Administrative Region and Taiwan
“China Mobile Game HK”	China Mobile Games and Entertainment Group (HK) Limited, a company established in Hong Kong on October 11, 2012, which is an indirect wholly-owned subsidiary of our Company
“China Investment Securities International”	China Investment Securities International Brokerage Limited, a wholly-owned subsidiary of China International Capital Corporation Limited, the controlling shareholder of China International Capital Corporation Hong Kong Securities Limited
“CMGE Group”	CMGE Group Limited (formerly known as China Mobile Games and Entertainment Group Limited), an exempted company incorporated under the laws of the Cayman Islands with limited liability on January 20, 2011, which is wholly-owned by CMGE Mobile Tech
“CMGE Group BVI”	CMGE Group Limited, a company incorporated in the BVI on December 21, 2017, which is a wholly-owned subsidiary of our Company
“CMGE Group HK”	CMGE Group Limited (中手游移動科技集團有限公司), a company incorporated in Hong Kong on October 23, 2017 and an indirectly wholly-owned subsidiary of our Company
“CMGE International BVI”	CMGE International Limited, a company incorporated in the BVI on December 3, 2013, which is a wholly-owned subsidiary of our Company

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## DEFINITIONS

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“CMGE Mobile Tech”	China Mobile Game Technology Company Limited (中手游移動科技有限公司), a limited liability Company established under the laws of the PRC on October 14, 2015, which is held as to 44.67% by Changpei Shanghai, 22.33% by Beijing Orient L.P., 18.90% by Shanghai Pegasus, 9.20% by Zhongshouyou Brothers PRC and 4.90% by Yichong Investment
“Co-Founders”	Mr. Xiao and Mr. Sin
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company” or “the Company”	CMGE Technology Group Limited (中手游科技集团有限公司), an exempted company incorporated in the Cayman Islands with limited liability on March 20, 2018
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Connected Transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Contemplated Acquisition”	the contemplated acquisition of all the equity interests in CMGE Mobile Tech by Shiji Huatong from the equity owners of CMGE Mobile Tech as further described under the section headed “History, Reorganization and Corporate Structure – CMGE Group and CMGE Mobile Tech – Contemplated Acquisition by Shiji Huatong and voluntary withdrawal” in this prospectus

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## DEFINITIONS

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“Contractual Arrangements”	the series of contractual arrangements entered into by Shengyue Software and the PRC Operating Entities, details of which are described in the section headed “Contractual Arrangements” in this prospectus
“Controlling Shareholder(s)”	has the meaning ascribed under the Listing Rules and in this context, refers to Mr. Xiao, Mr. Sin, Zhongshouyou Brothers BVI, Silver Joyce, Ambitious Profit, Changpei Cayman, Fairview Ridge, Motion Game and Profound Power
“CPC Fund”	China Prosperity Capital Mobile Internet Fund, L.P., an exempted limited partnership registered under the laws of the Cayman Islands on December 14, 2015, of which CMGE Group BVI is one of the limited partners
“C&T Services”	C&T Services Limited, a limited company incorporated in Hong Kong on November 29, 2018. C&T Services is an independent third party appointed by our Company to act as the trustee of the Pre-IPO RSU Scheme for grantees who are the core connected persons of our Company
“Dazi Dingcheng”	Dazi Dingcheng Capital Investment Co., Ltd. (達孜縣鼎誠資本投資有限公司), a limited liability company established in the PRC which is wholly-owned by Beijing Zhongrong Dingxin, and in turn wholly-owned by Zhongrong Trust. Dazi Dingcheng is one of our Substantial Shareholders by virtue of its role as the general partner of Shanghai Pegasus and Yichong Investment
“Delisting”	the delisting of CMGE Group from Nasdaq in August 2015
“Director(s)”	the director(s) of our Company
“Discontinued Operation”	the card and board game business transferred from Shenzhen Douyue and Shenzhen Zhongshouyou to Shenzhen Lanyue
“Downward Offer Price Adjustment”	an adjustment that has the effect of setting the final Offer Price up to 10% below HK\$2.19 (the bottom end of the indicative Offer Price range)

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## DEFINITIONS

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“EIT Law”	PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) which was adopted by the National People’s Congress on March 16, 2007 and subsequently amended and became effective on February 24, 2017
“Fairview Ridge”	Fairview Ridge Investment Limited, a company incorporated in the BVI with limited liability on March 6, 2018, one of our Controlling Shareholders
“FIE”	foreign invested entity
“FIL”	the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) adopted by the National People’s Congress on March 15, 2019 which will take effect on January 1, 2020
“GAPP”	the General Administration of Press and Publication (新聞出版總署), which was merged into SAPPRFT in 2013
“GDP”	gross domestic product (all references to GDP growth rates are to real as opposed to nominal growth rates of GDP)
“Global Offering”	the Hong Kong Public Offering and the International Offering
“ <b>GREEN</b> Application Form(s)”	the application form(s) to be completed by <b>White Form eIPO</b> Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “the Group”, “we”, “us” or “our”	our Company, its subsidiaries and its PRC Operating Entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time or the business operated by such subsidiaries or the Predecessor Group (as the case may be)
“Guohua Life”	Guohua Life Insurance Co., Ltd. (國華人壽保險股份有限公司, a PRC insurance company and a then limited partner of Changpei Shanghai before December 29, 2017 as sets forth under the section headed “History, Reorganization and Corporate Structure – Partnership restructuring of Changpei Shanghai” in this prospectus

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## DEFINITIONS

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“Hero Entertainment”	Beijing Hero Entertainment Co., Ltd. (北京英雄互娛科技股份有限公司), a joint stock company established in PRC on September 26, 2001 and the shares of which are quoted on the NEEQ
“HKFRSs”	Hong Kong Financial Reporting Standards, as issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	the 46,100,000 Shares initially being offered by us for subscription pursuant to the Hong Kong Public Offering (subject to reallocation as described in the section headed “Structure of the Global Offering” in the prospectus)
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong, on the terms and subject to the conditions described in this prospectus and the Application Forms relating thereto, as further described in the section headed “Structure of the Global Offering – the Hong Kong Public Offering” in this prospectus
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting – Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated October 18, 2019 relating to the Hong Kong Public Offering entered into between, among others, the Joint Global Coordinators, the Joint Bookrunners, the Hong Kong Underwriters and us as further described in “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement” in this prospectus

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## DEFINITIONS

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“Huatong Holding”	Zhejiang Huatong Holding Group Co., Ltd. (浙江華通控股集團有限公司), a limited liability company established in the PRC, which is a controlling shareholder of Shiji Huatong, and an independent third party
“Huiyou Digital”	Huiyou Digital (Shenzhen) Ltd. (匯友數碼(深圳)有限公司), a company established in the PRC with limited liability which was founded by Mr. Xiao on July 6, 2007, and acquired by V1 Group in October 2009
“ICP License”	Value-added Telecommunications Service Operating Permit for Internet Information Service (互聯網信息服務《增值電信業務經營許可證》)
“independent third party(ies)”	an individual(s) or a company(ies) who or which is/are not connected with (within the meaning of the Listing Rules) any of our Directors, chief executive or substantial shareholders of our Company, its subsidiaries, the PRC Operating Entities, or their respective associates, so far as our Directors are aware after having made reasonable enquiries
“International Offer Shares”	414,900,000 Shares (subject to reallocation and the exercise of the Over-allotment Option as described in the section headed “Structure of the Global Offering” in this prospectus) being offered by our Company for subscription at the Offer Price pursuant to the International Offering
“International Offering”	the conditional placing of the International Offer Shares by the International Underwriters with professional and institutional investors for cash at the Offer Price, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriter(s)”	the group of international underwriters expected to enter into the International Underwriting Agreement to underwrite the International Offering



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## DEFINITIONS

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“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around October 24, 2019 by, among others, the Joint Global Coordinators, the Joint Bookrunners, the International Underwriters, and us in respect of the International Offering, as further described in “Underwriting – Underwriting Arrangements and Expenses – International Offering” in this prospectus
“Jichong Shanghai”	Shanghai Jichong Technology Development Limited (上海紀翀科技發展有限公司), a company established in the PRC on March 27, 2018, which is one of our Shareholders
“Joint Bookrunners”	the group of joint bookrunners of the Global Offering listed in the section headed “Directors and Parties Involved in the Global Offering – Parties Involved in the Global Offering” in this prospectus
“Joint Lead Managers”	the group of joint lead managers of the Global Offering listed in the section headed “Directors and Parties Involved in the Global Offering – Parties Involved in the Global Offering” in this prospectus
“Joint Global Coordinators”	China International Capital Corporation Hong Kong Securities Limited and BNP Paribas Securities (Asia) Limited
“Joint Sponsors”	China International Capital Corporation Hong Kong Securities Limited and BNP Paribas Securities (Asia) Limited
“JW Holdings”	JW Holdings Cayman Limited, which is an exempted company incorporated in the Cayman Islands with limited liability on February 4, 2016. JW Holdings is an independent third party appointed by our Company to act as the trustee of the Pre-IPO RSU Scheme for grantees who are not the core connected persons of our Company
“Latest Practicable Date”	October 9, 2019, being the latest practicable date for the inclusion of certain information in this prospectus prior to its publication
“Listing”	listing of the Shares on the Main Board of the Stock Exchange

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## DEFINITIONS

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“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about October 31, 2019, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
“MCT” and “MOC”	the Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅遊部), formerly known as the Ministry of Culture of the PRC (中華人民共和國文化部)
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, conditionally adopted on September 20, 2019 to take effect on the Listing Date, as amended or supplement from time to time
“MIIT”	the Ministry of Industry and Information Technology (中華人民共和國工業和信息化部) of the PRC
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Motion Game”	Motion Game Company Limited (動力遊戲娛樂有限公司), a company incorporated in Hong Kong with limited liability on July 20, 2017 and one of our Controlling Shareholders
“MPS”	the Ministry of Public Securities of the PRC (中華人民共和國公安部)
“Mr. Liu”	Mr. LIU Yiqian (劉益謙)
“Mr. Ma”	Mr. MA Yuntao (馬雲濤), our non-executive Director, and one of our Substantial Shareholders

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## DEFINITIONS

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“Mr. Sin”	Mr. SIN Hendrick (洗漢迪), our executive Director and vice chairman, and one of our Controlling Shareholders
“Mr. Xiao”	Mr. XIAO Jian (肖健), our executive Director, chairman and chief executive officer, and one of our Controlling Shareholders
“Nasdaq”	Nasdaq Global Market
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NEEQ”	the National Equities Exchange and Quotations (全國中小企業股份轉讓系統有限責任公司)
“NPPA”	the National Press and Publication Administration (國家新聞出版署), a newly formed regulatory authority to regulate the press and publication industry after the 2018 State Council Institutional Reform
“NRTA”	the National Radio and Television Administration (國家廣播電視總局)
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%) at which the Hong Kong Offer Shares are to be subscribed, to be confirmed in the manner further described in the section headed “Structure of the Global Offering” in this prospectus, subject to any Downward Offer Price Adjustment
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares, collectively, and where relevant, together with any Shares to be issued pursuant to the exercise of the Over-allotment Option
“Online Culture Operation License”	the online culture operation license (網絡文化經營許可證)
“Online Publication License”	the online publication license (網絡出版服務許可證)

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## DEFINITIONS

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“Orient Securities”	Orient Securities Company Limited (東方證券股份有限公司), a joint stock company incorporated in the PRC with limited liability, whose shares are listed on both the Shanghai Stock Exchange (SSE: 600958) and the Main Board of the Stock Exchange (stock code: 3958)
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) under the International Underwriting Agreement pursuant to which our Company may be required by the Joint Global Coordinators to allot and issue up to an aggregate of 69,150,000 Shares at the Offer Price as described in the section headed “Structure of the Global Offering” in this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行)
“Pegasus BVI”	Pegasus Technology Limited (formerly known as Shanghai Pegasus Investment Limited), a company incorporated in the BVI on March 27, 2018 which is one of our Substantial Shareholders
“Pegasus HK”	Pegasus Network HK Limited (響格瑟斯網絡香港有限公司) (formerly known as Shanghai Pegasus Investment HK Limited (上海響格瑟斯投資香港有限公司)), a company incorporated in Hong Kong on April 9, 2018 which is one of our Substantial Shareholders
“Pegasus Investment”	Pegasus Investment Holding Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands, which was formed by a consortium of passive financial investors, namely Changpei Shanghai, Beijing Orient L.P. and Beijing HT, to take CMGE Group private from Nasdaq
“Pegasus Technology”	Shanghai Pegasus Technology Development Limited (上海響歌科技發展有限公司), a company established in the PRC on March 27, 2018 which is one of our Substantial Shareholders
“Post-IPO Share Option(s)”	option(s) that may be granted under the Post-IPO Share Option Scheme

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## DEFINITIONS

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“Post-IPO Share Option Scheme”	the post-IPO share option scheme conditionally adopted by the Shareholders on September 20, 2019, a summary of the principal terms of which is set out in the section headed “Statutory and General Information – E. Share Incentive Schemes – 2. Post-IPO Share Option Scheme” in Appendix IV to this prospectus
“PRC Legal Adviser”	Guantao Law Firm
“PRC Operating Entities”	Chengdu Zhuoxing, Shenzhen Zhongshouyou and Shenzhen Douyue
“Pre-IPO Investments”	our two pre-IPO investments from Shengqu Technology and Big Achieve of US\$20 million each
“Pre-IPO Investors”	our two pre-IPO investors, namely Shengqu Technology and Big Achieve
“Pre-IPO RSU Schemes”	the pre-IPO restricted share unit schemes of our Company approved and adopted by our Shareholders on September 20, 2019. One of the Pre-IPO RSU Schemes is for grantees who are our core connected persons. Another one of the Pre-IPO RSU Schemes is for grantees who are not our core connected persons. A summary of the principal terms of which are set out in the section headed “Statutory and General Information – E. Share Incentive Schemes – 1. Pre-IPO RSU Schemes” in Appendix IV to this prospectus
“Pre-IPO RSU Trustees”	C&T Services and JW Holdings
“Price Determination Date”	the date, expected to be on or around October 24, 2019 but no later than October 30, 2019, on which the Offer Price is to be fixed for the purposes of the Global Offering
“Profound Power”	Profound Power Investment Limited, a company incorporated in BVI with limited liability on March 8, 2018 and one of our Controlling Shareholders
“Qualified Institutional Buyers” or “QIBs”	qualified institutional buyers within the meaning of Rule 144A under the U.S. Securities Act

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## DEFINITIONS

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“Regulation S”	Regulation S under the U.S. Securities Act, as amended from time to time
“Reorganization”	the reorganization underwent by our Group in preparation for the Listing as described in the section headed “History, Reorganization and Corporate Structure – Reorganization” in this prospectus
“RMB” or “Renminbi”	the lawful currency of the PRC
“Rocket Parade”	Rocket Parade Investment Limited, a Company incorporated in the BVI on March 21, 2018, which is wholly-owned by our Company
“RSU”	a restricted share unit granted under the Pre-IPO RSU Schemes
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局) or the State Market Supervision Administration of the PRC (中華人民共和國國家市場監督管理總局) after the 2018 State Council Institutional Reform
“SAPPRFT”	the State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣電總局), which was reformed into NRTA and NPPA after 2018 State Council Institutional Reform
“SAT” or “State Administration of Taxation”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time



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## DEFINITIONS

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“Shanghai Pegasus”	Shanghai Pegasus Investment Centre (Limited Partnership) (上海響格瑟斯投資中心(有限合夥)), one of our Substantial Shareholders and a limited partnership established in the PRC on May 25, 2015, the general partner of which is Dazi Dingcheng
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Share(s)”	ordinary share(s) of US\$0.0001 each in the share capital of our Company
“Shareholder(s)”	holder(s) of our Share(s)
“Shengqu Technology”	Shengqu Technology Korean Limited, a company incorporated in the BVI and one of our Pre-IPO Investors
“Shengyue Software”	Shengyue Software (Shenzhen) Company Limited (盛悅軟件(深圳)有限公司), a company established in the PRC on March 5, 2018 and our indirectly wholly-owned subsidiary
“Shengyue Technology”	Shengyue Network Technology (Shanghai) Co., Ltd. (盛躍網絡科技(上海)有限公司), a company established in the PRC on November 30, 2016 and the ultimate controller of Shengqu Technology
“Shenzhen Boliang”	Shenzhen Boliang Technology Co., Ltd. (深圳博良科技有限公司), a company established in the PRC on June 19, 2018 and is a joint venture of our Group
“Shenzhen Douyue”	Shenzhen Douyue Internet Technology Company Limited (深圳市豆悅網絡科技有限公司), a company established in the PRC on November 21, 2014 and wholly-owned by Shenzhen Lanyue, and is one of the PRC Operating Entities controlled by our Group through the Contractual Arrangements
“Shenzhen Lanyue”	Shenzhen Lanyue Internet Technology Company Limited (深圳市嵐悅網絡科技有限公司), a company established in the PRC on June 7, 2013 and wholly-owned by CMGE Mobile Tech, and the registered shareholder of the PRC Operating Entities

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## DEFINITIONS

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“Shenzhen Shengli Huyu”	Shenzhen Shengli Huyu Internet Technology Company Limited (深圳市勝利互娛網絡科技有限公司), a company established in the PRC on July 1, 2015 and wholly-owned by Tianhu Software, our indirectly wholly-owned subsidiary
“Shenzhen Zhichengqianli”	Shenzhen Zhichengqianli Investment Enterprise (Limited Partnership) (深圳市志成千里投資企業(有限合夥)), a limited partnership established under the laws of the PRC of which Shenzhen Shengli Huyu, our indirectly wholly-owned subsidiary
“Shenzhen Zhongshouyou”	Shenzhen Zhongshouyou Internet Technology Company Limited (深圳市中手游網絡科技有限公司), a company established in the PRC on July 10, 2015 and wholly-owned by Shenzhen Lanyue, and is one of the PRC Operating Entities controlled by our Group through the Contractual Arrangements
“Shiji Huatong”	Zhejiang Shiji Huatong Group Limited (浙江世紀華通集團股份有限公司), a joint stock company established in the PRC and listed on the Shenzhen Stock Exchange (SZSE:002602), and an independent third party. See “History, Reorganization and Corporate Structure – CMGE Group and CMGE Mobile Tech – Contemplated Acquisition by Shiji Huatong and voluntary withdrawal – Background of Shiji Huatong” for further details of Shiji Huatong
“Silver Joyce”	Silver Joyce International Limited, a company incorporated in the BVI on July 5, 2012 and wholly-owned by Mr. Sin, which is one of our Controlling Shareholders
“Stabilizing Manager”	China International Capital Corporation Hong Kong Securities Limited
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or around the Price Determination Date between Zhongshouyou Brothers BVI and the Stabilization Manager pursuant to which the Stabilization Manager may borrow up to 69,150,000 Shares from Zhongshouyou Brothers BVI to cover over-allocations in the International Offering

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Taiwan Softstar”	Softstar Entertainment Inc. (大宇資訊股份有限公司), which is a company listed on the Taiwan Stock Exchange (TAIPEI: 6111)
“Taiwan Stock Exchange”	The Taiwan Stock Exchange Corporation (台灣證券交易所)
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Tianhu Software”	Tianhu Software Technology (Shenzhen) Company Limited (天互軟件科技(深圳)有限公司), a company established in the PRC on March 7, 2018 and our indirectly wholly-owned subsidiary
“Tibet Jichuang”	Tibet Jichuang Internet Technology Co., Ltd. (西藏極創網絡科技有限公司) (formerly known as Tibet Yunyou Investment Management Co., Ltd. (西藏雲遊投資管理有限公司)), a company established in the PRC on March 24, 2016 and wholly-owned by Shenzhen Shengli Huyu, our indirectly wholly-owned subsidiary
“Track Record Period”	the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“United States dollars” or “US dollars” or “US\$”	United States dollars, the lawful currency of the United States

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## DEFINITIONS

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“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated under it
“V1 Group”	V1 Group Limited (第一視頻集團有限公司), formerly known as VODone Limited, a company listed on the Main Board of the Stock Exchange (stock code: 0082)
“Victory Aspire”	Victory Aspire Group Limited (勝志集團有限公司), a limited company incorporated in the BVI on May 28, 2019, which is wholly-owned by Antopex Limited, the nominee for CMB Wing Lung (Trustee) Limited acting as trustee for the Xiao Family Trust
“Wenmai Hudong”	Beijing Wenmai Hudong Technology Company Limited (北京文脈互動科技有限公司), a company established in the PRC on December 12, 2014, which is an indirect wholly-owned subsidiary of our Company
“WFOE”	wholly foreign owned enterprise, a special form of company in the PRC
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s own name
“ <b>White Form eIPO</b> ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the <b>White Form eIPO</b> Service Provider <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“ <b>White Form eIPO</b> Service Provider”	Computershare Hong Kong Investor Services Limited
“Withdrawal Mechanism”	a mechanism which requires the Company, among other things, to (a) issue a supplemental prospectus as a result of material changes in the information (e.g. the offer price) in the prospectus; (b) extend the offer period and to allow potential investors, if they so desire, to confirm their applications using an opt-in approach i.e. requiring investors to positively confirm their applications for shares despite the change

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## DEFINITIONS

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“Wuhan Husheng”	Wuhan Husheng Investment Management Consulting Co., Ltd. (武漢互生投資管理諮詢有限公司), a company established in the PRC on September 6, 2011, the general partner of Changpei Shanghai
“Xiao Family Trust”	the ZSY Trust, a discretionary trust set up by Mr. Xiao, as settlor, and CMB Wing Lung (Trustee) Limited, as trustee, for the benefit of Mr. Xiao and his spouse
“Xinliyi Group”	Xinliyi Group Co., Ltd. (新理益集團有限公司), a company established in the PRC and is owned by Mr. Liu and his family
“ <b>YELLOW</b> Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
“Yichong BVI”	Yichong Technology Limited, formerly known as Shanghai Yichong Investment Limited, a company incorporated in the BVI on March 27, 2018, which is one of our Shareholders
“Yichong HK”	Yichong Technology HK Limited (一翀科技香港有限公司) (formerly known as Shanghai Yichong Investment HK Limited (上海一翀投資香港有限公司)), a company incorporated in Hong Kong on April 9, 2018, which is one of our Shareholders
“Yichong Investment”	Shanghai Yichong Investment Centre (Limited Partnership) (上海一翀投資中心(有限合夥)), one of our Shareholders and a limited partnership established in the PRC on April 20, 2015, the general partner of which is Dazi Dingcheng
“Zhike L.P.”	Hontai Zhike L.P., a limited partnership established in the Cayman Islands on April 26, 2018 is one of our Substantial Shareholders and is controlled by its general partner, Hontai Zhike Cayman Limited, a company incorporated in the Cayman Islands ultimately controlled by Beijing Orient L.P., which in turn is controlled by its executive general partner ultimately controlled by Mr. Ma

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## DEFINITIONS

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“Zhongrong Trust”	Zhongrong International Trust Co., Ltd. (中融國際信託有限公司), a trust company established in the PRC. Zhongrong Trust is one of our Substantial Shareholders by virtue of the role of its indirect wholly-owned subsidiary, Dazi Dingcheng, which is the general partner of Shanghai Pegasus and Yichong Investment
“Zhongshouyou Brothers BVI”	Zhongshouyou Brothers Limited (中手游兄弟有限公司), a company incorporated in the BVI on January 2, 2018 and wholly-owned by Victory Aspire for the Xiao Family Trust, which is one of our Controlling Shareholders
“Zhongshouyou Brothers PRC”	Shaoxing Shangyu Zhongshouyou Brothers Investment Partnership (Limited Partnership) (紹興市上虞中手游兄弟投資合夥企業(有限合夥)), a limited partnership established on November 23, 2015 under the laws of the PRC, a shareholder of CMGE Mobile Tech
“%”	per cent

In this prospectus:

- \* The English names of the PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translation and/or transliteration of their Chinese names and are included for identification purposes only. In the event of inconsistency between the Chinese names and their English translations and/or transliterations, the Chinese names shall prevail.



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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains definitions of certain terms used in this prospectus in connection with our business. These terms and their definitions may not correspond to any industry standard definitions, and may not be directly comparable to similarly titled terms adopted by other companies operating in the same industries as our Company.*

“active games”	games for which players can play and purchase in-game virtual currency as of a given date
“active users”	in any given period, (1) active users of a particular game refers to all registered users of such game that have entered the game at least once in such period; and (2) active users of a particular type or all of our games refers to the simple sum of the active users of each game of such type or all of our games, as applicable, in such period and a registered user that entered two or more games in such period is counted as two or more active users in that period
“Android”	an operating system developed and maintained by Google Inc. used in touchscreen technology including smartphones and tablets
“ARPPU”	average revenue per month per paying user, which represents our revenue recognized for a particular game, a particular type of game or all of our games, as applicable, in the period divided by the number of paying users of the game, the type of game or all of our games, as applicable, in such period
“average paying user conversion rate”	represents the average ratio of MPUs to MAUs in a period of time
“CCG”	collectible card games, which are card games involving specially designed sets of playing cards in which players put together their own decks and then use the decks to win
“first month of launch”	the first 31 calendar days after official launch of a mobile game
“FPS”	first-person shooting games, in which players can see their surroundings and operations with a first-person view

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## GLOSSARY OF TECHNICAL TERMS

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“free-to-play”	a business model used in the online game industry, under which players can play games for free, but may need to pay for virtual currency to exchange for virtual items sold in games to enhance their gameplay experience
“gross billings”	the monetary value of all virtual currency sold during a certain period
“H5”	hypertext markup language 5, the fifth and current major version of the hypertext markup language standard; used for structuring and presenting content on web pages and for creating web applications
“independent mobile game publishers”	publishers whose principal business is publishing mobile games developed by third parties. Unlike other mobile game publishers who derive a significant portion of their revenue from their game development business and non-mobile game related businesses, independent mobile game publishers derive the majority of their revenue from their mobile game publishing business. In addition, unlike other mobile game publishers whose publishing business is heavily dependent upon their in-house development capabilities, independent mobile game publishers have a wide range of game sources as they may license games developed by various third-party game developers and engage third-party game developers to develop games based on their licensed or proprietary IPs
“indie game(s)”	games created and developed by an independent game developer team, and generally have simple storylines and more innovative gameplay method
“iOS”	a mobile operating system developed and maintained by Apple Inc. used exclusively in Apple touchscreen technology including iPhones, iPods and iPads
“IP(s)”	intellectual property rights relating to cultural products or art works, such as icons or characters from popular animations, novels, and motion pictures, which have a significant fan base, market acceptance and commercial value

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## GLOSSARY OF TECHNICAL TERMS

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“IP address”	internet protocol address, an identifier assigned to each computer and other device to a network that is used to locate and identify the node in communications with other nodes on the network
“lifecycle”	the market life of a game, starting from the initial launch and ending on the irreversible and drastic decline of active users and revenue generated
“MAUs”	monthly active users, which refers to the number of active users in the relevant calendar month; average MAUs for a particular period is the average of the MAUs in each month during that period
“MMORPG(s)”	massive multiplayer online role-playing games, in which a vast number of players play their selected game character in the virtual world, and interact with each other
“mobile games”	games that can be played on mobile devices
“mid-core to hardcore games”	games with more complex playing methods and more developed storyline, and include MMORPGs, CCGs and SLGs, amongst others
“MPUs”	monthly paying users, which refers to the number of paying users in the relevant calendar month; average MPUs for a particular period is the average of the MPUs in each month during that period
“nijigen (二次元) culture”	a culture that primarily attracts people born in the years between 1990 and 2010, and generally takes the form of animations, manga, games and novels
“online games”	video games that are played over some form of computer or mobile network, including primarily client games, web games and mobile games
“pan-entertainment”	the development of games, literature, animations and motion pictures, amongst others, based on IPs

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## GLOSSARY OF TECHNICAL TERMS

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“paying users”	in any given period, (1) paying users of a particular game refers to all registered users who charged their accounts for the game with virtual currency purchased from us at least once in such period regardless of whether such virtual currency was used by the registered users in that period; and (2) paying users of a particular type or all of our games refers to the simple sum of the paying users of each game of such type or all of our games, as applicable, in such period and a paying user that purchased virtual currency in two or more games in such period is counted as two or more paying users in that period
“PC(s)”	personal computer(s)
“registered user(s)”	as of any period of time, registered user of a particular game refers to the user account that had at least one entry into such game prior to such time; registered users of a certain type or all of our games refers to the simple sum of the registered users of each game of such type or all of our games, as applicable, as of such time and a user account that has been used to enter two or more games is counted as two or more registered users
“RPG(s)”	role-playing games, which refer to games that involve a large number of users who interact with each other in an evolving fictional world; each user adopts skill sets (such as melee combat or casting magic spells) and controls the avatars’ actions; there are unlimited possible game scenarios where the evolution of the game world is determined by the actions of players, and the storyline continuously evolves even while players are offline and away from the games
“SDK”	software development kit, typically a set of software development tools that allows the creation of applications for a certain software package, software framework, hardware platform, computer system, video game console, operating system, or similar development platform
“server”	a computer system that provides services to other computing systems over a computer network

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## GLOSSARY OF TECHNICAL TERMS

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“SLG(s)”	simulation games, which are generally designed to closely simulate aspects of a real or fictional reality
“TPS”	third-person shooting games, in which players can see their surroundings and operations with a third-person view
“vertical platform(s)”	vertical platforms comprise both user vertical platforms, whose users share common features, and content vertical platforms, whose contents share common features. For mobile game publishers, user vertical platforms provide accurate user traffic, and content vertical platforms incubate the creation of IPs
“virtual items”	items, avatars, skills, privileges or other in-game consumables, features or functionalities we offer to players to help them extend their gameplay, enhance or personalize their game environments and accelerate their progress in our games
“web games”	games that are played in a web browser on PC without downloading any client base or application

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## FORWARD-LOOKING STATEMENTS

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Certain statements in this prospectus are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as “will”, “expect”, “aim”, “potential”, “continue”, “anticipate”, “estimate”, “believe”, “going forward”, “ought to”, “may”, “seek”, “should”, “intend”, “plan”, “projection”, “could”, “vision”, “goals”, “objective”, “target”, “schedules”, “outlook” or other similar expressions) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including the risk factors detailed in this prospectus), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our business prospects
- our future business development, financial condition and results of operations;
- our business strategies and our operating and expansion plans to achieve these strategies;
- our ability to identify and satisfy player demands and preferences;
- our ability to maintain good relationships with business partners;
- general economic, political and business conditions in the industries and markets in which we operate;
- relevant government policies and regulations relating to our industry, business and corporate structure;
- future developments, trends and conditions in the industry and markets in which we operate;
- changes to the regulatory environment and general outlook;
- our dividend policy;
- capital market development;



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## FORWARD-LOOKING STATEMENTS

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- the actions and developments of our competitors; and
- all other risks and uncertainties described in the section headed “Risk Factors” in this prospectus.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this prospectus. Any such intentions may change in light of future developments.

All forward-looking statements in this prospectus are expressly qualified by reference to this cautionary statement.

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## RISK FACTORS

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*Prospective investors should consider carefully all of the information presented in this prospectus and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to the Offer Shares. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospects of our Group. This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations, and intentions which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this prospectus. The trading price of the Offer Shares could decline due to any of these risks and you may lose all or part of your investments.*

*You should carefully read and consider all of the information in this prospectus including the risks and uncertainties described below before deciding to make any investment in our Shares. Our business, financial condition or results of operations could be materially adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties. As a result, you may lose part or all of your investment.*

### RISKS RELATED TO OUR BUSINESS

#### **We may not be successful in licensing IPs and games.**

During the Track Record Period, we primarily published games developed by third parties, many of which had been developed based on our licensed IPs. As of the Latest Practicable Date, we held license over 31 IPs and owned 68 IPs. Our IP licensing agreements generally have a term of three to five years, renewable for one or two years on approval of the IP owner. Among our 31 licensed IPs, 12 will be subject to renewal by the end of 2020. We also license games directly from game developers. As of the Latest Practicable Date, we had entered into 96 effective game licensing agreements in relation to 105 games. Our game licensing agreements generally have a term of three to five years, some with automatic renewal under circumstances including when the average monthly gross billings of the game during a certain period reaches a prescribed amount. Among our 96 game licensing agreements, 26 will be subject to renewal by the end of 2020.

Although we possess proprietary IPs and in-house development capabilities as a result of our acquisitions of Wenmai Hudong and a 51% of the equity interest in Beijing Softstar in May 2018, we expect the majority of our revenue to continue deriving from licensed games and games developed based on our licensed IPs.

We cannot assure you that we will be able to successfully license games developed by third-party game developers and IPs from their owners or that our licensed IPs will be developed into successful games. Our failure to license games and IPs will negatively impact our game portfolio and pipeline, and consequently our results of operations.

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## RISK FACTORS

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### **We may not be successful in developing games in-house.**

As a result of our acquisitions of Wenmai Hudong and a 51% equity interest in Beijing Softstar, we now possess in-house game development capabilities. We generated game development revenue of RMB177.9 million, RMB48.9 million and RMB218.4 million for the year ended December 31, 2018, and the six months ended June 30, 2018 and 2019, respectively, representing approximately 11.1%, 7.3% and 14.3% of our total revenue for the same periods. Our ability to develop successful new games will largely depend on our ability to:

- attract, retain and motivate talented game development personnel;
- minimize launch delays and cost overruns in the development of new games;
- effectively monetize games without degrading the gameplay experience for our players; and
- effectively execute our game development plans.

In-house development requires a substantial initial investment prior to the launch of a game, as well as a significant commitment of future resources to produce updates and expansion packs. Our ability to introduce successful updates and expansion packs for our games will also depend on our ability to collect and analyze player behavior in a timely manner and to effectively incorporate features into our updates and expansion packs to improve the variety and attractiveness of our virtual items. We cannot assure you that we will be able to collect and analyze player behavior data on a timely basis or that such data will accurately reflect player behavior.

### **Our new games may not be commercially successful and we may not be able to attract new players.**

We cannot assure you that the new games we publish or develop will be commercially successful. You should not use the success of our existing games as an indication of the future commercial success of any of the games in our pipeline.

There are many factors that could adversely affect the popularity of our new games, including:

- our ability to anticipate and adapt to future technological developments, new business models and changed player preferences and requirements;
- our ability to efficiently operate the game and resolve technical difficulties and player complaints;
- our ability to plan and organize marketing and promotional activities; and
- our ability to improve our existing games and differentiate our new games from those offered by other companies.

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## RISK FACTORS

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As we launch and operate new games or introduce updates to our existing games, we closely monitor our game players' tastes and preferences and may work with game developers to introduce or change certain game features or gameplay styles to make our games more attractive. We cannot assure you that these changes or adjustments will be well received by our game players, who may decide not to play our new games or cease playing our existing games. As a result, any changes or adjustments we make to existing or new games in cooperation with our game developers may adversely impact our revenues and business prospects.

If we fail to launch new games according to our timetable or at all or if our new games are not commercially successful, our business prospects and results of operations would be materially and adversely affected and we may not be able to recover our game licensing, IP licensing or operating costs, which can be significant.

Further, many of our new games require significant build-up periods during which players are first introduced to the games and the rise in popularity of some games can be slow, if it happens at all. Thus, if a game that we anticipate gaining acceptance by our players fails to do so, we may not be able to realize this failure until several months after the game has been released, and if we do not introduce additional games to maintain our player base, the failure of recently introduced games to gain popularity could affect our ability to retain our existing players or attract new ones. Further, if a build-up period coincides with the inevitable phasing-out period of our older games, the result could be a decrease in the number of total paying users as well as revenue during that period.

**We may fail to maintain and grow our player base or keep our players engaged through popular games.**

In order to achieve the sustainable growth of our business, we must retain our existing players, attract new players, and ultimately improve our monetization. This requires that we consistently launch popular games and release updates for our existing games to keep our players engaged. In order to deliver a better gameplay experience and deepen our understanding of our players, we need to invest in technology and research and development, including our computing infrastructure, data analysis engine and our technology related to SDK. If we are unable to consistently deliver a satisfying player experience, we may lose our players. If we are unable to anticipate player preferences or behaviors or industry changes in order to market and promote new games, or if we are unable to extend the lifecycle of the games that we currently operate, or if we are unable to provide sufficient social connectivity to our players as part of their gameplay experience, our player base may not increase at the rate we anticipate, or at all, and it may even decrease.

Despite our efforts in sourcing high-quality games and our rigorous game selection process, we cannot guarantee that the games we launch will gain popularity within a short period of time, if at all. Neither can we guarantee that the popular games that we operate will continue to sustain their current level of popularity. Players may lose interest in our games over time in spite of any improvements or upgrades to our existing games or our efforts to offer a diversified portfolio of games. Players may not choose our games or services if our technology

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becomes unreliable. Players may choose to play games offered by other publishers if those publishers offer better game services or social networking opportunities. If a game fails to gain the anticipated players acceptance and we do not introduce additional games to maintain our player base, the phasing out of previous games could result in a prolonged period of, or permanent decrease in, our total active and paying users. If we fail to effectively schedule the initial launches of our games, our results of operation may be materially and adversely affected.

### **We may fail to monetize our players effectively.**

Most of our games are in mobile application form and free to download, and players can play with basic functions for free. We believe that our freemium model attracts a wider audience of players and increases the number of potential paying users. However, the success of this business model largely depends on whether we can attract game players to play our games and whether we can successfully encourage more players to purchase virtual items. It is possible that we may not be able to market our virtual items effectively, or we might fail to accurately identify and introduce new and popular virtual items or price them properly. In addition, this business model may cease to be commercially successful. We cannot assure you that a sufficiently broad base of game players will continue to accept this model or that a new, competing business model will not emerge.

We provide game publishing services to mobile game developers in exchange for a share of the gross billings collected from paying users from the games we publish. In line with industry norms, only a small percentage of players who play our games in any period are paying users. As such, in order to sustain our revenue growth, we must effectively monetize our player base by converting average MAUs to paying users and by encouraging paying users to spend more on our games. We invest in player data mining and analysis to better understand our players' in-game consumption patterns. This allows us to better localize overseas games for our players and enhance the attractiveness of our games, as well as design virtual items that are desirable to mobile users in China and to properly deploy and price them to enhance our monetization. Our players are willing to pay for premium functions and purchase in-game virtual items because of the perceived value of these functions or items, which is dependent on the benefits such services or items confer upon the players in the game. Spending in our games is discretionary and our players can be sensitive to price, undermining our ability to convert active users to paying users. It is crucial to balance, on the one hand, the creation of sufficient in-game monetization opportunities, which enhances the profitability of our games, and, on the other hand, ensuring that players can enjoy our games even without paying for extra functions or items. To stimulate in-game spending, we need to constantly launch marketing and promotional activities to drive player interest. While free-to-play games help to maintain a sizable player base and the associated network effect, it may not be optimal in terms of player monetization. We must also provide easy, fast and safe payment solutions to our players to facilitate in-game purchasing so they are not discouraged or inconvenienced by online payment processing procedures. If we fail to effectively monetize our players, our business, financial condition and results of operations may be materially and adversely affected.

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**The laws and regulations regulating mobile games in China continue to evolve and change, which may make it difficult for us to obtain or maintain all applicable permits and approvals.**

We are required to obtain licenses, permits and approvals from different regulatory authorities in order to conduct our business. We have obtained the Online Publication License, the Online Culture Operation License and the ICP License to conduct our business operations. For further details, see “Business – Licenses and Permits” in this prospectus.

In addition, PRC laws and regulations require that all online mobile games that we license from other PRC game developers be approved by NPPA and filed with the MCT. These approval and filing requirements can be completed by us or the third-party publisher, game developer or game operator. Moreover, under applicable PRC laws and regulations, online games licensed from overseas game developers are required to be examined and approved by NPPA and the MCT. If any of our PRC Operating Entities fails to obtain or maintain any of the required permits or approvals or if our practice is later challenged by government authorities, they may be subject to various penalties, including and without limitation to, fines, being ordered to rectify the situation, confiscation of illegal revenues and discontinuation or restriction of our business operations. Any such disruption in our business operations would materially and adversely affect our financial condition and results of operations.

As mobile games are at an early stage of development in China, new laws and regulations may be adopted and existing laws and regulations may be amended from time to time that require licenses and permits beyond those that we currently have. These regulations may also restrict our ability to expand our player base or to provide services in additional geographic areas. Substantial uncertainties exist in the implementation and interpretation of the current PRC laws and regulations applicable to the operation of mobile games, and as new laws and regulations are passed and adopted, their implementation and interpretation may also be uncertain or unfavorable to our business and operations.

For example, from April to December 2018, PRC regulators ceased to assess and pre-approve new domestically developed online games, following the issuance of the Plan for Deepening the Institutional Reform of the Party and the State (深化黨和國家機構改革方案) and the Institutional Reform Plan of the State Council (國務院機構改革方案) in March 2018. The assessment and pre-approval procedures resumed in December 2018, and since then we have obtained pre-approval for five of the 11 games that we submitted for pre-approval. It is unclear when the remaining pre-approvals will be obtained, which may delay our publishing schedule and negatively affect our ability to monetize our games. In addition, no laws, regulations or official clarifications had been promulgated or published in relation to the suspension and resumption of the assessment and pre-approval procedures, and it is unclear whether there will be any similar suspensions in the future. Any further suspensions could impact our ability to launch and publish new games and may also hinder our ability to comply with the relevant regulatory requirements as the authorities may not process our applications or filings, which could adversely affect our financial condition, results of operations and future prospects.



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As another example, in August 2018, PRC regulators issued the Notice of Issuance of the “Integrated Prevention and Control Program of Myopia among Children and Teenagers” (綜合防控兒童青少年近視實施方案), proposing to limit the number of new online games available in the market, and to restrict the amount of time children spend on playing electronic devices. As of the Latest Practicable Date, no official laws and regulations had been promulgated to enforce this new notice. Although it is unclear if, when and how this notice will be enforced, its enforcement could impact our ability to launch and publish new games going forward, and require us to spend more time and costs in preparing and receiving the approvals necessary to launch our games.

According to several news reports in December 2018, PRC regulators established the Online Games Ethics Committee for the purpose of reviewing online games, and it rejected nine of an initial batch of 20 games it had reviewed. As of the Latest Practicable Date, no official laws and regulations had been promulgated or published in relation to the assessment criteria and procedures of the Online Games Ethics Committee. However, the formation of the Online Games Ethics Committee and its assessment criteria and procedures could impact our ability to launch and publish new games going forward, and require us to spend more time and costs in preparing and receiving the approvals necessary to launch our games. In addition, our games that have already received the relevant pre-approval may also be subject to further review by the Online Games Ethics Committee, and we may be required to modify the content of our games, which will further add to our regulatory compliance costs and expenses.

On July 23, 2019, the MCT announced the abolishment of the Interim Measures on Administration of Online Games (《網絡遊戲管理暫行辦法》) (the “**Online Games Interim Measures**”), which had previously regulated activities related to the online game industry, including the issuance of the Online Culture Operation Licenses, amongst others. For further details, see “Regulatory Overview – Online Games Operations – Regulatory Framework” of this prospectus. As of the Latest Practicable Date, no laws and regulations had been promulgated or published to replace the Online Games Interim Measures. Although the Online Culture Operation Licenses granted under the Online Games Interim Measures shall remain valid until expiration, the abolishment of the Online Games Interim Measures may increase our compliance costs, and if we are unable to comply with the new renewal procedures in a timely manner, our ability to launch and operate new games may be negatively impacted, which could adversely affect our financial condition, results of operations and future prospects.

Moreover, as we expand our businesses, we may be required to obtain new licenses and will be subject to additional laws and regulations in the markets in which we plan to operate. If we fail to obtain, maintain or renew any required licenses or approvals or make any necessary filings or are found to require licenses or approvals that we believed were not necessary, we may be subject to various penalties, such as confiscation of the revenue or assets that were generated through the unlicensed business activities, imposition of fines, suspension or cancellation of the applicable license, written reprimands, termination of third-party arrangements, criminal prosecution and discontinuation or restriction of our business operations.

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We cannot assure you that in the future we will be able to obtain all requisite permits, licenses and approvals in a timely manner, or at all, and any failure to do so could result in penalties, or requirements to curtail or cease operating all or parts of our business, any of which may materially and adversely affect our financial condition, results of operations and future prospects.

**If we are required to write down goodwill, our financial condition and results may be materially and adversely affected.**

We recorded goodwill of RMB1,118.6 million as of June 30, 2019, which was largely the result of the Reorganization in November 2015, our acquisition of Wenmai Hudong in May 2018 and Beijing Softstar becoming our subsidiary in August 2018. As of June 30, 2019, our goodwill represented 52.9% of our total shareholders' equity.

The value of goodwill is determined based on a number of assumptions made by the management. If any of these assumptions does not materialize, or if the performance of our business is not consistent with such assumptions, we will be required to write down the value of goodwill and recognize corresponding impairment losses. We may make additional acquisitions in the future, and if we do so, goodwill may comprise a more significant percentage of our shareholders' equity. As such, any write-down related to goodwill may adversely and materially affect our shareholders' equity and financial results.

**If we are required to write down other intangible assets, our financial condition and results may be materially and adversely affected.**

Our other intangible assets primarily comprise IP copyrights and game copyrights. During the Track Record Period, our IP and game copyrights were purchased from IP owners and game developers, respectively, which constituted the majority of our other intangible assets. Our other intangible assets increased from RMB35.1 million as of December 31, 2017 to RMB119.3 million as of June 30, 2019, as a result of our acquisition of Wenmai Hudong and Beijing Softstar becoming our subsidiary in 2018. As of June 30, 2019, our other intangible assets represented 5.6% of our total shareholders' equity.

Our games may not be commercially successful or launched at all, and we may be required to write down the value of our IP and game copyrights, and recognize corresponding impairment losses. We may license more IP and game copyrights, and make additional acquisitions in the future, and if we do so, other intangible assets may comprise a significant percentage of our shareholders' equity. As such, any write-down related to other intangible assets may adversely and materially affect our shareholders' equity and financial results.

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**Any loss or deterioration of our relationship with game developers and publishing channels may result in the loss of players and revenues.**

We work with game developers to provide games to our players. We may not be able to maintain a good and mutually beneficial commercial relationship with our game developer partners. Any failure on our part to properly optimize, operate, effectively market or monetize their games, safeguard their intellectual properties including the source code of their games, or perform our obligations under our game licensing agreements with them may cause substantial harm to our business relationships with game developers.

The term of our game licensing agreements with game developers is typically three to five years, renewable upon both parties' consent. Our game developer partners may terminate our game licensing agreements prior to their expiration as a result of our non-compliance with the terms or conditions thereof, or they may refuse to renew the game licensing agreements. Even if our game developer partners are willing to renew our game licensing agreements, they may demand commercial terms, such as revenue-sharing ratios, that are less favorable to us than under our existing game licensing agreements. They may also choose to partner with our competitors, allowing our competitors to enhance their game portfolio and better compete against us. Any loss or deterioration of our relationship with any of our game developer partners may result in a loss of revenues and materially and adversely affect our business and results of operations.

Moreover, during the Track Record Period and up to the Latest Practicable Date, we published our games primarily on third-party publishing channels, including Apple's App Store, Tencent App Store (騰訊應用寶), Qihoo 360 Mobile App Developer Center (奇虎360手機助手) and Baidu App Store (百度手機助手). Publishing channels have strong bargaining power in dealing with mobile game publishers like us. We are often subject to the standard service terms and conditions of these publishing channels with regard to the promotion, distribution, operation and payment methods for our mobile games. If any of these publishing channels (i) goes out of business, (ii) discontinues its relationship with us for any reason, such as our failure to comply with any laws or regulations in any jurisdiction where our games are offered, (iii) limits our access to its platforms, (iv) modifies its terms of services or other policies, (v) changes its fee structure, (vi) provides more favorable terms to our competitors, or (vii) is forced to cease its business relationship with us due to its lack of required licenses or permits or other regulatory compliance issues, our business could be adversely affected.

In addition, we have benefited from the widely recognized brand names and large user bases of these publishing channels. If any of these publishing channels loses its market position or otherwise falls out of favor among our players or other factors cause its user base to stop growing or shrink, or if any of them fails to perform its contractual obligations to us, we would need to identify alternative channels for marketing, promoting and distributing our online games, which would consume substantial resources and may not be effective or available.

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**We may face increasing competition, which could reduce our market share.**

The mobile game industry in China is highly competitive with low barriers to entry and we expect more companies to enter this industry and a wider range of mobile games to be introduced. The industry is characterized by the frequent introduction of new games and services, short game lifecycles, evolving industry standards, regulatory uncertainties, rapid adoption of technological and game advancements, as well as price sensitivity on the part of players. In China, we compete directly with:

- other mobile game publishers;
- large China-based internet companies that may develop and operate their own mobile games; and
- our new games, to the extent they may compete with our existing games.

We also publish our games overseas. Our mobile games offered internationally are also subject to intense competition. In addition, competition within the broader entertainment industry is intense and our existing and prospective players may be attracted to competing forms of entertainment such as client and console games, television, movies, sports, mobile music, mobile books and social network services as well as other entertainment options on the internet.

Some of our existing and potential competitors have significantly greater financial, technological and marketing resources and stronger relationships with industry participants than we do. Some of our competitors or potential competitors have greater mobile game publishing experience and resources than we do. If there are new entrants in the market or intensified competition among existing competitors, we may have to provide more incentives to industry participants, such as publishing channels, which could adversely affect our profitability.

Our new mobile games may attract game players away from our existing games and shrink the player base of our existing games, which could in turn make those existing games less attractive to other game players, resulting in decreased revenues from our existing games. Players of our existing games may also spend less money to purchase virtual currency in our new games than they would have spent if they had continued playing our existing games. In addition, our game players may migrate from our existing games with a higher profit margin to new games with a lower profit margin. If we fail to compete effectively, our market share could decrease and our results of operations could be materially and adversely affected.

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**Our ability to generate revenues could suffer if the PRC market for mobile games does not develop as anticipated.**

The mobile games market in China has evolved rapidly in recent years, with developments such as the introduction of new business models, the development of player preferences, the increasing popularity of smartphones, market entry by new competitors and the adoption of new strategies by existing competitors. We expect each of these trends to continue, and we must continue to adapt our strategy to successfully compete in our market. There are numerous other technologies and business models in varying stages of development, such as portable tablet computers, netbooks or other mobile internet handsets involving new mobile technologies, which could render certain current technologies or applications obsolete. Accordingly, it is extremely difficult to accurately predict player acceptance and demand for our various existing and potential new offerings, and the future size, composition and growth of this market. Furthermore, given the limited history and rapidly evolving nature of our market, we cannot predict the price that players will be willing to pay for the virtual items in our mobile games or whether players will have concerns over security, reliability, cost and quality of service associated with mobile games. If market acceptance of our mobile games is different than anticipated, our ability to maintain or increase our revenues and profits could be materially and adversely affected.

**Social games account for a large portion of our revenues and any adverse developments relating to such content may adversely affect our results of operations.**

We anticipate that revenue generated from our social games will continue to account for a large portion of our revenues in the foreseeable future. We are enhancing our efforts in launching, marketing and operating social games because of the expected growth of the social game market. Accordingly, any of the following could materially and adversely affect our business, financial condition and results of operations:

- any reduction in or failure to grow the player base of our existing social games;
- any decrease in popularity of our existing social games in the market or any decrease in their purchases due to intensifying competition or other factors;
- any failure to make quality upgrades, enhancements or improvements to our existing social games in a timely manner in response to player preferences;
- any failure of our games to reach popularity with a critical mass of players;
- any failure to launch new social games that appeal to players;
- any failure to efficiently operate social games and provide effective player service;
- any failure to comply with regulatory requirements with respect to social games;
- any breach of cybersecurity with respect to player data accumulated through the operation of our social games; or

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- any breach of related software security, prolonged server interruption due to network failures, hacking activities or other factors or any other adverse developments relating to our social games.

**We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.**

We rely on a combination of copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods to protect our intellectual property rights. The protection of intellectual property rights in China may not be as effective as those in the United States or other countries. Some players may illegally modify our games so that they can obtain our in-game virtual items for free. The steps we have taken may be inadequate to prevent the misappropriation of our technology or unauthorized use of our brands or games. Reverse engineering, unauthorized copying or other misappropriation of our technologies, or unauthorized access of our games could enable third parties to benefit from our technologies or games without compensating us. Moreover, unauthorized use of our technology could enable our competitors to offer products and services that are comparable to or better than ours, which could harm our business and competitive position. From time to time, we may have to enforce our intellectual property rights and brands through litigation, which may result in substantial costs and diversion of resources and management attention.

**Our strategy of acquiring and investing in complementary businesses, assets and technologies may result in operating difficulties, dilution to our investors and other negative consequences.**

As part of our business strategy, we have successfully acquired, and intend to continue to selectively acquire and invest in, businesses, assets and technologies that complement our existing business, including (i) acquisitions of companies, businesses, intellectual property rights, and other assets, and (ii) minority investments in strategic partners. We aim to realize strategic synergies for our publishing business through vertical integration by investing in or acquiring companies along China's mobile game industry value chain. As of the Latest Practicable Date, we held equity investment in 12 game developing companies, and had acquired Wenmai Hudong and a 51% equity interest in Beijing Softstar. Such acquisitions and investments involve uncertainties and risks, including:

- accurately evaluating potential acquisition targets and identifying acquisition targets with operations complementary to our existing operations;
- potential competition and conflicts of interest resulting from the investments and acquisitions that we make directly and those that we make indirectly through strategic partners;
- potential ongoing financial obligations and unforeseen or hidden liabilities;
- retaining key employees and maintaining key business relationships with partners of the businesses we acquire;

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- failure to achieve intended objectives, benefits or revenue enhancement;
- costs and difficulties of integrating acquired businesses and managing a larger business;
- the need to integrate an acquired company's accounting, management information, human resources and other administrative systems to permit effective management and timely reporting;
- the possibility that, before the acquisition or investment, we will not discover important facts during due diligence that could have a material adverse impact on the value of the businesses we acquire or invest in;
- significant accounting charges resulting from the completion and integration of a sizeable acquisition and increased capital expenditures;
- the possibility that a change of control of a company we acquire triggers a termination of contractual or intellectual property rights important to the operation of its business; and
- diversion of resources and management attention.

Our failure to address these risks successfully may have a material adverse effect on our financial condition, results of operations, cost structure and risk profile. In addition, any such acquisition or investment may require a significant amount of capital investment, which would reduce the amount of cash available for working capital or capital expenditures. Furthermore, if we use our equity securities to pay for acquisitions, we may dilute the value of our Shares. Our Shareholders may not have the opportunity to review, vote on or evaluate future acquisitions or investments. If we borrow funds to finance acquisitions, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends.

In July 2016, we disposed of Shenzhen Qi Le Wu Xian Software Development Co., Ltd. (深圳市奇樂無限軟件開發有限公司) and Beijing Zhuoyue Chenxing Co., Limited (北京卓越晨星科技有限公司) in exchange for cash of RMB130.0 million and 48,780,480 shares in Hero Entertainment. As a result of this disposal and a sale in the following years of a majority of the shares of Hero Entertainment that we held, we recognized significant gain on disposal of subsidiaries and gains on financial assets at fair value through profit or loss during the Track Record Period. We recorded gain on disposal of subsidiaries of RMB115.1 million in 2016, and gains on disposal of financial assets at fair value through profit or loss of RMB124.9 million and RMB2.3 million in 2017 and 2018, respectively. Our gain on disposal of subsidiaries and gains on financial assets at fair value through profit or loss recorded during the Track Record Period were non-recurring in nature, and to the extent we do not have similar opportunities to dispose of subsidiaries or games on economic terms that we deem favorable to us, our financial results will not be as favorable.



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**We are exposed to changes in the fair value of financial assets measured at fair value through profit or loss, fair value adjustment of contingent consideration, and valuation uncertainties due to the use of unobservable inputs.**

We have invested in, and intend to continue to selectively invest in, businesses, assets and technologies that complement our existing business. We recorded fair value gains on financial assets at fair value through profit or loss and fair value adjustment of contingent consideration of RMB32.6 million, RMB40.5 million, RMB103.6 million, RMB37.9 million and RMB12.5 million for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively. The fair value changes of our investments measured at fair value through profit or loss may negatively affect our financial performance. Furthermore, the valuations of our investments require the use of unobservable inputs, judgments and estimates, such as long-term growth rate, long-term operating margin and weighted average cost of capital, which in turn could negatively affect our financial conditions and results.

**Our investments in the joint venture and associates expose us to liquidity risks, and the joint venture and associates may record significant losses.**

During the Track Record Period, we made investments in a joint venture and seven associates, and recorded our share of profits and losses from the joint venture and associates. Our share of profits and losses from the joint venture was nil for the years ended December 31, 2016 and 2017, and losses of RMB4.3 million, RMB1.1 million and RMB1.4 million for the year ended December 31, 2018, and the six months ended June 30, 2018 and 2019, respectively, representing nil, nil, 0.2%, 0.2% and 0.1% of our total revenue for each period. Our share of the profits and losses from associates was a loss of RMB3.3 million, profits of RMB2.0 million, RMB17.9 million and RMB1.6 million, and a loss of RMB2.9 million for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively, representing 0.3%, 0.2%, 1.1%, 0.2% and 0.2%, respectively, of our total revenue for the same periods. If the joint venture and associates in which we hold investments record significant losses, our results of operations may be negatively affected. Furthermore, our investments in the joint venture and associates may expose us to certain liquidity risks, as we record no cash inflows from these investments until the joint venture or associates declare dividends. In addition, because they are unlisted, our investments are not as liquid as other investment products, which may result in operating difficulties.

**Flaws in our games, including programming errors or defects in our games, undetected by us and game developers could harm our reputation or decrease market acceptance of our games.**

Our games are subject to frequent improvements and updates, and may contain bugs or flaws that may become apparent only after the updated applications are accessed by players, particularly as we launch new updates under tight time constraints. From time to time, our players may inform us of programming bugs affecting their gameplay experience, and we are generally able to resolve such flaws promptly. However, if for any reason, programming bugs or flaws are not resolved in a timely fashion, we may lose some of our players and our revenues

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will be affected negatively, and our reputation and market acceptance of our games may also be harmed. In addition, the PRC government has promulgated rules and regulations targeting mobile service providers that charge for applications and other content without user consent. If a programming error or flaw in our games inadvertently charges players without consent, we may be subject to administrative penalties and fines.

**The growth of our business may be adversely affected due to breaches of our security measures and unintended disclosures of our intellectual property or our player data.**

Since we conduct our business primarily on mobile devices, we are collecting and storing an increasing amount of player data. We rely on proprietary encryption and authentication technology to provide the security and authentication necessary to effect secure transmission of confidential player information, such as user names and passwords. It is possible that our security controls over player data may not prevent the improper disclosure of personal information. A party who is able to circumvent these security measures could misappropriate proprietary information or cause interruptions in our operations. A security breach that leads to disclosure of player account information (including mobile numbers or other personal information) could harm our reputation and subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue. We may be required to expend significant capital and other resources to prevent such security breaches or to alleviate problems caused by such breaches. We may also lose our current players or deter potential players from playing our mobile games that require the collection of player data because of the perception that we cannot adequately protect our players' privacy. Additionally, our business operation may be harmed by players' concerns over playing games on their mobile devices. For instance, malware has been disguised as popular mobile games on Android devices. The malware will subscribe to paid services without player consent, resulting in fraudulent charges to players. We cannot assure you that our security measures will prevent security breaches or that players' interest in playing mobile games would continue if we experienced problems with malware. Failure to prevent security breaches or players' concerns over mobile device malware may have a material adverse effect on our business, prospects, financial condition and results of operations.

**Our business is subject to the risks associated with international operations. Expansion into international markets is important for our growth, and as we expand internationally, we will face additional business, political, regulatory, operational, financial and economic risks, any of which could increase our costs and hinder such growth.**

As of the Latest Practicable Date, we operated 22 games in overseas jurisdictions, and we plan to increase this number in the future. Expanding our business internationally exposes us to a number of risks, including:

- our ability to localize games and adapt them to local preferences;
- our ability to protect our intellectual property rights overseas and manage the related costs;

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- difficulty in identifying appropriate partners and establishing and maintaining good cooperation relationships with them; and
- increased costs associated with doing business in foreign jurisdictions.

These and other risks associated with international activities could also significantly affect our financial condition and operating results. Furthermore, we have implemented policies and procedures designed to facilitate compliance with laws and regulations in foreign jurisdictions applicable to us, but we cannot assure you that our employees, contractors, or agents will not violate such laws and regulations or our policies. Any such violations could individually or in the aggregate materially and adversely affect our financial condition or operating results.

**Our success depends on the continuing and collaborative efforts of our management team and other key personnel, and our business may be harmed if we lose their services.**

Our future success depends heavily upon the continuing services of our key management team. If one or more of our executives or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. Competition for management and key personnel is intense, the pool of qualified candidates is limited, and we may not be able to retain the services of our executives or key personnel, or attract and retain experienced executives or key personnel in the future. If any of our executives or other key personnel joins a competitor or forms a competing company, we may lose players, know-how and key personnel. Each of our executive officers and key employees has entered into an employment agreement with us that contains confidentiality provisions. If any disputes arise between any of our executives or key personnel and us, we cannot assure you the extent to which any of these agreements may be enforced.

**We rely on highly skilled personnel. If we are unable to retain or motivate them or hire additional qualified personnel, we may not be able to grow effectively.**

Our performance and future success depend on the talents and efforts of highly skilled individuals. We will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization. Competition in the mobile games industry for qualified employees is intense. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees. As competition in the mobile games industry intensifies, it may be more difficult for us to hire, motivate and retain highly skilled personnel. If we do not succeed in attracting additional highly skilled personnel or retaining or motivating our existing personnel, we may be unable to grow effectively.

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**Third parties may claim that we infringe their proprietary rights, which could cause us to incur significant legal expenses and prevent us from promoting our products and services.**

We occasionally receive claims that we have infringed the intellectual property rights of others. In April 2019, two claimants filed a civil complaint before the Intermediate People's Court of Wuhan City, alleging that we had infringed their copyright and engaged in unfair competition by marketing our game *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), which they claim to be similar to a game titled *The Legend of Mir II* (熱血傳奇) that is co-owned by one of the claimants and an associate of Shengqu Information Technology (Shanghai) Co., Ltd.. Based on the demands of the two claimants and as advised by our PRC legal adviser for such litigation, our maximum exposures in respect of such litigation is that we may be compelled to take the game offline and pay damages in the maximum sum of RMB10 million. For details, see “Business – Legal Proceedings and Compliance – Legal Proceedings” in this prospectus. The majority of our games are licensed from third-party game developers. Although prior to licensing a game we conduct due diligence to ensure that the game developer is the rightful holder of the intellectual property with respect to the game, these steps may prove inadequate. Any unresolved claims, with or without merit, could result in costly litigation and distract our management from day-to-day operations. If we fail to successfully defend against such claims, we could be required to withdraw our mobile games, and pay monetary damages. This exposure to liability could result in disruptions to our business that could materially and adversely affect our operating results.

**As we recognize our game publishing revenue on a gross basis, our revenue alone may not reflect our true financial positions.**

In relation to our game publishing business, we view game developers as our customers, and consider ourselves to be their agent. Accordingly, we recognize our game publishing revenue based on the amount of the gross billings paid by our game players net of the amount remitted to our third-party game developers. With respect to game publishing arrangements during the Track Record Period, to the extent applicable we included the revenue shared with and the royalties paid to publishing channels and IP owners in our cost of sales, and recorded revenue on a gross basis as the amount collected from publishing channels net of the amounts shared with game developers. For further details, see “Financial Information – Critical Accounting Policies, Judgments and Estimates – Revenue from Contracts with Customers – Mobile Game Publishing – Gross Versus Net Revenue Recognition” in this prospectus. Therefore, our revenue alone may not be reflective of our true financial results.

**We are subject to credit risk in respect of our trade receivables.**

Our trade receivables mainly represent account receivable from third-party publishing channels. We normally allow credit terms of 30 to 90 days to most channels, and extend credit terms up to 270 days for major channels. We assess the credit quality of our publishing channel partners based on an extensive credit rating scorecard, and individual credit limits are defined in accordance with this assessment. We also monitor our outstanding trade receivables

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## RISK FACTORS

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regularly. However, we cannot guarantee collection of amounts due from our publishing channel partners in a timely manner. As of June 30, 2019, we had RMB54.3 million outstanding trade receivables past due over more than 90 days. As of the Latest Practicable Date, approximately RMB238.0 million, or 36.1%, of our trade receivables as of June 30, 2019 were subsequently settled.

**We may need additional capital, and we may be unable to obtain such capital in a timely manner or on acceptable terms, or at all.**

To grow our business and remain competitive, we may require additional capital. Our ability to obtain additional capital is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for capital raising activities by companies offering internet and mobile products and services; and
- economic, political and other conditions in China and internationally.

We may be unable to obtain additional capital in a timely manner or on acceptable terms or at all. In addition, our future capital needs and other business reasons could require us to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could result in dilution to our Shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our Shareholders.

**We have limited insurance coverage which could expose us to significant costs and business disruption.**

We maintain various insurance policies to safeguard against risks and unexpected events for our properties. However, as the insurance industry in China is still in an early stage of development, insurance companies in China currently offer limited business-related insurance products. We do not maintain business interruption insurance, key-man life insurance, or insurance policies for certain of our properties. Any disruption in our network infrastructure or business operations, litigation or natural disaster may result in our incurring substantial costs and the diversion of our resources. Our insurance coverage may not be sufficient to compensate us for any loss and there is no certainty that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

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**The successful operation of our business depends on the performance and reliability of the internet infrastructure and telecommunications networks in China.**

Our game operation and publication depend on the performance and reliability of the internet infrastructure in China. Almost all access to the internet is maintained through state-owned telecommunications operators under the administrative control and regulatory supervision of the MIIT. In addition, the national networks in China are connected to the internet through international gateways controlled by the PRC government. These international gateways are the only channels through which a domestic player can connect to the internet. We may not have access to alternative networks in the event of disruptions, failures or other problems with China's internet infrastructure.

The mobile network in China is operated by three mobile carriers, including China Mobile, China Unicom and China Telecom, all of which are controlled by the PRC government. Mobile coverage may not be reliable, and any disruption in the operation of the mobile carriers may have a negative impact on our players' ability to download and play our games, as well as their gameplay and payment experience. We cannot assure you that China's mobile network infrastructure will improve and further support the operation and expansion of our business.

Any failure to maintain the satisfactory performance, reliability, security and availability of our network and computer infrastructure may cause significant harm to our business operation and the publication of our games. Any server interruptions, break-downs or system failures, including failures which may be attributable to events within or outside our control that could result in a sustained shutdown of all or a material portion of our services, could adversely impact our ability to operate our games and service our players and lead to player attrition and revenue reduction. Our network systems are also vulnerable to damage from computer viruses, fire, flood, earthquake, power loss, telecommunications failures, computer hacking and other similar events.

**Violations of our game policies, such as sales and purchases of virtual items used in our games through unauthorized third parties, may impede our revenue growth.**

Most of our games are in mobile application form and free to download, and players can play with basic functions for free. We have generated, and expect to continue to generate, a majority of our revenues using this revenue model. Some of our players may sell or purchase such virtual items through unauthorized third-party sellers in exchange for real currency. These unauthorized transactions are usually arranged on third-party platforms which we do not and are unable to track or monitor. Accordingly, these unauthorized purchases and sales from third-party sellers may affect our revenue-generating opportunities and may impede our revenue and profit growth by, among other things, reducing the revenues we could have generated and exerting downward pressure on the prices we charge for our virtual items.

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**Failure to maintain effective player service could harm our reputation or decrease market acceptance of our games.**

Our business is significantly affected by the overall size of our player base and our ability to monetize our player base, which in turn are determined by, among other factors, their experience with our services and products. Player support, including player service and technical support, is critical to retaining current players and attracting potential players. For example, if we otherwise fail to provide effective player service, our players may be less inclined to play our games or recommend our games to other potential players, and may decide to play games offered by our competitors. Some China-based internet companies have experienced group complaints, sometimes organized by their competitors or people attempting to profit from such complaints. If we face similar group complaints in a short time frame, we may not be able to effectively handle customer service requests from our players. Failure to maintain effective player support could harm our reputation and our ability to retain both consumer and enterprise customers, which may materially and adversely affect our results of operations.

**We rely on our data analysis capabilities, any impact on which may materially and adversely affect our ability to develop and implement appropriate business strategies.**

We process large volumes of data related to gameplay. We have developed a proprietary technology program with strong data analysis capabilities that integrate and track our mobile game business operations, including payment channel management, player research and game services.

We use sophisticated algorithms to determine the likelihood of player engagement with specific game recommendations and we use this data to match the most relevant games or third-party applications to our players based on the player's profile and gameplay history. Moreover, our servers and the SDK modules embedded in our mobile game applications jointly support various functions within our games, including analysis of player and game data, central management of player accounts, account security, payment gateway connectivity, player communication and cross-promotion functions.

Any systems failure or compromise of our ability to process and analyze large volumes of player data could significantly limit our ability to optimize player experience of our games and develop appropriate business strategies, which may materially and adversely affect our results of operations.



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### RISKS RELATED TO OUR CONTRACTUAL ARRANGEMENTS

**The registered shareholder of our PRC Operating Entities, Shenzhen Lanyue, is indirectly controlled as to 44.67% by Wuhan Husheng, which is the general partner of Changpei Shanghai appointed by the Changpei Shanghai LPs and is an independent third party. Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. Our PRC Operating Entities or their shareholders, Shenzhen Lanyue, may fail to perform their obligations under our Contractual Arrangements.**

Substantially all of our revenue and cash flow are attributed to our PRC Operating Entities. We have no equity ownership interests in our PRC Operating Entities and rely on the Contractual Arrangements with our PRC Operating Entities and their registered shareholder, Shenzhen Lanyue, to effectively control and operate our business in China and receive economic benefits from our PRC Operating Entities. The structure of our Contractual Arrangements is different from more typical contractual arrangements for a VIE structure where the registered shareholders of the onshore operating entities set up their offshore holding entities under substantially the same controlling structure. The largest shareholder of CMGE Mobile Tech, which wholly-owns Shenzhen Lanyue, is Changpei Shanghai, a PRC limited partnership the general partner of which is Wuhan Husheng, an independent third party. Wuhan Husheng is able to exercise the 44.67% voting rights held by Changpei Shanghai in CMGE Mobile Tech at its own discretion, provided it acts in the best interests of Changpei Shanghai in doing so. In the event of any conflicts of interest between our Group and Wuhan Husheng, Wuhan Husheng may exercise the 44.67% voting right held by Changpei Shanghai in CMGE Mobile Tech to propose that Shenzhen Lanyue breach or refuse to renew the Contractual Arrangements, albeit such proposal requires the support of the other shareholders of CMGE Mobile Tech in order to be effective as CMGE Mobile Tech requires at least 50% vote to approve a shareholder resolution pursuant to CMGE Mobile Tech's articles of association. If we cannot resolve any conflict of interest or dispute between us, the Changpei Shanghai LPs and Wuhan Husheng should it arise, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

The above uncertainties may impede our ability to enforce the Contractual Arrangements with our PRC Operating Entities and their registered shareholder, Shenzhen Lanyue. If we are unable to resolve any such conflicts, or if we experience significant delays or other obstacles as a result of such conflicts, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and damage our reputation.

Further, the Contractual Arrangements may not be as effective as direct ownership in providing us with control over our PRC Operating Entities. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the boards of directors of our PRC Operating Entities, which, in turn, could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the Contractual Arrangements, as a legal matter, if our PRC Operating Entities or their registered shareholders, Shenzhen Lanyue, fails to perform their respective obligations under the

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Contractual Arrangements, we may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration and rely on legal remedies under PRC laws. For example, if Shenzhen Lanyue refused to transfer its equity interests in our PRC Operating Entities to us or our designee when we exercise the call option pursuant to the Contractual Arrangements, or if it acted in bad faith toward us, we might have to take legal action to compel them to perform their respective contractual obligations. See “– We conduct our business operations in China through the PRC Operating Entities by way of the Contractual Arrangements. However, certain terms of the Contractual Arrangements may not be enforceable under PRC laws” in this section.

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

We are a Cayman Islands company and our wholly-owned PRC subsidiary, Shengyue Software, is considered a foreign-invested enterprise. The PRC government prohibits foreign investment in online game operation and online publication businesses and restricts foreign investment in value-added telecommunications businesses. For further details, see the section headed “Regulatory Overview” in this prospectus. Due to these restrictions, we conduct our operations in China through the PRC Operating Entities. Although we do not have any equity interest in our PRC Operating Entities, we are able to exercise effective control over them and receive substantially all of the economic benefits of their operations through the Contractual Arrangements with our PRC Operating Entities and Shenzhen Lanyue. For further details, see the section headed “Contractual Arrangements” in this prospectus.

Our PRC Legal Adviser is of the opinion that each of the agreements underlying the Contractual Arrangements (i) taken individually and collectively, are legal and valid, (ii) do not violate the articles of association of each of Shengyue Software and the PRC Operating Entities, and (iii) are legally binding on and enforceable on the parties of each of the agreements underlying the Contractual Arrangements in accordance with their terms and provisions under applicable PRC laws and regulations, except for the dispute resolution provisions of the Contractual Arrangements regarding the remedies that may be awarded by the arbitration tribunal and the power of courts in Hong Kong and the Cayman Islands to grant interim remedies in support of the arbitration may not be recognized or enforced by PRC courts, and (iv) each of the agreements underlying the Contractual Arrangements does not fall within any of the circumstances under Article 52 of the PRC Contract Law pursuant to which the contracts would be determined to be invalid. In particular, they will not be deemed as “concealing an illegitimate purpose under the guise of legitimate acts” under Article 52 of the PRC Contract Law.

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However, we cannot assure you that the PRC government authorities will not take a view in the future that is contrary to or otherwise different from the opinion of our PRC Legal Adviser stated above, and there is also a possibility that the PRC government authorities may adopt new laws and regulations in the future which may invalidate the Contractual Arrangements. The relevant PRC government authorities have broad discretion in dealing with deemed non-compliances or violations, including, without limitation:

- require the nullification of the Contractual Arrangements;
- revoke the business licenses and/or operating licenses of Shengyue Software or our PRC Operating Entities;
- require us to discontinue the business operations of Shengyue Software or our PRC Operating Entities, or place restrictions or onerous conditions on such business operations;
- restrict our right to collect revenue;
- shut down all or part of our websites, applications or services;
- levy fines on us and/or confiscate the proceeds generated from the operations under the Contractual Arrangements;
- impose additional conditions or requirements which we may not be able to comply with;
- require us to undergo costly and disruptive restructurings; and
- take other regulatory or enforcement actions that could be harmful to our business.

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

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

The FIL was adopted by the National People's Congress on March 15, 2019. It will take effect on January 1, 2020 and replace the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Owned Enterprise Law (《外資企業法》) to become the legal foundation for foreign investments into the PRC.

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Our value-added telecommunication business and online game operation and publication business are subject to foreign investment restrictions or prohibitions and are currently on the Negative List. Many PRC-based companies that operate in the restricted or prohibited industries, including us, operate business in China through contractual arrangements to obtain the necessary licences and permits. Although the FIL provides that foreign investment includes foreign investors' investment in China through any methods under laws, administrative regulations, or provisions prescribed by the State Council, the FIL does not stipulate contractual arrangements as a form of foreign investment.

As advised by our PRC Legal Adviser, if the laws, administrative regulations, or provisions prescribed by the State Council in effect at the time the FIL becomes effective do not treat contractual arrangements as a form of foreign investment, the viability of our Contractual Arrangements will not be affected. However, we cannot guarantee that future laws, administrative regulations or provisions of the State Council will not stipulate contractual arrangements as a form of foreign investment. If our Contractual Arrangements are deemed as foreign investment, our Group may not be able to operate our PRC Operating Entities through the Contractual Arrangements and we would lose our rights to receive the economic benefits of our PRC Operating Entities. As a result, the financial results of our PRC Operating Entities would no longer be consolidated into our Group's financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. We may recognize an investment loss as a result of such derecognition.

Furthermore, there remains substantial uncertainties regarding the interpretation and the implementation of the FIL and the relevant government authorities may have broad discretion in interpreting the law and may ultimately take a view that is inconsistent with our PRC Legal Advisors' understanding. Therefore, we cannot guarantee that our Contractual Arrangements and the business of our PRC Operating Entities will not be materially and adversely affected in the future. In the most extreme scenario, we may be required to terminate our Contractual Arrangements and/or dispose of our PRC Operating Entities, which could have a material and adverse effect on our business, financial condition and result of operations as well as the value of your investment in our Company.

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

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

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**We conduct our business operations in China through the PRC Operating Entities by way of the Contractual Arrangements. However, certain terms of the Contractual Arrangements may not be enforceable under PRC laws.**

All the agreements which constitute the Contractual Arrangements are governed by PRC laws and provide for resolution of disputes through arbitration in China. Accordingly, these agreements would be interpreted in accordance with PRC laws and disputes would be resolved in accordance with PRC legal procedures. The legal environment in China is not as developed as in other jurisdictions and uncertainties in China legal system could limit our ability to enforce the Contractual Arrangements. In the event that we are unable to enforce the Contractual Arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert effective control over PRC Operating Entities, and our ability to conduct our business and our financial condition and results of operations may be materially and adversely affected.

The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of PRC Operating Entities, injunctive relief and/or winding up of PRC Operating Entities. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in PRC Operating Entities in case of disputes. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China. PRC laws do allow the arbitral body to grant an award of transfer of assets of or equity interests in PRC Operating Entities in favor of an aggrieved party. Therefore, in the event of breach of any agreements constituting the Contractual Arrangements by PRC Operating Entities and/or their respective registered shareholders, and if we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over PRC Operating Entities, which could negatively affect our ability to conduct our business.

**The Contractual Arrangements between Shengyue Software and our PRC Operating Entities may subject our Group to increased income tax due to the different income tax rates applicable to Shengyue Software and our PRC Operating Entities and adversely affect our results of operations.**

Under the Contractual Arrangements, our PRC Operating Entities are required to pay to Shengyue Software service fees that equal to the profit before taxation of the PRC Operating Entities, including all profits attributable to the PRC Operating Entities of, and any other distributions received by the PRC Operating Entities from, any of its subsidiaries in any given year but without taking into account the service fee payable under the agreement and after offsetting the prior-year loss (if any), and deducting such amounts as required for working capital, expenses and tax of each of the PRC Operating Entities (as the case may be) in any given year. Shengyue Software may adjust the service fee payable by the PRC Operating

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Entities at its sole discretion and allow the PRC Operating Entities to retain sufficient working capital to carry out any growth plans. Such service fee payments reduce our PRC Operating Entities' taxable income and correspondingly increase the taxable income of Shengyue Software, which, combined with the different income tax rates applicable to our PRC Operating Entities and Shengyue Software, have affected and may continue to affect our results of operations, particularly, our income tax expenses and net profit on a consolidated basis.

**If we exercise the option to acquire equity ownership and assets of our PRC Operating Entities, the ownership or asset transfer may subject us to substantial costs.**

Pursuant to the Contractual Arrangements, Shengyue Software (or its designee) has the exclusive right to purchase all or any part of the equity interests in each of our PRC Operating Entities from their shareholders, Shenzhen Lanyue, at a purchase price equal to the actual capital contributions made by their shareholders and corresponding to the optioned interests of the PRC Operating Entities, or at the lowest price permitted by PRC law, whichever is higher, for the optioned interests. In the event of such transfer, the lowest price permitted by PRC law may be substantially higher than the aforesaid actual capital contributions in case of purchasing the equity interests, or the competent tax authority may require Shengyue Software to pay enterprise income tax for ownership transfer income with reference to the market value instead of the price as stipulated under the Contractual Arrangements, in which case Shengyue Software may be subject to a substantial amount of tax and our financial condition may be materially adversely affected.

### **RISKS RELATED TO REGULATION OF OUR INDUSTRY**

**Regulation and censorship of information disseminated over the internet and wireless telecommunication networks in China may adversely affect our business, and the publishing channels with which we cooperate may be liable for information displayed on, retrieved from, or linked to their platforms.**

China has enacted regulations governing telecommunications mobile service providers, internet and wireless access and the distribution of news and other information over the internet and wireless telecommunication networks. Under these regulations, mobile content publishers like us are prohibited from posting or displaying over the internet or wireless networks content that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is obscene, superstitious, fraudulent or defamatory. Throughout the history of our industry, many mobile games have been designed to include certain hidden content and game features that are accessible through the use of in-game cheat codes or other technological means that are intended to enhance the gameplay experience. We have implemented preventive measures designed to reduce the possibility of hidden, objectionable content from appearing in the mobile games we publish. However, these preventive measures are subject to human error, circumvention, being overridden and reasonable resource constraints.



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Online and mobile game operators are required to establish a self-censorship mechanism and ensure the lawfulness of the content of their games and corporate operations. On August 12, 2013, the MCT issued the Administrative Rules on Content Review by Internet Culture Operating Entities, which became effective on December 1, 2013, according to which companies operating internet culture businesses shall have personnel with the required qualification certificate to conduct content reviews on their products before they provide the products to the public, and they shall keep content review records for at least two years.

As these regulations are subject to interpretation by the relevant authorities, it may not be possible for us to determine in all cases the type of content that could result in liability for us as a mobile game operator. In addition, we may not be able to control or restrict the content of other content providers linked to or accessible through our mobile service providers. To the extent that regulatory authorities find any portion of the applications and content on our mobile service providers objectionable, they may require them to limit or eliminate the dissemination of such information or otherwise curtail the nature of such content on our mobile service providers, which may reduce our user traffic, which in turn may decrease access to and interfere with the downloading of our mobile games.

**If we are required to comply with or are found to violate any laws or regulations governing virtual currency, online payment or money laundering, we may have to obtain additional licenses or approvals, be forced to change our current business practice, or be subject to certain penalties.**

On January 25, 2007, the MPS, MCT, MIIT and GAPP jointly issued a circular regarding online gambling which has implications for the use of virtual currency. The circular (a) prohibits online game operators from charging commissions in the form of virtual currency in relation to the winning or losing of games; (b) requires online game operators to impose limits on the use of virtual currency in guessing and betting games; (c) bans the conversion of virtual currency into real currency or property; and (d) prohibits services that enable game players to transfer virtual currency to other players. On June 4, 2009, MCT and MOFCOM jointly issued a notice regarding strengthening the administration of online game virtual currency, or the Virtual Currency Notice. The Virtual Currency Notice prohibits online game operators from setting game features that involve the direct payment of cash or virtual currency by players for the chance to win virtual items or virtual currency based on random selection through a lucky draw, wager or lottery. Besides, the notice also prohibits game operators from issuing currency to game players through means other than purchases with legal currency. According to the Online Game Measures that was in force during August 2010 till July 2019, an online game operator who issues or provides virtual currency trading services must obtain a license for internet culture operation from the MCT. Further, the Online Game Measures also provided, among other things, that virtual currency issued by online game operators may be only used to exchange its own online game products and services and may not be used to pay for the products and services of other entities. On December 1, 2016, the MCT issued the Notice on Regulating Online Game Operation and Strengthening Concurrent and Ex-Post Supervision (《文化部關於規範網絡遊戲運營加強事中事後監管工作的通知》), or the Online Game Operation Notice, which became effective on May 1, 2017. Pursuant to the Online Game Operation Notice, virtual items issued by online game operators, purchased or acquired by users with legal currency or virtual currency and convertible to other in-game virtual items or



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premium functions, shall be treated as virtual currency from a regulatory perspective. The issuance of virtual currency is permitted under our PRC Operating Entities' Online Culture Operation License. However, if our current or future operations are found to violate the Virtual Currency Notice, Online Game Operation Notice or any other related regulations, our business and financial condition, operation results and business prospects may be materially and adversely affected.

### **RISKS RELATED TO CONDUCTING BUSINESS IN THE PRC**

**Compliance with the laws or regulations governing virtual currency may result in us having to obtain additional approvals or licenses or change our current business model.**

The business scope in the Online Culture Operation Licenses of our PRC Operating Entities includes the issuance of virtual currency. While we do not believe we offer in-game virtual currency trading services, in some mobile games players are allowed to purchase in-game virtual currency or credits with RMB for use in these games. We cannot assure you that the PRC regulatory authorities will not take a view contrary to ours or will deem that we are not in full compliance with the regulations on virtual currency. In that event, we may be required to cease either our game credit issuance activities or such deemed "trading service" activities and may be subject to certain penalties, including but not limited to mandatory corrective measures and fines. The occurrence of any of the foregoing could have a material adverse effect on our business and results of operations.

In addition, the Virtual Currency Notice prohibits online game operators from setting game features that involve the direct payment of cash or virtual currency by players for the chance to win virtual items or virtual currency based on random selection through a lucky draw, wager or lottery. It is unclear whether these restrictions would apply to certain aspects of our mobile games. If the PRC regulatory authorities take a view that certain of our game features are prohibited by the Virtual Currency Notice, we may be subject to penalties, including mandatory corrective measures and fines.

**Currently there is no law or regulation specifically governing virtual asset property rights and therefore, it is unclear what liabilities, if any, mobile game operators may have for virtual assets.**

During the course of playing mobile games, some virtual assets, such as special equipment, player experience grades and other features of our players' game characters, are acquired and accumulated. Such virtual assets can be important to players and have monetary value and in some cases are sold among players for actual money. In practice, virtual assets can be lost for various reasons, often through unauthorized use of the game account of one player by other players and occasionally through data loss caused by a delay of network service, a network crash or hacking activities. Although the General Provisions of the Civil Law of the PRC (《中華人民共和國民法總則》) have established the principle that virtual assets are protected by law, there is no PRC law or regulation specifically governing virtual asset property rights. As a result, there is uncertainty as to who is the legal owner of virtual assets, whether and how the ownership of virtual assets is protected by law, and whether an operator of mobile games such as us would have any liability to players or other interested parties

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(whether in contract, tort or otherwise) for the loss of virtual assets. In case of a loss of virtual assets, we may be sued by our players and held liable for damages, which may negatively affect our reputation and business, financial condition and results of operations. We have not been involved in any virtual assets related law suits. However, we cannot assure you that such law suits will not be brought against us in the future.

Based on several judgments by PRC courts regarding the liabilities of game operators for loss of virtual assets by players, the courts have generally required the game operators to provide well-developed securities systems to protect such virtual assets owned by players and have required some game operators to return the virtual items or be liable for the loss and damage incurred therefrom if the online game operators have been determined to be in default or held liable for infringement of players' rights.

**Our mobile game operations may be adversely affected by implementation of regulations related to the PRC government's anti-fatigue policies.**

On July 1, 2011, eight PRC government authorities, including the GAPP, the Ministry of Education, the MIIT and five others, jointly promulgated the Notice on Initializing the Verification of Real-name Registration for Anti-Fatigue System on Online Games (《關於啓動網絡遊戲防沉迷實名驗證工作的通知》), or the Real-name Registration Notice, which took effect on October 1, 2011. The Real-name Registration Notice requires relevant authorities to strengthen the implementation of the anti-fatigue system and real-name registration in online games but excluding mobile games. On July 25, 2014, the SAPPRFT issued the Notice on the Further Launch of Verification of Real-name Registration for Anti-Fatigue System on Internet Games (《國家新聞出版廣電總局辦公廳關於深入開展網絡遊戲防沉迷實名驗證工作的通知》), which took effect on October 1, 2014, stating that, in view of some of the hardware and functionality limitations inherent in mobile devices, anti-fatigue system requirements applicable to internet games do not currently apply to mobile games. If the NPPA in the future decides to expand the anti-fatigue system requirements to mobile games, our operating expenses would likely increase. On May 24, 2016, the SAPPRFT issued the Notice on Regulation of Mobile Game Publication Services (《國家新聞出版廣電總局辦公廳關於移動遊戲出版服務管理的通知》), which became effective on July 1, 2016. Under this notice, only the types of games stated in Article 3 (i.e., domestically-developed mobile puzzle games that are not related to political, military, national or religious topics or content and that have no story lines or simple story lines) are not required to be equipped with the anti-fatigue system in order to be approved or filed for operation. In practice, neither the SAPPRFT nor the MCT requires mobile games to be equipped with the anti-fatigue system in order to be approved or filed for operation. If we are found to be in violation of the Real-name Registration Notice, we may be required to rectify the situation. In August 2018, PRC regulators issued the Notice of Issuance of the "Integrated Prevention and Control Program of Myopia among Children and Teenagers" (綜合防控兒童青少年近視實施方案), proposing to restrict the amount of time children spend on playing electronic devices. As of the Latest Practicable Date, no official laws and regulations had been promulgated to enforce this new notice. Although it is unclear if, when and how this notice will be enforced, if it is it could materially and adversely impact our business.

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## RISK FACTORS

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**Adverse changes in economic and political policies of the PRC government could negatively impact China's overall economic growth, which could materially and adversely affect our business.**

We conduct substantially all of our operations in China. Accordingly, our business, financial condition, results of operations and prospects depend significantly on economic developments in China. China's economy differs from the economies of most other countries in many respects, including the level of government involvement in the economy, the general level of economic development, growth rates and government control of foreign exchange and the allocation of resources. While China's economy has grown significantly over the past few decades, this growth has remained uneven across different periods, regions and economic sectors.

The PRC government also exercises significant control over China's economic growth by allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Between late 2003 and 2008, the PRC government implemented a number of measures, such as increasing the PBOC's statutory deposit reserve ratio and imposing commercial bank lending guidelines, which slowed the growth of credit. In 2008 and 2009, however, in response to the global financial crisis, the PRC government loosened such requirements. Any actions and policies adopted by the PRC government or any prolonged slowdown in China's economy, in particular the mobile applications industry, could have a negative impact on our business, operating results and financial condition in a number of ways. For example, our players may decrease spending on our offerings, while we may have difficulty expanding our player base fast enough, or at all, to offset the impact of decreased spending by our existing players.

**We may rely on dividends and other distributions from our subsidiaries in China to fund our cash and financing requirements, and any limitation on the ability of our subsidiaries to make payments to us could materially and adversely affect our ability to conduct our business.**

As an offshore holding company, we may rely principally on dividends from our subsidiaries in China for our cash requirements, including to pay dividends or make other distributions to our Shareholders or to service our debt we may incur and to pay our operating expenses. The payment of dividends by entities organized in China is subject to limitations. In particular, applicable PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, as determined in accordance with Chinese accounting standards and regulations. In addition, each of our PRC subsidiaries is required each year to set aside at least 10% of its annual after-tax profits (as determined under PRC accounting standards) into its statutory reserve fund until the aggregate amount of that reserve reaches 50% of such entity's registered capital. These reserves are not distributable as cash dividends.

If our subsidiaries in China incur debt on their own behalf, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. Any limitation on the ability of our subsidiaries to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions, pay dividends and otherwise fund and conduct our business.

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## RISK FACTORS

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**PRC regulations on loans to, and direct investments in, PRC entities by offshore holding companies may delay or prevent us from using the proceeds of any offering to make loans or capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and ability to fund and expand our business.**

We may transfer funds to our PRC subsidiaries or finance our PRC subsidiaries by means of shareholders' loans or capital contributions upon completion of an offering. Any loans to our PRC subsidiaries, which are foreign-invested enterprises, cannot exceed statutory limits based on the gap between the registered capital and the total amount of the investments in such subsidiaries, and shall be registered with SAFE or its local counterparts. Furthermore, any capital contributions we make to our PRC subsidiaries are required to be approved by the MOFCOM or its local counterparts. We may not be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to provide loans or capital contributions to our PRC subsidiaries may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

In addition, SAFE promulgated the Circular on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises, or Circular 19, on March 30, 2015. Under Circular 19, registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies may only be used within the business scope and other certain ways as listed in Circular 19. SAFE further promulgated the Circular on Policies for Reforming and Regulating the Control over Foreign Exchange Settlement under the Capital Account, or Circular 16, on June 9, 2016, which expressly prohibits foreign-invested enterprises from using registered capital settled in Renminbi converted from foreign currencies for investment in securities or other investments other than banks' principal-secured products or the granting of loans to non-affiliated enterprises, with the exception that such granting is expressly permitted in the business license. Circular 19 and Circular 16 may significantly limit our ability to transfer the net proceeds from an offering to our PRC subsidiaries and convert the net proceeds into Renminbi, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC.

**Fluctuations in the value of the Renminbi may materially and adversely affect your investment.**

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate. Exchange rates are 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. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of foreign currencies. Following the removal of the U.S. dollar peg, the Renminbi has appreciated significantly against the U.S. dollar.

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## RISK FACTORS

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There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against foreign currencies. On June 20, 2010, the PBOC announced that the PRC government would reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. We cannot predict how this new policy will impact the Renminbi exchange rate.

Our revenues and costs are mostly denominated in the Renminbi, and a significant portion of our financial assets are also denominated in the Renminbi. Any significant fluctuations in the exchange rate between the Renminbi and the U.S. dollar may materially and adversely affect our cash flows, revenues, earnings and financial position, and the amount of and any dividends we may pay on our shares in U.S. dollars. In addition, any fluctuations in the exchange rate between the Renminbi and the U.S. dollar could also result in foreign currency translation losses for financial reporting purposes.

**Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.**

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company primarily relies on dividend payments from our PRC subsidiaries in China, including Shengyue Software and Tianhu Software, to fund any cash and financing requirements we may have.

Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. Therefore, our PRC subsidiaries may pay dividends in foreign currency to us without pre-approval from SAFE. However, approval from or registration with competent government authorities is required where the Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. With the prior approval from SAFE, cash generated from the operations of our PRC subsidiaries may be used to pay off debt they owe to entities outside China in a currency other than the Renminbi. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

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## RISK FACTORS

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**A failure by the beneficial owners of our Shares who are PRC residents to comply with certain PRC foreign exchange regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities and subject us to liability under PRC law.**

On July 4, 2014, SAFE issued the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or Circular 37. Pursuant to Circular 37, a PRC resident should complete the registration with the local SAFE counterpart before making contributions to an offshore special purpose vehicle, or SPV, defined as an offshore enterprise directly established or indirectly controlled by the PRC resident for the purpose of overseas investment and financing, with his/her legally owned assets or interests in a domestic enterprise or offshore assets or interests. The PRC resident is also required to update the registration upon capital increase or deduction, share transfer or swap, merger or division, and other significant change of the SPV. The fulfillment of the SAFE registrations as described above is a prerequisite for other regulatory procedures required for relevant cross-border investment activities and capital flows, such as the offshore entity's inbound investment and the onshore entity's payment of dividends. Failure to comply with Circular 37 may subject relevant PRC residents to penalties under the PRC foreign exchange administration regulations.

On February 13, 2015, SAFE issued the Circular on Further Simplifying and Improving Foreign Exchange Administration Policies Concerning Direct Investments, or Circular 13, which became effective on June 1, 2015. Circular 13 has removed the requirement for SAFE's approval on foreign exchange registrations in connection with domestic and overseas direct investments, including such registration required by Circular 37. The qualified banks are delegated the power to directly conduct such foreign exchange registrations under SAFE's supervision.

These regulations apply to our direct and indirect Shareholders who are PRC residents. Furthermore, in practice, however, different local SAFE branches may have different views on interpretation and implementation of the SAFE regulations. We cannot assure you that all of our beneficial owners that are PRC residents will be able to register or update the registration of their equity interest in us as required. If they fail to make or update the registration, our PRC subsidiaries could be subject to fines and legal penalties, and SAFE could restrict our cross-border investment activities and our foreign exchange activities, including restricting our PRC subsidiaries' ability to distribute dividends to, or obtain loans denominated in foreign currencies from, our company, or prevent us from paying dividends. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.

**Uncertainties in the PRC legal system could materially and adversely affect our business.**

We conduct our business primarily through our PRC subsidiaries and affiliated entities in China. Our operations in China are governed by PRC laws and regulations. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.



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## RISK FACTORS

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In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, and forms of foreign investment (including wholly foreign-owned enterprises and joint ventures) in particular. These laws, regulations and legal requirements, including those governing PRC tax matters, are relatively new and amended frequently, and their interpretation and enforcement often raise uncertainties that could limit the reliability of the legal protections available to us. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until the violations have occurred. Furthermore, the PRC administrative and court authorities have significant discretion in interpreting and implementing or enforcing statutory rules and contractual terms, and it may be more difficult to predict the outcome of administrative and court proceedings and the level of legal protection we may enjoy in the PRC versus other more developed legal systems. These uncertainties may affect our judgment on the relevance of legal requirements and our decisions on the measures and actions to be taken to fully comply therewith, and may affect our ability to enforce our contractual or tort rights. Such uncertainties may result in substantial operating expenses and costs, and any litigation in China may result in diversion of resources and management's attention, and therefore materially and adversely affect our business and results of operations. We cannot predict future developments in the PRC legal system. We may be required to procure additional permits, authorizations and approvals for our operations, which we may not be able to obtain. Our inability to obtain such permits or authorizations may materially and adversely affect our business, financial condition and results of operations.

The PRC government extensively regulates the internet industry, including the foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. With regard to the mobile game industry in China, various regulatory authorities of the PRC central government, such as the State Council, the MIIT, the SAIC, the NPPA, and the Ministry of Public Security, are empowered to promulgate and implement regulations governing various aspects of the internet and the mobile game industries. There exist inconsistencies and ambiguities in the regulations promulgated by different government authorities. We are required to obtain applicable permits or approvals from different regulatory authorities in order to provide mobile game services. As a result, it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations. Risks and uncertainties relating to PRC regulation of internet businesses include, but are not limited to, the following: (1) new laws, regulations or policies may be promulgated or announced that will regulate internet activities, including mobile game businesses. If these new laws, regulations or policies are promulgated, additional licenses may be required for our operations. If our operations do not comply with these new regulations after they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties and our business operations could be disrupted; (2) there are uncertainties relating to the regulation of the internet industry in China, including evolving licensing requirements. This means that permits, licenses or operations of some of our companies may be subject to challenge, or we may fail to obtain or renew permits or licenses that applicable regulators may deem necessary



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## RISK FACTORS

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for our operations. If we fail to maintain or obtain the required permits or licenses, we may be subject to various penalties, including fines and discontinuation of, or restriction on, our operations. Any penalty may disrupt our business operations and may have a material adverse effect on our results of operations; (3) the interpretation and application of existing or future PRC laws, regulations and policies relating to the internet industry 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. We cannot assure you that we will be able to maintain our existing licenses or obtain any new licenses required under any existing or new laws or regulations. There are also risks that we may be found to be in violation of existing or future laws and regulations given the uncertainty and complexity of China's regulation of internet businesses. If current or future laws, rules or regulations regarding internet-related activities are interpreted in such a way as to render our ownership structure and/or business operations illegal or non-compliant, our business could be severely impaired and we could be subject to severe penalties.

**Any change in the tax treatment we currently enjoy in the PRC may materially and adversely impact our net income.**

Our PRC subsidiaries are established in the PRC and are subject to the applicable PRC income tax laws and regulations. The EIT Law, which came into effect on January 1, 2008, and was amended on February 24, 2017, and its implementing rules, which came into effect on January 1, 2008, impose a statutory rate of 25% on PRC enterprises. Under the Notice on Further Encouraging the Enterprise Income Tax Policy of the Software Industry and the Integrated Circuit Industry (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》) and the Notice on the Related Issues of Software and Integrated Circuit Industrial Enterprise Income Tax Preferential Policies (《關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知》), newly established software enterprises are entitled to a two-year exemption followed by a three-year 50% enterprise income tax rate reduction from its first profit-making year, and under the EIT Law and its implementation regulations, qualified high and new technology enterprises are entitled to a preferential tax rate of 15%. Preferential tax treatments and incentives granted to us by PRC governmental authorities are subject to review and may be adjusted or revoked at any time in the future. While the PRC enterprise income tax is generally imposed based on actual taxable income, some of our subsidiaries pay enterprise income tax based on a deemed profit calculation. We cannot assure you that the local tax authorities will not, in the future, change their position and discontinue any of our current tax treatments, potentially with retroactive effect. The discontinuation of any of our current tax treatments could materially increase our tax obligations and adversely impact our net income.

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## RISK FACTORS

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**The New EIT Law will affect tax exemptions on dividends to be paid by our PRC subsidiaries to us through our Hong Kong subsidiaries and we may not be able to obtain certain treaty benefits under the relevant tax treaty.**

We are a holding company incorporated under the laws of the Cayman Islands. We conduct substantially all of our business and derive all our income through our PRC subsidiaries. Under the New EIT Law and its implementation rules, dividends payable by a foreign-invested enterprise in China to its shareholders that are “non-resident enterprises” are subject to a 10% withholding tax starting from January 1, 2008, unless such shareholders’ jurisdiction of incorporation has a tax treaty with China that provides for a preferential arrangement.

Pursuant to the Notice of the SAT on Issuing the Table of Tax Rates on Dividends in Treatises, or Notice 112, which was issued on January 29, 2008, the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, or the Double Taxation Arrangement (Hong Kong), which became effective on December 8, 2006, such withholding tax may be lowered to 5% if the PRC enterprise is at least 25% directly held by a Hong Kong enterprise. In October 2009, the SAT further issued the Notice on How to Understand and Determine the “Beneficial Owners” in Tax Treaties, or Circular 601. According to Circular 601, non-resident enterprises that cannot provide valid supporting documents as “beneficial owners” may not be approved to enjoy tax treaty benefits, and “beneficial owners” refers to individuals, companies or other organizations which are normally engaged in substantive operations. These rules also set forth certain adverse factors on the recognition of a “beneficial owner.” Specifically, they expressly exclude a “conduit company” that is usually established for the purposes of avoiding or reducing tax obligations or transferring or accumulating profits and not engaged in substantive operations such as manufacturing, sales or management, from being a “beneficial owner.” On June 29, 2012, the SAT further issued the Announcement of the SAT regarding Recognition of “Beneficial Owner” under Tax Treaties, or Announcement 30, which provides that a comprehensive analysis should be made when determining the beneficial owner status based on various factors that are supported by various types of documents including the articles of association, financial statements, records of cash movements, board meeting minutes, board resolutions, staffing and materials, relevant expenditures, functions and risk assumption as well as relevant contracts and other information. As a result, dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiaries may be subject to a reduced withholding tax at a rate of 5% if our Hong Kong subsidiaries are determined to be Hong Kong tax residents and are considered to be “beneficial owners” that are generally engaged in substantive business activities and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). Otherwise, we may not be able to enjoy the preferential withholding tax rate of 5% under the tax arrangement and therefore be subject to withholding tax at a rate of 10% with respect to dividends to be paid by our PRC subsidiaries to us through our Hong Kong subsidiaries.

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## RISK FACTORS

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**We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC shareholders.**

Under the PRC Enterprise Income Tax Law, or the New EIT Law, which came into effect on January 1, 2008, and was amended on February 24, 2017, and its implementation rules, effective from January 1, 2008, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a PRC resident enterprise and is subject to a 25% enterprise income tax on its global income. The implementation rules further define the term “de facto management bodies” as establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting and properties of an enterprise. The State Administration of Taxation, or the SAT, 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, which sets out certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located in China.

Although such circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreign individuals, the determining criteria set forth in Circular 82 may reflect the SAT’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, PRC enterprise groups or by PRC or foreign individuals. As a result, we cannot assure you that the SAT will not implement Circular 82 or amend the rules in the future to the effect that such rules will apply to us or any of our overseas subsidiaries. The SAT issued the Administrative Measures on Enterprise Income Tax of Foreign-Incorporated Chinese-Controlled Resident Enterprises (Trial), or Bulletin 45, on July 27, 2011, which will take effect from September 1, 2011. According to these measures, in the event that the PRC authorities subsequently determine that we should be treated as a resident enterprise and ever decide to issue the Resident Enterprise Recognition Letter for Foreign-Incorporated Chinese-Controlled Enterprises to us, we are required to handle all tax matters according to the rules governing PRC resident enterprises for the enterprise income tax purpose from the year when such letter is issued to us. In addition, Bulletin 45 specifies that when provided with a copy of a Resident Enterprise Recognition Letter, the payer should not withhold 10% income tax when paying Chinese-sourced dividends, interest and royalties to the offshore incorporated PRC resident enterprise. If the PRC tax authorities determine that our company or any of our overseas subsidiaries is a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, our company or our subsidiaries outside of China will be subject to the uniform enterprise income tax rate of 25% as to our global income as well as tax reporting obligations. Second, although dividends paid by one PRC tax resident to another PRC tax resident should qualify as “tax-exempt income” under the PRC New EIT Law, we cannot assure you that we would enjoy such tax exempt treatment on dividends paid to us from our PRC subsidiary as offshore incorporated PRC resident enterprises controlled by PRC enterprises or corporate groups enjoy under Bulletin 45. As a result, such dividend may continue to be subject to a 10% withholding tax. Finally, dividends payable by us to our investors and gain on the sale of our shares may become subject to PRC withholding tax.

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## RISK FACTORS

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

In connection with the EIT Law, the Ministry of Finance and SAT jointly issued, on April 30, 2009, the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59. On February 3, 2015, SAT issued the Announcement of the State Administration of Taxation on Several Issues concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-Resident Enterprises, or the SAT Announcement 7. By promulgating and implementing the above, the PRC tax authorities have strengthened their scrutiny over the direct or indirect transfer of equity interest in a PRC resident enterprise by a non-PRC resident enterprise. Pursuant to SAT Announcement 7, if a non-resident enterprise, or transferor, transfers its equity in an offshore enterprise which directly or indirectly owns PRC taxable assets, including ownership interest in PRC resident companies, or the Taxable Properties, without a reasonable commercial purpose, such transfer shall be deemed as a direct transfer of such Taxable Properties. The payer, or transferee, in such transfer shall be the withholding agent, and is obligated to withhold and remit the enterprise income tax to the relevant PRC tax authority. Factors that may be taken into consideration when determining whether there is a “reasonable commercial purpose” include, among other factors, the value of the transferred equity, offshore tax situation of the transaction, the offshore structure’s economic essence, duration and trading fungibility.

**Certain of our subsidiaries have not made all necessary contributions to the social insurances and housing funds, which could subject us to penalties, including fines and court enforcement.**

In accordance with the relevant laws and regulations on social security, employers in the PRC are required to make contributions to various social insurances (including medical, pension, unemployment, work-related injury and maternity insurance) and housing funds on behalf its employees. During the Track Record Period, due to our unfamiliarity with the local regulations and practices, we failed to make adequate social insurance and housing provident fund contributions for all of our employees. The shortfall amounts during the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2019 were RMB501,066, RMB458,994, RMB136,337 and nil, respectively, with respect to social insurance contributions, and RMB214,743, RMB196,712, RMB58,430 and nil, respectively, with respect to housing provident fund contributions. Our PRC Legal Adviser has advised us that our failure to make such payments could subject us to penalties, including fines, and court enforcement. Since July 2018, our social insurance and housing provident fund contributions have been sufficient and in compliance with the relevant laws and regulations.

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## RISK FACTORS

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**If the custodians or authorized users of our corporate chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these corporate instruments, our business and operations could be materially and adversely affected.**

The corporate chops and seals of our PRC entities are essential to our ability to enter into contracts, conduct banking business and take certain corporate actions, including registering any change to the composition of the board of directors or management with the relevant PRC authorities. In order to maintain the physical security of our corporate chops and seals, we generally store these items in secured locations accessible only to authorized personnel. Although we monitor such authorized personnel, we cannot assure you that such procedures will prevent all instances of abuse or negligence. Accordingly, if any of our authorized personnel misuse or misappropriate our corporate chops or seals, we could experience significant disruption to our operations. Attempts to remedy such disruption may involve expensive legal or other proceedings, and we may not prevail for a long time or at all. In particular, during any period we lose effective control of an entity as a result of such misuse or misappropriation, the business activities and economic contribution of the affected entity could be severely disrupted, or our auditor may be unable to access documents and information from such entities that may be necessary for them to complete an audit of the consolidated financial statements of our Group.

**Failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.**

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, replacing earlier rules promulgated in March 2007. Pursuant to these rules, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be the PRC subsidiary of such overseas listed company, and complete certain other procedures. In addition, an overseas entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. In the event we adopt an equity incentive plan, we and our executive officers and other employees who are PRC citizens or who have resided in the PRC for a continuous period of not less than one year and who are granted options or other awards under the equity incentive plan will be subject to these regulations when our company becomes an overseas listed company upon the completion of the Global offering. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law.

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## RISK FACTORS

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**You may be subject to PRC income tax on dividends from us or on any gain realized on the transfer of our Shares.**

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such non-PRC resident enterprise investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC unless a treaty or similar arrangement otherwise provides. Under the PRC Individual Income Tax Law and its implementation rules, dividends from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to a 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws. Although substantially all of our business operations are in China, it is unclear whether dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, would be treated as income derived from sources within the PRC and as a result be subject to PRC income tax if we were considered a PRC resident enterprise, as described above. If PRC income tax were imposed on gains realized through the transfer of our Shares or on dividends paid to our non-resident investors, the value of your investment in our Shares may be materially and adversely affected. Furthermore, the holders of our Shares whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

**Regulations relating to offshore investment activities by PRC residents may subject us to fines or sanctions imposed by the PRC government, including restrictions on our PRC subsidiary's abilities to pay dividends or make distributions to us and our ability to increase our investment in our PRC subsidiary.**

If our Shareholders who are PRC residents or entities do not complete their registration as required, our PRC subsidiary may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiary. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

As of the Latest Practicable Date, each of our Shareholders that we know to be PRC residents have completed the foreign exchange registrations required in connection with our recent corporate restructuring.



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## RISK FACTORS

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However, we may not be informed of the identities of all the PRC residents or entities holding direct or indirect interest in our Company, nor can we compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. Failure by such shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiary, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends to us or affect our ownership structure, which could adversely affect our business and prospects.

**It may be difficult to effect service of process upon us or our Directors or senior management who reside in China or to enforce non-PRC court judgments against them in China.**

Mr. Xiao, our executive Director, and substantially all of our senior management members reside in the PRC and a substantial part of our assets and the assets of such persons are located in the PRC. Accordingly, it may be difficult for investors to effect service of process on any of these persons or to enforce judgments obtained outside of the PRC against us or any of these persons. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts in many developed countries, including the Cayman Islands, the United States and the United Kingdom. Therefore, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

**We face risks related to natural disasters, health epidemics and other outbreaks of contagious diseases.**

Our business could be adversely affected by severe weather conditions and natural disasters or the outbreak of avian influenza, severe acute respiratory syndrome, the influenza A (H1N1), H7N9 or another epidemic. Any of such occurrences could cause severe disruption to our daily operations, and may even require a temporary closure of our operations across one or more markets. Such closures may disrupt our business operations and adversely affect our business, financial condition and results of operations. Our operations could also be disrupted if our third-party service providers, business partners or a significant portion of our players were affected by such natural disasters or health epidemics.

### **RISKS RELATED TO THE GLOBAL OFFERING**

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

The market price for our Shares may be volatile and subject to wide fluctuations in response to factors such as actual or anticipated fluctuations in our periodic results of operations, short sellers changes in financial estimates by securities research analysts, negative



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## RISK FACTORS

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publicity, studies or reports, changes in the economic performance or market valuations of other companies operating in our industry, announcements by us or our competitors of material acquisitions, investments, strategic relationships, joint ventures or capital commitments, fluctuations of exchange rates, intellectual property litigation, release of lock-up or other transfer restrictions on our outstanding Shares, and economic or political conditions of China where we primarily operate our business. Volatility in global capital markets, as was experienced during the global financial crisis and the European debt crisis, could also have an adverse effect on the market price of our Shares. Furthermore, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our Shares.

**Our Shares may have a low trading volume and limited liquidity, resulting from a lack of analyst coverage and institutional interest.**

Our Shares may receive limited attention from market analysts. Lack of up-to-date analyst coverage may make it difficult for potential investors to fully understand our operations and business fundamentals, which may limit our trading volume. Such limited liquidity may impede the development of institutional interest in our Shares, could adversely affect the value of our Shares and limit your ability to sell our Shares.

**We will incur increased costs as a result of operating as a publicly traded company, and our management will be required to devote substantial time to new compliance initiatives.**

As a publicly traded company, we will incur additional legal, accounting and other expenses that we did not previously incur. Although we are currently unable to estimate these costs with any degree of certainty, they may be material in amount. Our management and other personnel will need to devote a substantial amount of time to compliance initiatives as well as investor relations. Moreover, applicable rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

**There is no existing market for our Shares, which may trade at a discount from the initial offer price. In addition, an active and liquid trading market for our Shares may not develop.**

Prior to the Global Offering, there has been no public market for the Shares. The initial public offer price range per Share was the result of negotiations between us and the Joint Global Coordinators on behalf of the underwriters, and the Offer Price may differ significantly from the market price for the Shares following the Global Offering. We have applied to list and trade the Shares on the Stock Exchange. We cannot assure you that the Global Offering will result in the development of an active, liquid public trading market for the Shares. In addition, the price and trading volumes of the Shares may be volatile. Factors such as variations in our revenue, earnings and cash flow or any other developments may affect the volume and price at which the Shares will be traded. Volatility in the price of our Shares may also be caused by factors outside our control and may be unrelated or disproportionate to our operating results.

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## RISK FACTORS

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

The Offer Price of our Shares is higher than our net tangible asset value per Share of the outstanding Shares issued to our existing Shareholders. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in the pro forma net tangible asset value. In addition, holders of our Shares may experience a further dilution of their interest if the underwriters exercise the Over-allotment Option or if we obtain additional capital in the future through equity offerings.

**Absent any dividend paid on our Shares, your ability to achieve a return on your investment will depend on appreciation in the price of our Shares.**

We did not pay cash dividends to our Shareholders during the Track Record Period and up to the Latest Practicable Date. Any future determination to declare and pay any dividends will be at the discretion of our Board and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends and other considerations that our Board deem relevant. In addition, any final dividends for a financial year will be subject to the Shareholders' approval. There is no guarantee that our Shares will appreciate in value or even maintain the price at which our Shareholders have purchased their Shares. Absent any dividend paid on our Shares, your ability to achieve a return on your investment will depend on appreciation in the price of our Shares. For further details, see "Financial Information – Dividends" in this prospectus.

**There will be a time gap of several business days between pricing and trading of our Shares offered in the Global Offering. Holders of our Shares are subject to the risk that the trading prices of our Shares could fall during the period before trading of our Shares begins.**

The range of the Offer Price of our Shares will be determined on the date of the final prospectus. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several Hong Kong business days after the pricing date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

**We may need additional capital, and the sale of additional Shares or other equity securities could result in dilution to our shareholders.**

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If

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## RISK FACTORS

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these resources are insufficient to satisfy our cash requirements, we may seek to sell equity or debt securities or obtain a credit facility. The sale of equity securities could result in dilution to our Shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all.

**The sale or availability for sale of substantial amounts of our Shares, especially by our Directors, senior management members and current Shareholders, could materially and adversely affect the market price of our Shares.**

If our Shareholders, especially our Directors and senior management members, sell substantial amounts of our Shares, including those issued upon the exercise of outstanding options, in the public market, the market price of our Shares could fall. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

In addition, we may issue additional shares for future acquisitions. If we pay for our future acquisitions in whole or in part with additionally issued shares, your ownership interest in our Company would be diluted and this, in turn, could have a material adverse effect on the price of our Shares.

**You may experience difficulties in enforcing your Shareholder rights because we are incorporated in the Cayman Islands. Cayman Islands law is different from the law of Hong Kong and other jurisdictions and may not provide the same protections to minority shareholders.**

We are an exempted company incorporated in the Cayman Islands with limited liability, and the law of the Cayman Islands differs in some respects from that of Hong Kong, the U.S. or other jurisdictions where investors may be located.

Our corporate affairs are governed by our Memorandum and Articles, the Companies Law and common law of the Cayman Islands. The rights of Shareholders to take legal action against our Directors and us, and actions by minority shareholders and the fiduciary responsibilities 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 English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our Directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in Hong Kong, China, the United States or other jurisdictions where investors may be located. In particular, the Cayman Islands have a less developed body of securities laws and provide significantly less protection to investors.

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## RISK FACTORS

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As a result of all of the above, our public Shareholders may have more difficulty in protecting their interests through actions against our management, Directors or major Shareholders than would shareholders of a Hong Kong company, a United States company or companies incorporated in other jurisdictions. For example, the Cayman Islands does not have a statutory equivalent of section 724 of the Companies Ordinance, which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of the company's affairs.

**There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources, including the industry expert report, contained in this prospectus.**

Certain facts, forecasts and other statistics relating to China and other countries and regions and the mobile gaming industry in China contained in this prospectus have been derived from various government publications, market data providers and other independent third-party sources, including Analysys, an industry expert, and generally are believed to be reliable. However, we cannot guarantee the accuracy and completeness of such information. These facts, forecasts and other statistics have not been independently verified by us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers, their respective directors and advisers or any other parties involved in the Global Offering and none of them make any representation as to the accuracy or completeness of such information. Furthermore, such facts, forecasts and other statistics may not be prepared on a comparable basis or may not be consistent with other information compiled within or outside China. In addition, any policies, plans, or PRC laws discussed in this prospectus including but not limited to the 13th Five-Year Plan issued by the PRC government, may not be enforced or realized. For these reasons, you should not place undue reliance on such information as a basis for making your investment in our Shares.

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

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

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### **Possible setting of the Offer Price after making a Downward Offer Price Adjustment.**

We have the flexibility to make a Downward Offer Price Adjustment to set the final Offer Price at up to 10% below the bottom end of the indicative Offer Price range per Share. It is therefore possible that the final Offer Price will be set at HK\$1.98 per Offer Share upon the making of a full Downward Offer Price Adjustment.

If the final Offer Price is set at HK\$1.98, the estimated net proceeds we will receive from the Global Offering after deducting the underwriting fees and expenses payable by us will be reduced to HK\$801.6 million.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

### WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

Our Company is incorporated under the laws of the Cayman Islands as an exempted company with limited liability. The core business operations of our Group are located in the PRC. Our Company currently has two executive Directors, namely, Mr. Xiao and Mr. Sin. While Mr. Xiao ordinarily resides in China who spends the majority of his time looking after our principal businesses and operations in the PRC, Mr. Sin is ordinarily resident in Hong Kong. It is considered that the appointment of one additional executive Director who is an ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, our Company and/or at the best interests of our Company and our Shareholders. As such, our Company does not, and will not for the foreseeable future, have two executive Directors who are ordinarily resident in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules. Hence, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between our Company and the Stock Exchange by adopting the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorized representatives, namely Mr. Xiao and Mr. Sin, to be the principal communication channel at all times between the Stock Exchange and our Company. Each of our authorized representatives will be readily contactable by the Stock Exchange by telephone, facsimile and/or e-mail to deal promptly with enquiries from the Stock Exchange. The authorized representatives are authorized to communicate on our behalf with the Stock Exchange;
- (b) we will implement a policy to provide the contact details of each Director (including telephone numbers, mobile numbers, facsimile numbers and email addresses) to each of the authorized representatives and to the Stock Exchange. This will ensure that each of the authorized representatives and the Stock Exchange will have the means to contact all the Directors (including the independent non-executive Directors) promptly as and when required, including means to communicate with the Directors when they are travelling;
- (c) we will ensure that all Directors who are not ordinarily resident in Hong Kong have valid travel documents to visit Hong Kong and will be able to come to Hong Kong to meet with the Stock Exchange within a reasonable period of time when required; and

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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- (d) we have retained the services of a compliance adviser, being First Shanghai Capital Limited (the “**Compliance Adviser**”), in accordance with Rule 3A.19 of the Listing Rules. The Compliance Adviser will serve as a channel of communication with the Stock Exchange in addition to the authorized representatives of our Company. The Compliance Adviser will provide our Company with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Adviser has prompt access to our Company’s authorized representatives and Directors who will provide to the Compliance Adviser such information and assistance as the Compliance Adviser may need or may reasonably request in connection with the performance of the Compliance Adviser’s duties. The Compliance Adviser will also provide advice to our Company when consulted by our Company in compliance with Rule 3A.23 of the Listing Rules. Meetings between the Stock Exchange and the Directors could be arranged through the authorized representatives or the Compliance Adviser, or directly with the Directors within a reasonable time frame. Our Company will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives and/or the Compliance Adviser in accordance with the Listing Rules.

### WAIVER IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, the Contractual Arrangements that will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon Listing. Our Directors and the Joint Sponsors are of the view that the Contractual Arrangements are fundamental to our legal structure and business operations. As the transactions contemplated under the Contractual Arrangements have been entered into in the ordinary and usual course of our business, our Directors are also of view that it is unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if the Contractual Arrangements are subject to the requirements set out under Chapter 14A of the Listing Rules. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and independent shareholders’ approval requirements under Rule 14A.105 of the Listing Rules, (ii) the annual cap requirement for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules. See “Connected Transactions” in this prospectus.

### WAIVER FROM STRICT COMPLIANCE WITH RULES 4.04(2) AND 4.04(4) OF THE LISTING RULES

Pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules, the issuer shall include in its accountants’ report the results and balance sheets of any subsidiary or business acquired, agreed to be acquired or proposed to be acquired since the date to which the latest audited accounts have been made up in respect of each of the three financial years immediately preceding the issue of the listing document, or since the incorporation of such subsidiary or the commencement of such business if this occurred less than three years prior to such issue, or such shorter period as may be acceptable to the Stock Exchange.



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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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We entered into the following transactions which are subject to the satisfaction of certain conditions precedent and expected to complete after the Track Record Period (the “**Post-TRP Acquisitions**”):

### (1) **Angel Fund Acquisitions**

Pursuant to a share swap agreement dated May 29, 2018 and entered into between our Company and Angel Partners, Rocket Parade (a wholly-owned subsidiary of our Company) acquired 26% of the issued shares of Angel Fund from Angel Partners on May 29, 2018. In exchange, Ridgeview Well, the then sole shareholder of our Company, issued 1,270,963 shares to Angel Partners on May 29, 2018. On June 11, 2018, our Company entered into a conditional share purchase agreement, which was supplemented on June 8, 2019 (the “**Share Purchase Agreement**”) with Angel Partners pursuant to which Rocket Parade agreed to acquire the remaining 25% of the issued shares of Angel Fund from Angel Partners, subject to the satisfaction of certain conditions precedent including, among others, (i) Angel Partners obtaining all regulatory and shareholder approvals in Taiwan in respect of the change in control of Angel Fund and Taiwan Softstar; and (ii) our Company obtaining the approval from our Shareholders, if necessary, pursuant to the Listing Rules, in respect of these acquisitions (together with the acquisition pursuant to the share swap agreement dated May 29, 2018, the “**Angel Fund Acquisitions**”).

Pursuant to the terms of the Share Purchase Agreement, the Company has agreed to pay a deposit of RMB50 million in cash to Angel Partners in June 2018. This deposit will be fully refundable to our Company if the relevant conditions precedent cannot be satisfied on or before December 31, 2019.

On September 21, 2018, our Company entered into a share purchase agreement with Future Kemy, which was supplemented by two supplemental agreements dated March 25, 2019 and June 30, 2019, respectively, pursuant to which Rocket Parade agreed to acquire 49% of the issued shares of Angel Fund from Future Kemy for a consideration of RMB199.6064 million, subject to the satisfaction of certain conditions precedent on or before December 31, 2019, including, among others, (i) Future Kemy obtaining all regulatory and shareholder approvals in Taiwan in respect of the change in control of Angel Fund and Taiwan Softstar; and (ii) our Company obtaining the approval from our Shareholders, if necessary, pursuant to the Listing Rules, in respect of the acquisition. Our Company paid a deposit of RMB50 million to Future Kemy, which has been fully paid in cash in September 2018. Upon completing the acquisitions of the remaining 25% and 49% of the issued shares of Angel Fund from Angel Partners and Future Kemy, respectively, Rocket Parade will acquire all issued shares of Angel Fund and in turn its interests in Taiwan Softstar. For further details, see “History, Reorganization and Corporate Structure – Disposals, Acquisitions and Investments – Investment in Angel Fund” in this prospectus.

**(2) Investments in a number of game developing companies by way of convertible loans**

As an IP-based mobile game operator, our Group strategically invested in innovative game developing companies whose core team has a track record of successful game development to generate investment returns. As part of such portfolio investments, our Company has invested in a number of game developing companies by way of convertible loans (the “**Convertible Loans**”) in the ordinary course of our business to maintain relationship with a potential pool of game developers while having the flexibility to become their shareholders. The companies to which we had provided Convertible Loans as of the Latest Practicable Date were Chengdu Jumeng Tianxia Technology Co., Ltd. (成都聚夢天下科技有限公司), Shanghai X-idea Info Tech Co., Ltd (上海交叉點信息科技有限公司) and Shenzhen Sparks Interactive Entertainment Co., Ltd. (深圳市火花幻境互動娛樂有限公司). These three game developing companies, and their respective ultimate beneficial owners, are all independent third parties (as defined in this prospectus). Our Group will not hold controlling interests in any of these game developing companies upon conversion of the Convertible Loans. The relevant details of such game developing companies and the Convertible Loans provided by our Company are further disclosed in the section headed “Business – Our Investments – Investment by way of Convertible Loans” in this prospectus.

According to the terms and conditions of the Convertible Loans, the Company is entitled to convert the Convertible Loans into equity capital of the relevant game developing companies at its own discretion before the maturity of the Convertible Loans. As of the Latest Practicable Date, none of the Convertible Loans has been converted into equity capital of the relevant game developing companies.

**(3) Waiver applications**

Based on the following reasons, our Directors respectfully submits that an exemption from strict compliance with the requirements under Rules 4.04(2) and 4.04(4) of the Listing Rules would not prejudice the interests of the investing public. Our Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(2) and 4.04(4) of the Listing Rules:

- (a) Ordinary and usual course of business:** To support the continual growth of our business, our Group in our ordinary course of business invested in different game developing companies. For further details, see “Business – Our Investments” in this prospectus. The Angel Fund Acquisitions and the investments by way of the Convertible Loans are conducted by our Company in our ordinary and usual course of business.

**(b) Immateriality of the Post-TRP Acquisitions:**

- *Angel Fund Acquisitions:* Based on the financial information of Taiwan Softstar available to our Company, as compared to that of our Company for the year ended December 31, 2018 (or as of June 30, 2019 in the case of assets), which is the only investment held by Angel Fund, each of the assets ratio, revenue ratio and profits ratio in relation to the acquisition of Angel Fund is below 5%. Therefore, our Directors believe that the acquisition of Angel Fund would not significantly affect the financial position of our Group as a whole.
- *Convertible Loans:* The scale of the business operated by the relevant game developing companies, as compared to that of our Group, is not material. For illustration purposes only, assuming each of the Convertible Loans has been converted into equity capital of the relevant game developing companies, each of the assets ratio, revenue ratio and profits ratio is, individually or in aggregate, below 5%. In addition, our Company is of the view that the Convertible Loans would not significantly affect the financial position of the Group as a whole. None of the game developing companies receiving the Convertible Loans is expected to become a subsidiary of the Company assuming the Convertible Loans are to be converted into equity capital in full.

**(c) Impracticability and undue burden:**

- *Angel Fund Acquisitions:* As our Company is currently the holder of only 26% of Angel Fund, which in turn held approximately 20.368% in Taiwan Softstar as of the date of the acquisition, our Company is unable to exercise control or exert significant influence over Angel Fund or Taiwan Softstar. Accordingly, it is unduly burdensome for our Company to request Angel Fund and Taiwan Softstar to cooperate with audit works in order to comply with the requirements under Rules 4.04(2) and 4.04(3) of the Listing Rules.
- *Convertible Loans:* The Company currently does not intend to convert any of the Convertible Loans into equity capital. Since the Company is merely a lender, rather than a shareholder, of the relevant game developing companies at the moment and is not involved in nor able to control the day-to-day management of such companies, it will be impractical for the Company and the Reporting Accountants to fully familiarise with the accounting policies of such companies and compile the necessary financial information and supporting documents for disclosure in the prospectus of the Company.

**(d) Alternative disclosure in the listing document:**

- *Angel Fund Acquisitions:* With a view of allowing potential investors to understand the Angel Fund Acquisitions in greater details, we have included in the prospectus the following information in relation to the Angel Fund Acquisitions in compliance with Guidance Letter GL32-12 and with reference to the disclosure requirements for a discloseable transaction under Chapter 14 of the Listing Rules to the extent practicable, including (i) general description of the scope of principal business activities of Angel Fund and Taiwan Softstar; (ii) confirmation that Angel Partners and Future Kemy, and their ultimate beneficial owners, are independent third parties; (iii) the consideration of the acquisitions; (iv) how the consideration is satisfied; (v) reasons for and benefits of the acquisitions of Angel Fund; and (vi) certain key financial information of Taiwan Softstar publicly available. For further details, see “History, Reorganization and Corporate Structure – Disposals, Acquisitions and Investments – Investment in Angel Fund” in this prospectus.
- *Convertible Loans:* With a view of allowing potential investors to understand the Convertible Loans in greater details, we have included in the prospectus the following information in relation to the Convertible Loans in compliance with Guidance Letter GL32-12 and with reference to the disclosure requirements for a disclosable transaction under Chapter 14 of the Listing Rules to the extent practicable, including (i) the principal business of and our business relations with the relevant game developing companies; (ii) confirmation that the relevant game developing companies are independent third parties; (iii) the principal amount of the Convertible Loans; (iv) the material terms and conditions of the Convertible Loans; (v) reasons for and benefits of making investments by way of the Convertible Loan; and (vi) certain key financial information of the relevant game developing companies. For further details, see “Business – Our Investments – Investment by way of Convertible Loans” in this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purposes of giving information to the public about us. Our Directors collectively and individually accept full responsibility for the accuracy and completeness of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and that there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### **UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING**

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. The Global Offering comprises the International Offering and the Hong Kong Public Offering, each subject to reallocation on the basis as described in the section headed “Structure of the Global Offering” in this prospectus and without taking into account the Over-allotment Option. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price to be determined between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on the Price Determination Date.

The Offer Price is expected to be fixed among the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around October 24, 2019 and, in any event, not later than October 30, 2019 (unless otherwise determined between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company. If, for whatever reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on or before October 30, 2019, the Global Offering will not become unconditional and will lapse immediately.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the related Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized in connection with the Global Offering to give any information or to make any representation not contained in this prospectus and the related Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters and any of their respective directors, officers, employees, agents or representatives or advisers or any other persons involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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Further information regarding the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering”, and the procedures for applying for our Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and in the related Application Forms.

Further information about the Underwriters and the underwriting arrangements is set out in the section headed “Underwriting” in this prospectus.

### **RESTRICTIONS ON SALE OF SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers for the Offer Shares described in this prospectus. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offer and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold directly or indirectly in the PRC or the United States.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

We have applied to the listing committee of the Stock Exchange for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalization Issue, the Global Offering and the exercise of the Post-IPO Share Options that may be granted under the Post-IPO Share Option Scheme.

Dealings in the Shares on the Stock Exchange are expected to commence on October 31, 2019. No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All the Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

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

No part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **OVER-ALLOTMENT OPTION AND STABILIZATION**

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

### **PROCEDURE FOR APPLICATION OF HONG KONG OFFER SHARES**

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the related Application Forms.

### **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

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

### **DOWNWARD OFFER PRICE ADJUSTMENT**

We have reserved the right to make a Downward Offer Price Adjustment to provide flexibility in pricing the Offer Share. The ability to make a Downward Offer Price Adjustment does not affect our obligation to issue a supplemental prospectus and to offer investors a right to withdraw their applications if there is a material change in circumstances not disclosed in this prospectus. If it is intended to set the final Offer Price at more than 10% below the bottom end of the indicative Offer Price range, the Withdrawal Mechanism will be applied if the Global Offering is to proceed.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

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

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

### **COMMENCEMENT OF DEALINGS IN SHARES**

Dealings in the Shares on the Stock Exchange are expected to commence on October 31, 2019. Shares will be traded in board lots of 2,000 Shares each.



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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **SHARE REGISTER AND HONG KONG STAMP DUTY**

Our Company's principal register of members will be maintained by its principal share registrar and transfer office, Maples Fund Services (Cayman) Limited, in the Cayman Islands. All of the Shares allocated pursuant to the Global Offering will be registered on the Company's register of members to be maintained in Hong Kong by its Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited.

Dealings in the Shares registered in the register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice. Unless otherwise determined by our Board, dividends will be paid to Shareholders whose names are listed on our register of members in Hong Kong, by ordinary post, at the Shareholders' risk in Hong Kong dollars.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. It is emphasized that none of us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our/their respective affiliates, directors, supervisors, employees, agents or advisers or any other party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of the Shares resulting from the subscription, purchase, holding or disposal of the Shares.

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail unless otherwise stated.

### **EXCHANGE RATE**

Solely for convenience purposes, this prospectus includes translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the Renminbi amounts could actually be converted into another currency at the rates indicated, or at all. Unless otherwise indicated, (i) the translation between Renminbi and Hong Kong dollars was made at the rate of RMB0.9017 to HK\$1.00, the exchange rate prevailing on October 9, 2019 published by the PBOC for foreign exchange transactions and (ii) the translations between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.8433 to US\$1.00, being the noon buying rate as set forth in the H.10 statistical release of the United States Reserve Board on October 4, 2019.

### **ROUNDING**

Any discrepancies in any table in this prospectus between total and sum of amounts listed therein are due to rounding.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. XIAO Jian (肖健)	Unit 13A, Building 1 Yujing East Dongdi Park Baishi Road North Nanshan District Shenzhen PRC	Chinese
Mr. SIN Hendrick (洗漢迪)	30B, The Albany 1 Albany Road Mid-levels Hong Kong	Chinese (Hong Kong)
<i>Non-executive Directors</i>		
Mr. MA Yuntao (馬雲濤)	No. 601, Unit 1, Building 304 Lizexi Garden Chaoyang District Beijing PRC	Chinese
Mr. TANG Yanwen (唐彥文)	Room 1301 No. 12, Lane 1258 Changde Road Jing'an District Shanghai PRC	Chinese
<i>Independent non-executive Directors</i>		
Ms. NG Yi Kum (伍綺琴)	Flat B, 5/F, Block A2 8-12 Peak Road, Oasis The Peak Hong Kong	Chinese (Hong Kong)
Mr. TANG Liang (唐亮)	No. 436 Vanke Lanshan Lane 3333 Jinhai Road Pudong New District Shanghai PRC	Chinese
Mr. HO Orlando Yaukai (何猷啟)	No. 5 Black's Link Repulse Bay Hong Kong	Chinese (Hong Kong)

Further information is disclosed in the section headed “Directors and Senior Management” in this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

**Joint Sponsors and Joint  
Global Coordinators**

China International Capital Corporation  
Hong Kong Securities Limited  
29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

BNP Paribas Securities (Asia) Limited  
59/F-63/F, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**Joint Bookrunners**

China International Capital Corporation  
Hong Kong Securities Limited  
29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

BNP Paribas Securities (Asia) Limited  
59/F-63/F, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

CMB International Capital Limited  
45/F, Champion Tower  
3 Garden Road  
Central  
Hong Kong

AMTD Global Markets Limited  
23/F-25/F, Nexxus Building  
41 Connaught Road  
Central  
Hong Kong

China Investment Securities International  
Brokerage Limited  
Unit Nos. 7701A & 05B-08, Level 77  
International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### Joint Lead Managers

China International Capital Corporation  
Hong Kong Securities Limited  
29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

BNP Paribas Securities (Asia) Limited  
59/F-63/F, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

CMB International Capital Limited  
45/F, Champion Tower  
3 Garden Road  
Central  
Hong Kong

AMTD Global Markets Limited  
23/F-25/F, Nexxus Building  
41 Connaught Road  
Central  
Hong Kong

China Investment Securities International  
Brokerage Limited  
Unit Nos. 7701A & 05B-08, Level 77  
International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

Futu Securities International  
(Hong Kong) Limited  
Unit C1-2, 13/F  
United Centre  
No. 95 Queensway  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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Mason Securities Limited  
19/F  
Lee Garden Three  
1 Sunning Road  
Causeway Bay  
Hong Kong

Hermes Securities Limited  
Unit 2810, 28/F  
China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road  
Central  
Hong Kong

### **Legal Advisers to the Company**

*As to Hong Kong law and United States law*  
Kirkland & Ellis  
26th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*As to PRC law*  
Guantao Law Firm  
18/F, Tower B, Xinsheng Plaza  
5 Finance Street  
Xicheng District  
Beijing  
PRC

*As to Cayman Islands law*  
Maples and Calder (Hong Kong) LLP  
53rd Floor, The Center  
99 Queen's Road Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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**Legal Advisers to the Joint Sponsors  
and the Underwriters**

*As to Hong Kong law and United States law*  
Freshfields Bruckhaus Deringer  
55th floor, One Island East  
Taikoo Place, Quarry Bay  
Hong Kong

*As to PRC law*  
Commerce & Finance Law Offices  
6/F, NCI Tower  
12 Jianguomenwai Avenue  
Beijing  
PRC

**Reporting Accountants and  
Independent Auditor**

*Certified Public Accountants*  
Ernst & Young  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

**Industry Consultant**

Analysys Limited  
Room 305, 3/F, Building 25  
10 Jiuxianqiao Road  
Beijing  
PRC

**Receiving Bank**

Bank of China (Hong Kong) Limited  
1 Garden Road  
Hong Kong

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## CORPORATE INFORMATION

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<b>Headquarters</b>	10th Floor, Building No. 4 Zhuoyue Meilin Center Square Zhongkang North Road Futian District Shenzhen PRC
<b>Principal Place of Business in Hong Kong</b>	13th Floor, 8 Wyndham Street Central Hong Kong
<b>Registered Office in the Cayman Islands</b>	PO Box 309, Ugland House Grand Cayman, KY1-1104 Cayman Islands
<b>Company Website</b>	<u><a href="http://www.cmge.com">www.cmge.com</a></u> <i>(the information contained on the website does not form part of this prospectus)</i>
<b>Company Secretary</b>	Ms. LAI Yau Yan Gladys (AICPA/HKICPA/CIA/CGMA)
<b>Authorized Representatives</b>	Mr. XIAO Jian Unit 13A, Building 1 Yujing East Dongdi Park Baishi Road North Nanshan District Shenzhen PRC  Mr. SIN Hendrick 30B, The Albany 1 Albany Road Mid-levels Hong Kong
<b>Audit Committee</b>	Ms. NG Yi Kum (Chairlady) Mr. TANG Liang Mr. MA Yuntao
<b>Remuneration Committee</b>	Mr. HO Orlando Yaukai (Chairman) Mr. SIN Hendrick Ms. NG Yi Kum
<b>Nomination Committee</b>	Mr. XIAO Jian (Chairman) Mr. TANG Liang Mr. HO Orlando Yaukai



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## CORPORATE INFORMATION

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**Corporate Governance Committee**

Ms. NG Yi Kum (Chairlady)  
Mr. SIN Hendrick  
Mr. HO Orlando Yaukai

**Principal Share Registrar and  
Transfer Office**

Maples Fund Services (Cayman) Limited  
PO Box 1093, Boundary Hall  
Cricket Square  
Grand Cayman KY1-1102  
Cayman Islands

**Hong Kong Share Registrar**

Computershare Hong Kong Investor  
Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

**Compliance Adviser**

First Shanghai Capital Limited  
19th Floor  
Wing On House  
71 Des Voeux Road Central  
Hong Kong

**Principal Bankers**

China Guangfa Bank  
Shenzhen Branch, Binhai Sub-branch  
1st Floor Binhai Window  
Intersection of Haide 3rd Avenue and  
Wenxin 5th Road  
Nanshan District  
Shenzhen  
PRC

China Merchants Bank  
Shenzhen Branch, Weisheng Building  
Sub-branch  
No. 9966 Shennan Road  
Nanshan District  
Shenzhen  
PRC

Guangdong Huaxing Bank  
Shenzhen Branch  
27th Floor Block B  
Rongchao Business Centre  
No. 6003 Yitian Road  
Futian District  
Shenzhen  
PRC

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## INDUSTRY OVERVIEW

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*Certain information and statistics relating to our industry provided in this section have been derived from official government sources. In addition, this section and elsewhere in the prospectus contains information extracted from a report commissioned by us (the “**Analysys Report**”), prepared by Analysys, an independent third party, for purposes of this prospectus. Except as otherwise noted, all the data and forecast in this section are derived from the Analysys Report. We believe that the sources of the information in this “Industry Overview” section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is materially false or misleading, and no fact has been omitted that would render such information materially false or misleading. However, the information has not been independently verified by us, the Joint Sponsors, the Underwriters or any other party involved in the Global Offering. As such, investors are cautioned not to place any undue reliance on the information, including statistics and estimates, set forth in this section or similar information included elsewhere in this prospectus. For a discussion of risks relating to our industries, see “Risk Factors – Risks Related to Regulation of Our Industry” in this prospectus.*

### SOURCES OF INFORMATION

We commissioned Analysys, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the mobile game market in the PRC for the period from 2016 to 2021. A total fee of RMB318,000 was paid to Analysys for the preparation of the report, which we believe reflects market rates for reports of this type.

We have included certain information from the Analysys Report in this prospectus because we believe this information facilitates the understanding of the mobile game market for the prospective investors. Analysys’s independent research consists of both primary and secondary research obtained from various sources in respect of the mobile game market. Primary research involved (1) Analysys’s own data base from its market observance, (2) in-depth interviews with leading industry participants and experts, and (3) user data detected by Analysys’s own data monitor applications. Secondary research involved reviewing information from data and publication from publicly available sources, including official data from government agencies, company reports, and publicly-available interviews.

In compiling and preparing the Analysys Report, Analysys adopted the following bases and assumptions: (1) the political, economic and social environment in the PRC remains stable, which ensures the continuous development of China’s mobile game market, (2) the PRC government continues supporting the development of China’s online game market, and (3) with the increase in demand and supply of online games, China’s mobile game market continues expanding.

### Directors’ Confirmation

After making reasonable enquiries, our Directors confirm that there has been no adverse change in the market information presented in the Analysys Report since the date of the report which may qualify, contradict or have an impact on the information in this Industry Overview section.

## GAME CATEGORIES AND INDUSTRY PARTICIPANTS

### Game Categories

Online games refer to games whose activities are conducted on PCs or other devices using the internet or mobile internet as operating platforms. Online games can be primarily divided into three categories, namely client games, web games and mobile games:

- Client games are played on a client base installed in PCs using the internet as operating platform. Client games generally involve a longer development cycle, resulting in high development and marketing costs. Compared to web games and mobile games, players spend longer time playing client games, whose player acquisition process is more costly. However, after a player has been successfully acquired, the player tends to be committed to the game, resulting in a lower player turnover rate. The lifecycle of client games generally lasts five or more years.

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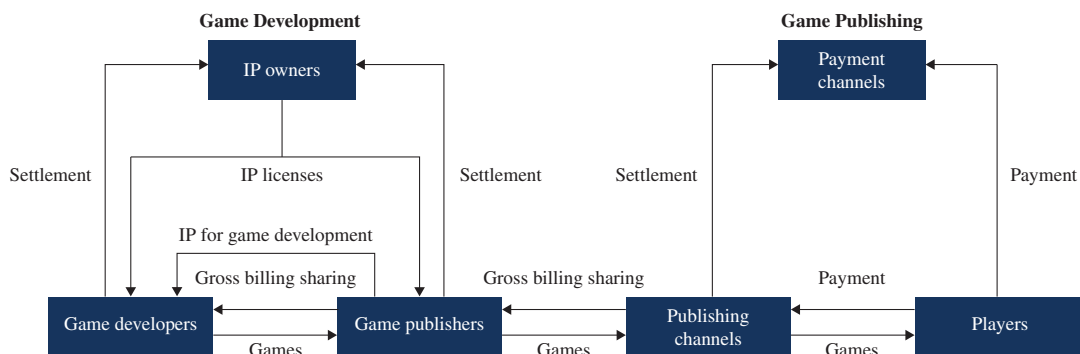
## INDUSTRY OVERVIEW

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- Web games are played in a web browser on PCs using the internet as operating platform without the need to download a client base. Web games generally require a short development cycle of approximately three months, and consequently lower development and marketing costs as compared with client games. Compared with client games, web games have lower player acquisition cost, but their player turnover rate is higher. Web games have an average lifecycle of around two years.
- Mobile games are played using mobile internet as operating platform on mobile devices. Mobile games currently have the highest market share in China, and the mobile game market has the highest profitability compared to the markets of client games and web games. The most prominent feature of mobile games is that they can be played anytime anywhere, unrestricted by the physical location of the player. Mobile games have an average development cycle of approximately six to ten months and the shortest gameplay time amongst all categories of online games. Compared to other categories of online games, mobile games have a shorter average lifecycle of around six to twelve months. Mobile games can be categorized into three categories, namely mobile application games, H5 games and mini program games:
  - (1) Unlike H5 and mini program games, mobile application games must be downloaded and installed on players' mobile device. As the most developed form of mobile games, mobile application games are more diverse in contents and give players a stronger sense of immersion. As compared to H5 and mini program games, mobile application games generally require higher development costs and user acquisition costs. However, once downloaded, mobile application games have lower player turnover rate. In terms of gross billings, mobile application games accounted for 89% of China's mobile game market in 2018;
  - (2) H5 games are similar to web games, and can be played on mobile webpages and mobile applications with browsing functions such as social network applications, web browser applications, news applications and video streaming applications, amongst others. H5 games are easily accessible to players. Similar to mobile application games and mini program games, H5 games generate revenue primarily from the sale of virtual currency. In terms of gross billings, H5 games only accounted for 11% of China's mobile game market in 2018. However, the accessibility of H5 games means that with the development of mobile technology and game contents, H5 games will grow exponentially and soon become one of the most important driving forces of China's mobile game market; and
  - (3) Originally stemmed from H5 games, mini program games are developed to be played on specific mobile social network applications such as WeChat and Mobile QQ. Like H5 games, mini program games are easily accessible to players, and their integration with social network applications greatly facilitates the user acquisition process. Mini program games became a new segment of China's mobile game market in 2018.

### Industry Participants

The chart below illustrates China's mobile game industry value chain.



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## INDUSTRY OVERVIEW

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The value chain of China's mobile game industry mainly comprises the following participants:

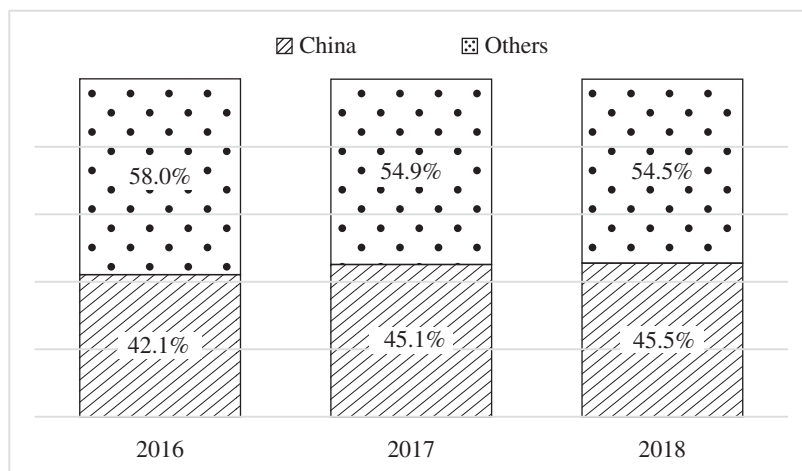
- *IP owners.* IP owners license out IPs to mobile game developers or publishers, which provides the basis for game development in terms of characters, graphics and storylines, amongst others.
- *Mobile game developers.* In addition to developing original games, mobile game developers also license IPs and develop them into mobile games through their in-house development teams. Mobile game developers either license their developed games to mobile game publishers for publication and post-launch operation, or publish and operate the games by themselves. Mobile game developers are responsible for game content creation, game development and update, and provision of technical support.
- *Mobile game publishers.* Relying on their all-platform publishing and marketing capabilities, mobile game publishers publish and promote their games on their own or third-party publishing channels. Mobile game publishers may both publish games licensed from mobile game developers, and work with game developers to develop and publish games based on licensed IPs. Mobile game publishers promote and monetize mobile games, their responsibilities including analyzing player needs and improve mobile games accordingly. For each game, mobile game publishers select suitable publishing channels and operating platforms, optimize traffic purchase strategies, conduct online and offline marketing activities, and provide customer service.
- *Mobile game publishing channels.* Mobile game publishing channels provide download and update services to game players, and marketing, operating and payment services to game publishers. Mobile game publishing channels are broadly divided into the following three categories:
  - (1) *Application stores and third-party open platforms.* Application stores are one of the main publishing channels of mobile games. Application stores include Apple's App Store and Google Play, and third-party open platforms include Tencent App Store (騰訊應用寶) and Qihoo 360 Mobile App Developer Center (奇虎360手機助手).
  - (2) *Application stores owned by mobile phone manufacturers.* Application stores owned by mobile phone manufacturers, such as Huawei AppGallery (華為應用商店) and Xiaomi's App Store, make available for download games operated on Android system.
  - (3) *Social networks.* Social networks include WeChat and Mobile QQ, which add to the interactivity of mobile games, thereby increasing player loyalty.
- *Payment channels.* Payment channels cooperate with mobile game publishing channels along with commercial banks to provide payment and settlement services.
- *Game players.* Game players download and play mobile games, and are the core value of the mobile game industry, generating both in-game purchase revenue and advertising revenue. In addition, through social networks, game players also promote mobile games, and their feedbacks form basis for the development and improvement of mobile games.

## INDUSTRY OVERVIEW

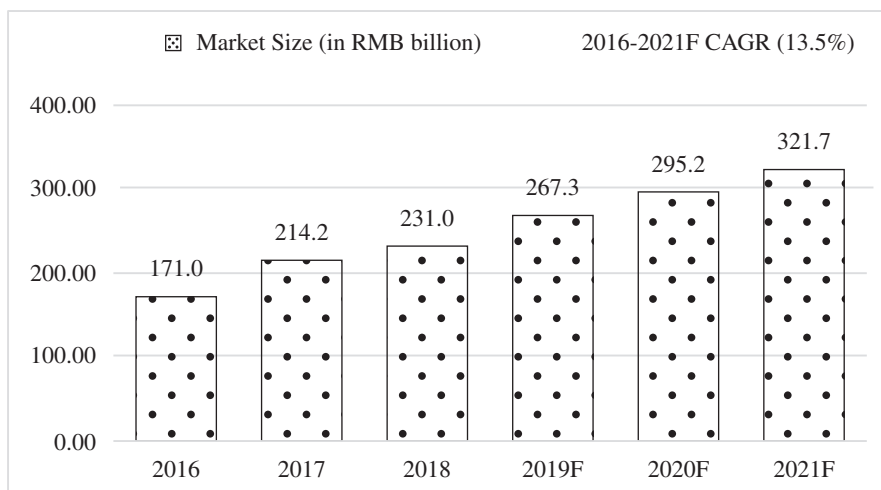
### CHINA'S ONLINE GAME MARKET

#### Market Size and Trend

Following the liberalization of China's entertainment industry, the policy environment faced by China's online game industry has shifted from suppressive to supportive. Consequently, China's online game market has been expanding rapidly, and since 2015, China has been the world's largest market of online games in terms of gross billings. In 2018, China accounted for 45.5% of the global online game market, as illustrated by the chart below.



One of the important reasons for the boom of China's online game market was the intensified demand for entertainment. China's online game market reached a size of RMB231.0 billion in 2018, and is expected to reach RMB321.7 billion in 2021, representing a CAGR of 11.7%. With the advancement of hardware and internet technology, the graphics, content and response speed of online games are being constantly upgraded, and the development of online games are more tailored to player preference. The rising level of interactivity of online games further enhances players' ability to socialize in games, thereby improving player stickiness. Furthermore, compared with other types of games such as poker games and tabletop games, online games offer players a wider variety of themes and genres, and more innovative gameplay methods. In addition, with the advancement of online games and the growing popularity of IPs in the online game industry, more online games have been developed based on IPs, thereby attracting more player traffic, further adding to the growth of China's online game industry. The chart below illustrates the historical and forecast size of China's online game market for the years indicated.



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## INDUSTRY OVERVIEW

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With the popularization of portable entertainment, mobile games became the focus of the online game industry in 2010. Benefiting from the growing accessibility of mobile games, diverse game settings and gameplay methods, and the popularization of smart devices, mobile games are becoming increasingly popular. In 2016, the market size of mobile games in China surpassed that of client games, accounting for 52.7% of China's online game market. The market size of mobile games in China was RMB145.1 billion in 2018 and is expected to reach RMB229.9 billion in 2021, representing a CAGR of 16.6%.

### Market Environment

The market environment of online games in China has become increasingly favorable. China's intellectual property protection system has been improving, and according to its 13th five-year plan, China will place more emphasis on the development of its cultural industry including enhancing its people's accessibility to the internet. In addition, according to the Ministry of Industry and Information Technology, the Chinese government has improved China's mobile internet infrastructure and network to cover both its urban and rural populations. The growing accessibility of mobile internet lays a solid foundation for the development of mobile games.

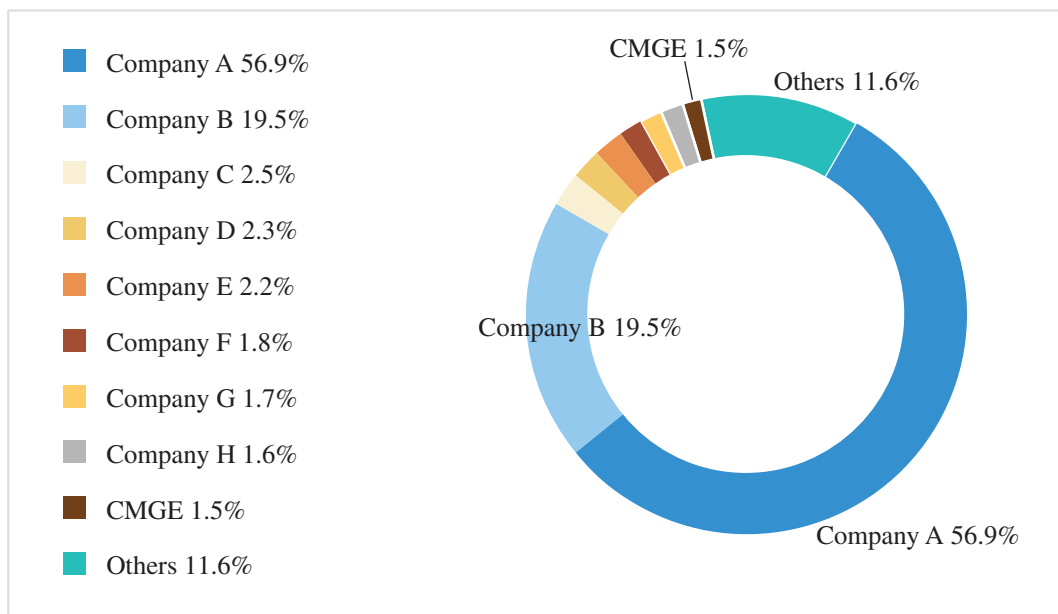
The favorable market environment of online games in China has led to an increase in spending on online games in China. According to the National Bureau of Statistics of China, the average disposable income in China was RMB23,821 in 2016, and rose to RMB25,974 in 2017 and RMB28,228 in 2018, representing a CAGR of 8.9% from 2016 to 2018. According to the National Bureau of Statistics, on average, education, culture and entertainment spending remained largely stable and accounted for 11.2% of the China's total expenditure in 2018.

Compared to other forms of entertainment, residents of China spend more on games. According to Analysys, China's expenditure on games accounted for 38.2% of their total entertainment expenditures in 2016, which increased to 39.1% in 2017 and further to 39.4% in 2018. Such increase was attributable to the expansion of China's online game industry and changes in player demand. According to Analysys, it is expected that expenditure on games will continue to grow in the future.

### CHINA'S MOBILE GAME MARKET

#### Market Size and Competitive Landscape

According to Analysys, China's mobile game market expanded from RMB90.1 billion in 2016 to RMB145.1 billion in 2018, and is expected to reach RMB229.9 billion in 2021, representing a CAGR of 20.6%. The chart below shows the market share of China's major mobile game companies in terms of gross billings in 2018.





### Genres of China's Mobile Games

China's mobile games are broadly categorized as follows:

- *MMORPG*. In massive multiplayer online role-playing games, or MMORPGs, a vast number of players play their selected game character in the virtual world, and interact with each other. MMORPGs have a well-developed value system and community, and a wholesome storyline, enabling them to have a longer and more stable lifecycle. In addition, amongst all genres of games, MMORPGs have the highest player retention rate. MMORPGs tend to be more hardcore, have more diverse game content, and give players a stronger sense of immersion. Depending on the battle types, MMORPGs are typically divided into TRPG (turn-based role-playing game) and ARPG (action role-playing game).
- *CCG*. In collectible card games, or CCGs, players strategize their moves to collect cards to accomplish victory. CCGs generally offer a wide variety of cards, and their lifecycles can be easily prolonged by updating in-game cards offered. Compared to other genres of games, CCGs tend to have higher player stickiness.
- *MOBA*. In multiplayer online battle arena, or MOBA games, players are divided into two teams and battle against each other. Players' characters begin each battle with the same level of combating skills, and players may purchase virtual items to improve the combating skills of their characters.
- *STG*. In shooting games, or STGs, players control objects or characters to shoot targets.
- *LTG*. Light games, or LTGs, tend to be lighter compared with other game genres. Players' gameplay time for LTGs is relatively short, and the tempo is relaxing, graphics are cute and gameplay methods are easier.
- *SLG*. Simulation games, or SLGs, simulate common scenarios in the real world to train players' ability to improve, analyze and forecast. SLGs with a high level of simulation can be used for professional training, whilst SLGs with a low level of simulation are more suitable for entertaining purpose.

Due to their integrated storyline, MMORPGs and CCGs are two of the most suitable game genres to be developed based on IPs. Furthermore, MMORPG and CCG, amongst others, can also be classified as mid-core to hardcore games. Such games generally have more advanced gameplay methods and more developed storyline. Compared to lighter games such as LTGs, mid-core to hardcore games tend to incur higher development cost, generate more revenue, and have longer lifecycles. Compared to other mid-core to hardcore games, MMORPGs and CCGs have higher paying user conversion rate and mainly attract players aged between 19 and 38.

### China's Mobile Game Players

In recent years, benefitting from the easy accessibility of mobile payment, the increasingly diverse pool of games available in the market, and the growing spending power and paying habits of mobile game players, China's mobile game market has witnessed a gradual increase in the number of paying users. In addition, there has been an increase in the number of people spending larger amounts in mobile games. In 2016, 25.5% of China's mobile game players had average monthly expenditures above RMB500, which increased to 28.3% in 2018.



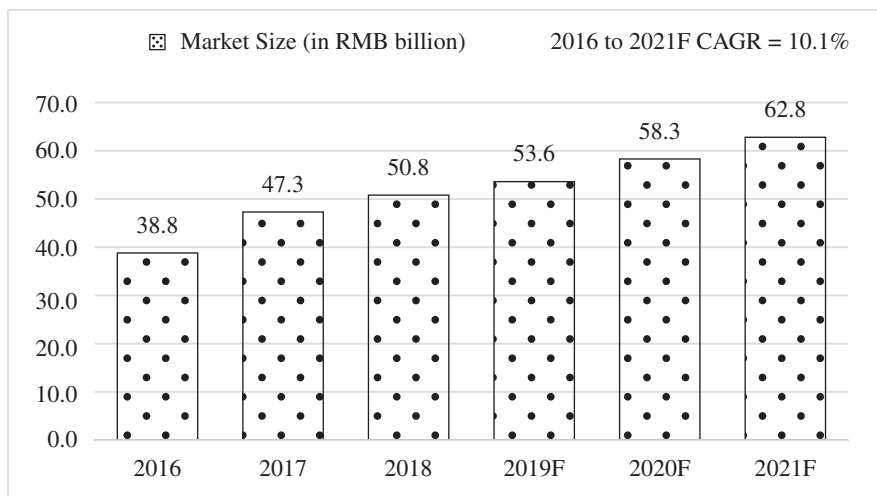
## INDUSTRY OVERVIEW

### CHINA'S MOBILE GAME PUBLISHING MARKET

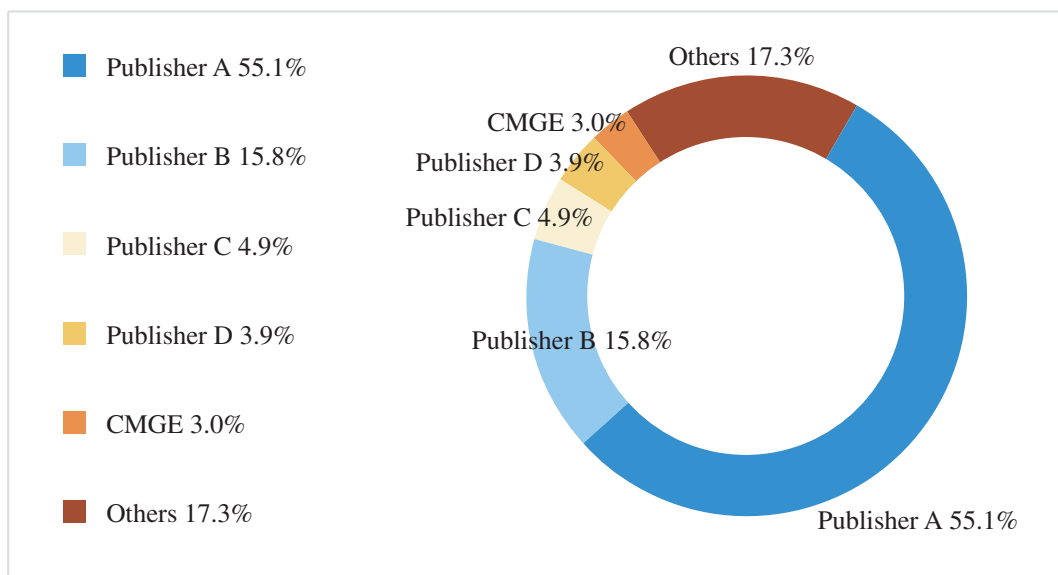
#### Market Size, Trend and Competitive Landscape

The size of China's mobile game publishing market was RMB38.8 billion in 2016, which increased to RMB47.3 billion in 2017 and RMB50.8 billion in 2018, and is expected to reach RMB62.8 billion in 2021, representing a CAGR of 10.1%. The growth of China's mobile game market has attracted an increasing number of mobile game developers. Publishing channels such as Apple's App Store and application stores for Android system became the major publishing channels of mobile games.

Due to limited capital and resources, small and medium game developers rely on mobile game publishers to publish and promote their games, which contributed to the significant growth in China's mobile game publishing market. There has also been increasing competition in China's mobile game publishing market. Game publishers that had entered the market earlier including CMGE laid solid foundation for their leading market position through their long industry experience and reserve of industry resources. The chart below shows the historical and forecast size of China's mobile game publishing market for the years indicated.



The chart below shows the market share of China's major mobile game publishers in terms of gross billings in 2018.

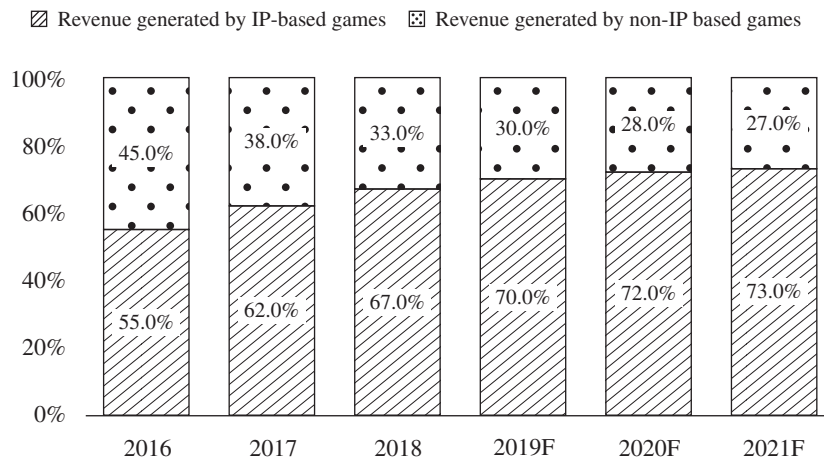


## INDUSTRY OVERVIEW

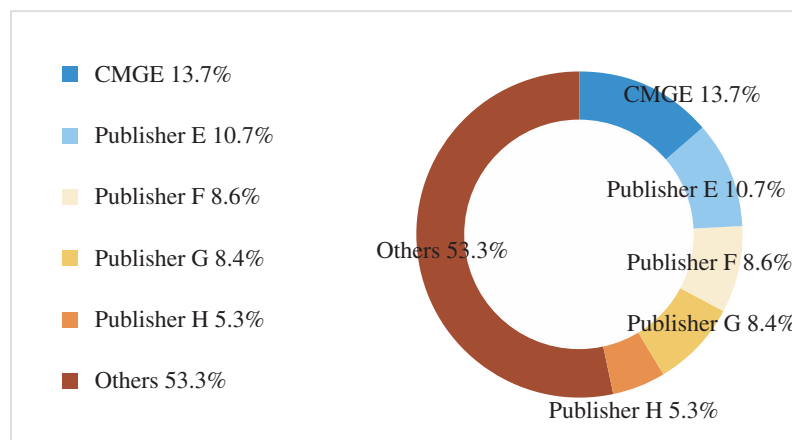
### Intellectual Properties

In the mobile game industry, IPs refer to intellectual property rights relating to cultural products or art works, such as icons or characters from popular animations, novels, and motion pictures, which have a significant fan base, market acceptance and commercial value. IP-based games refer to games that are developed based on IPs from such cultural products or art works.

In 2018, on Apple's App Store, 71.0% and 61.0% of the top 50 free games and the top 50 grossing games in terms of revenue generation, respectively, were developed based on IPs. In 2018, IP-based mobile games generated revenue of RMB97.2 billion, which is expected to increase to RMB167.9 billion in 2021, representing a CAGR of 20.0%. The chart below illustrates the revenue generated by IP and non-IP based games.

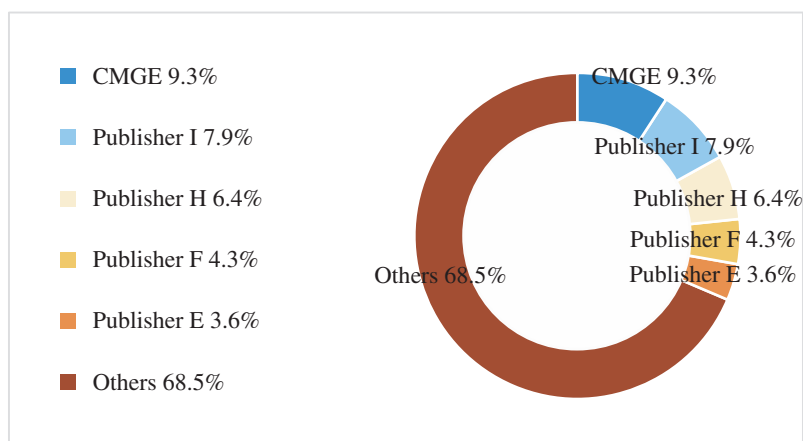


According to Analysys, during the period commencing from January 1, 2015 to June 30, 2019, and amongst all Chinese independent mobile game publishers, CMGE ranked first in terms of the cumulative revenue generated from publishing IP-based games. The chart below illustrates the market share in terms of revenue generated from publishing IP-based games from January 1, 2015 to June 30, 2019.

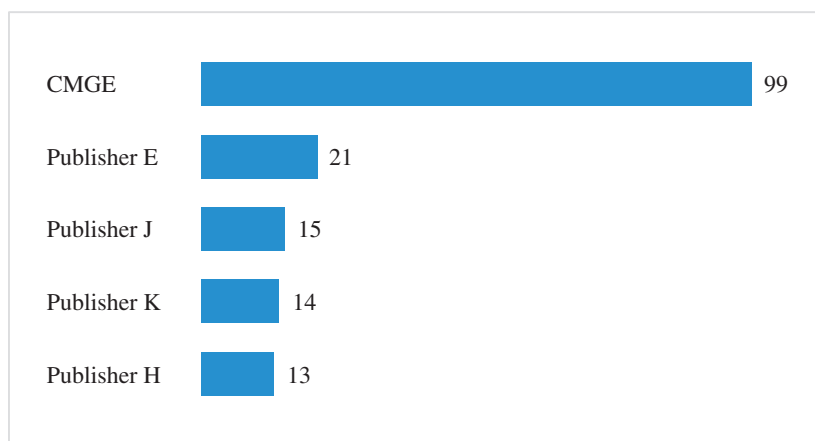


According to Analysys, during the period commencing from January 1, 2015 to June 30, 2019, and amongst all Chinese independent mobile game publishers, CMGE ranked first in terms of the total number of published IP-based games. The chart below illustrates the market share in terms of the number of published IP-based games from January 1, 2015 to June 30, 2019.

## INDUSTRY OVERVIEW



According to Analysys, as of June 30, 2019 and amongst all Chinese independent mobile game publishers, CMGE had the largest reserve of IPs licensed and owned. The chart below illustrates the size of the five largest IP reserves amongst Chinese independent mobile game publishers.



Amongst various game genres, MMORPGs generally achieve the highest level of monetization, with CCGs ranking second. Both MMORPGs and CCGs have rich and colorful storyline, graphics and characters, and can easily be developed based on IPs, thereby reducing game development cost, and increasing market popularity of the games.

According to Analysys, IP-based games have more cost efficient player acquisition process, as the innate fan base of IPs can easily be turned into players of such games. With the increasing general market focus, IPs have become a core asset of game companies. Through acquiring and developing IPs, game companies may not only increase the revenue generated from their games, but also develop pan-entertainment products, thereby diversifying their sources of revenue. Furthermore, IP-based games have higher player loyalty and stickiness, and more developed contents and storylines, which prolongs the lifecycle of such games compared to non-IP based games. It is therefore crucial for game companies to have sufficient IP reserve.

IPs have become an increasingly important constituent of the successful monetization of mobile games. It is therefore crucial to be competitive in the IP ecosystem in terms of both game products and IP sourcing capabilities. In relation to game products, game publishers should possess strong operational capabilities over launched games, and an extensive pipeline of games to be launched in the future. In relation to IP sourcing, game publishers should expand their IP reserve to achieve sustainable development, and cooperate with game developers to develop licensed IPs into high-quality games.

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## INDUSTRY OVERVIEW

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### Market Drivers of China's Mobile Game Publishing Industry

According to Analysys, the following factors will drive the growth of China's mobile game publishing industry.

- *Vast player demand for games.* With the popularization of the internet in emerging markets, and the popularization of online games in traditional markets, player demand for online games is expanding.
- *Growing demand for publishing service.* China's mobile game market is expanding rapidly. However, due to their limited capital and resources, small and medium game developers rely on mobile game publishers to publish and promote their games. In addition, publishing channels also rely on publishers to provide them with high-quality games for publication.
- *Enhanced competitiveness in overseas markets.* An increasing number of Chinese game publishers are expanding their overseas business, and publishers that expanded overseas earlier have gained pioneer advantage. Many Chinese game publishers have accumulated professional knowledge of overseas markets and understanding of local taste and preference, which greatly assists them in conquering overseas markets.

### Trend in China's Mobile Game Publishing Industry

According to Analysys, China's mobile game publishing industry is expected to witness the following trend.

- *Operational capabilities for IP-based games.* With increasing player demand for high-quality games, IP owners will be selective in licensing out their IPs to game developers or publishers that have proven operational capabilities for IP-based games. Therefore, game publishers with high operational capabilities will be able to obtain more IPs, thereby becoming increasingly competitive.
- *Operating in a publishing ecosystem.* More mobile game publishers will start building their own publishing ecosystems by licensing both mobile games and IPs, and investing in IP incubating platforms and vertical platforms, which will also enhance their IP reserve, user traffic acquisition and other operational capabilities.
- *Increasing market segmentation.* With the plateau of China's mobile game market, it is important that mobile game publishers explore other segments of the mobile game market, including overseas market and other game formats such as H5 and mini program games.
- *Increasing growth potential of the pan-entertainment industry.* With their increasing IP-operating capabilities and experience in providing player services, mainstream mobile game publishers will have the ability to exploit IPs in pan-entertainment fields. Mobile game publishers possess diverse IP reserves and are well-positioned to obtain licenses to develop IPs into other products. They can also benefit from their rich experience in game operations, diverse resources and capabilities in effectively promoting their games and providing high-quality player services, which may be applied to pan-entertainment businesses including motion pictures, derivatives and offline entertainment, amongst others.
- *Increasing importance of comprehensive publishing capabilities.* In addition to strong publishing capabilities, it is important for mobile game publishers to possess capabilities in improving mobile games pursuant to player preferences, effectively promoting mobile games, acquiring user traffic, and providing high-quality player service.
- *Enhancing competitive edge.* Competition in China's mobile game publishing industry has become increasingly fierce. In order to enhance its competitive edge, leading mobile game publishers should differentiate itself from other mobile game publishers in terms of game pipeline, industry resources and player service.

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### THE FIL

The FIL was adopted by the National People's Congress on March 15, 2019. It will take effect on January 1, 2020 and replace the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Owned Enterprise Law (《外資企業法》) to become the legal foundation for foreign investment in the PRC. The FIL sets out the definition of foreign investment and the framework for promotion, protection and administration of foreign investment activities.

### FOREIGN INVESTMENT ACCESS

Investments conducted by foreign investors in the PRC are subject to the Foreign Investment Industries Guidance Catalogue (《外商投資產業指導目錄》) (the “**Catalogue**”) and the Special Administrative Measures (Negative List) for Foreign Investment Access (《外商投資准入特別管理措施》(負面清單)) (the “**Negative List**”) which were jointly issued by the National Development and Reform Commission (the “**NDRC**”) and the MOFCOM. The version of the Catalogue that is currently in force was amended in 2017 and became effective on July 28, 2017. The Catalogue sets out the industries in which foreign investments are encouraged. The Negative List that is currently in force was amended in June 2019 and became effective on July 30, 2019. The Negative List sets out the industries in which foreign investments are restricted and prohibited. The industries that do not fall into the Catalogue and Negative List shall be deemed to be “permitted”.

We are engaged in the publishing and operation of mobile online games through our PRC Operating Entities, which fall into the scope of value-added telecommunications business, where the proportion of foreign investment must not exceed 50% under the Negative List. Our business also fall into the scope of online publishing services and internet cultural business, where foreign investors are not allowed to invest under the Negative List. Our other businesses in the PRC include software development, technology services and others, which fall under the “permitted” category.

### VALUE-ADDED TELECOMMUNICATIONS AND INTERNET INFORMATION SERVICES

Foreign-invested telecommunication enterprises must comply with the Regulations for the Administration of Foreign-invested Telecommunications Enterprises (revised in 2016) (《外商投資電信企業管理規定》(2016 年修訂)) issued by the State Council on December 11, 2001 and further amended on February 6, 2016, which requires foreign-invested telecommunication enterprises to be established as sino-foreign equity joint ventures in which the ultimate proportion of capital contribution from foreign investors shall not exceed 50%. In addition, the main foreign investor of a foreign-invested telecommunications enterprise engaging in value-added telecommunications business shall demonstrate a good track record and operation experience in operating value-added telecommunications business. Moreover, the establishment of foreign-invested telecommunications enterprises must obtain approvals from the MIIT and the MOFCOM, or their authorized local counterparts.

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The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, which applies to internet information services, classified internet information services into commercial internet information services and non-commercial internet information services. Commercial internet information services refer to the provision of information to online users through the internet for consideration, the provision of which is required to obtain an operation license for internet information services and ICP from the MIIT or its provincial-level bureau. Pursuant to the Administrative Measures for Telecommunications Business Operation License (《電信業務經營許可管理辦法》) promulgated by the MIIT on July 3, 2017 and became effective on September 1, 2017, operators who have obtained the ICP License shall submit the relevant information to the issuing authority in the first quarter every year. The telecommunications administrative authorities shall establish a random inspection mechanism to inspect the information in the annual report of the telecommunications operators, their daily operating activities, their implementation of the relevant requirements of the State and telecommunications administrative authorities. All of our PRC Operating Entities hold valid ICP Licenses.

Pursuant to the Circular of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment on Value-added Telecommunications Services (《信息產業部關於加強外商投資經營增值電信業務管理的通知》) (the “**Circular**”) issued and became effective on July 13, 2006, foreign investors investing in and operating telecommunications business in the PRC shall be established as a foreign-invested telecommunications enterprise and apply for the respective telecommunications business operation license. A domestic telecommunications enterprise shall not lease, transfer or sell its telecommunications business operation license to a foreign investor in any form, or provide resources, sites, facilities or other conditions to a foreign investor in any form for its illegal operation of a telecommunications business in the PRC. The relevant government regulatory authorities have not yet made or issued further interpretation, guidance or implementation rules in respect of the application and implementation of the Circular.

### ONLINE PUBLISHING SERVICES

On February 4, 2016, the SAPPRFT and the MIIT issued the Administrative Measures on Internet Publishing Services (《網絡出版服務管理規定》) (the “**Internet Publishing Measures**”), which took effect from March 10, 2016. Pursuant to the Internet Publishing Measures, online publications such as games provided to the public through information networks must be approved by the SAPPRFT and obtain an online publishing service license (《網絡出版服務許可證》) (the “**Publishing License**”). The online publishing service provider shall adopt an annual verification system and annual verification shall be carried out once every year. The competent provincial-level publishing administrative authorities shall be responsible for the verification and the scope of verification shall include areas such as the condition of establishment, items that require registration, operation of the publishing, publishing quality, compliance of laws and regulations, internal management and other conditions of the online publishing service providers. One of our PRC Operating Entities holds a valid Publishing License.



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According to the Internet Publication Measures, before publishing an online game, an online publishing service provider shall file application with the competent provincial-level publishing administrative department where it is located and the application, if reviewed and approved, shall be submitted to the SAPPRFT for approval. For the publishing of online games authorised by foreign copyright owners, the online publishing service provider shall obtain legal authorisation for the copyright and complete the approval formalities according to the foregoing provisions.

The Central Committee of the Communist Party of China issued the “Plan for Deepening the Institutional Reform of the Party and the State (深化黨和國家機構改革方案)” (the “**Deepening Plan**”) and the National People’s Congress issued the “Institutional Reform Plan of the State Council 《國務院機構改革方案》” in March 2018 (together with the Deepening Plan, the “**Plans**”). According to the Plans, the SAPPRFT is reformed and known as the NRTA under the State Council and the NPPA under the Propaganda Department of the Central Committee of the CPC (中共中央宣傳部). Concurrently with the implementation of this reformation, the assessment and pre-approval on domestically developed online games had been suspended during April to December 2018. No laws, regulations or official clarifications had been promulgated or published in relation to this suspension.

The suspension was lifted in December 2018, and the NPPA has published on its website (<http://www.sapprft.gov.cn>) on a monthly basis the domestically developed online games that have been approved.

On August 30, 2018, the Ministry of Education (教育部) and other seven governmental departments of the PRC published the Notice of Issuance of the “Integrated Prevention and Control Program for Myopia among Children and Teenagers (綜合防控兒童青少年近視實施方案)” (the “**Notice**”). According to the Notice, the NPPA shall implement the regulation on the total number of online games, control the number of new online games, explore the age-appropriate reminder system, and take measures to discourage the play-time of minors. The Notice is a policy statement. No government authorities, including the NPPA and the MCT, have issued or promulgated any laws, regulations or implementation rules to effect the Notice.

Pursuant to recent reports and press articles, the Online Games Ethics Committee (網絡遊戲道德委員會) (the “**Committee**”) has been formed recently, which takes instructions from the Propaganda Department of the Central Committee of the CPC and is responsible for assessing the ethical issues of such online games that give rise to concerns of “ethical risks”. It is reported that the Committee has reviewed the first batch of 20 online games containing “ethical risks”, and based on the results of the Committee’s review, the online game regulating department has ordered 11 games to be amended to eliminate the “ethical risks” and rejected to grant approvals on nine games. There have been no formal laws and regulations published to define and regulate the Committee’s organization, responsibilities, working procedures and the criteria it applies when assessing the relevant online games.



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The Circular regarding the Administration of Mobile Games Publishing Services (《關於移動遊戲出版服務管理的通知》), which was issued by the SAPPRFT took effect from July 1, 2016, provides that game publishing services providers shall be responsible for examining the contents of their games and applying for game publication numbers. To apply for publication of domestically-developed mobile games in the leisure and puzzle category that are not related to political, military, national or religious topics or contents and have no or simple story lines, entities, the service providers shall submit the required documents to competent provincial publishing administrative departments where it is located at least 20 working days prior to the expected date of online publication (open beta testing). Service providers applying for publication of domestically-developed mobile games that are not included in the above-mentioned category and mobile games that are authorised by foreign copyright owners shall go through more stringent procedures, including submitting management accounts for content review and testing account for game anti-indulgence system. The game publishing services providers must set up a specific page to display the information approved by the SAPPRFT, setting out the copyright owner of the game, publishing service provider, approval number, publication number and others, and shall be responsible for examining and recording daily updates of the game.

The Circular of the General Administration of Press and Publication, the National Copyright Administration and the National Office of Working Group Against Pornographic and Illegal Publications Regarding the Consistent Implementation of the “Stipulations on ‘Three Provisions’” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (Xin Chu Lian [2009] No. 13) (《新聞出版總署、國家版權局、全國「掃黃打非」工作小組辦公室關於貫徹落實國務院<「三定」規定>和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知》(新出聯[2009]13號)) (the “**GAPP Circular**”) issued and took effect on September 28, 2009 provides that, foreign investors are prohibited from investing or engaging in online game operations and services in the PRC through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures. Foreign investors are also prohibited from gaining effective control over or participating in the online game operation business of domestic enterprises indirectly by establishing other joint ventures, entering into relevant agreements or providing technical support. The former GAPP and the SAPPRFT which consolidated the relevant responsibilities of the GAPP have not yet made or issued further interpretation, guidance or implementation rules in respect of the application and implementation of the GAPP Circular.

### ONLINE GAMES OPERATIONS

#### Regulatory Framework

The Interim Measures on Administration of Online Games (《網絡遊戲管理暫行辦法》) (the “**Online Games Interim Measures**”) that were issued by the MOC and took effect on August 1, 2010 comprehensively regulated the activities related to online game business, including the operation of online games, the standards for online games content, the issuance

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of virtual currencies used for online games and virtual currency trading services. The Online Games Interim Measures provided that any entity engaging in online game operations must obtain an internet culture operation license, and the content of an imported online game must be examined and approved by the MOC prior to its launch. Domestically-developed online games must be filed with the MOC within 30 days of its launch. According to the Plans, the MOC is reformed and is now known as the MCT. Concurrently with the implementation of this reformation, the post-filing for operation of online games have been suspended. On May 14, 2019, the MCT issued a notice regarding its authority to approve online cultural business. According to the notice, the MCT no longer assumes the responsibilities for regulating the online game industry. However, the licenses granted by the MCT before the issuance of the notice shall remain valid until expiration. On July 23, 2019, the MCT announced the abolishment of the Online Games Interim Measures.

The Online Games Interim Measures also required online game operators to protect the interests of the online game players and specify certain terms that must be included in the service agreements between online game operators and their online game players. The Circular of the MOC on the Implementation of the Interim Measure on Administration of Online Games (《文化部關於貫徹實施〈網絡遊戲管理暫行辦法〉的通知》) which took effect in August 2010 specified the entities regulated by the Online Games Interim Measures and procedures related to the MOC's review of the content of online games, and emphasized the protection of minors playing online games and requested online game operators to promote real-name registration by their players. It is unclear how this circular will be implemented after the abolishment of the Online Games Interim Measures.

Pursuant to the Circular of the General Office of the State Council on Distributing Regulations on Main Functions, Internal Organization and Staffing of the General Administration of Press and Publication (National Copyright Administration) (Guo Ban Fa [2008] No. 90) (《國務院辦公廳關於印發新聞出版總署(國家版權局)主要職責內設機構和人員編製規定的通知》(國辦發[2008] 90號)) issued on July 11, 2008, the GAPP is responsible for the examination and approval process of online games prior to online publication, while the MOC is responsible for regulating the online game market. Pursuant to the Notice of the State Commission Office for Public Sector Reform on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the 'Three Provisions' of the MOC, State Administration of Radio and Television and the GAPP (Zhong Yang Bian Ban Fa [2009] No. 35) (《中央機構編製委員會辦公室關於印發〈中央編辦對文化部、廣電總局、新聞出版總署〈「三定」規定〉中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋〉的通知》(中央編辦發[2009]35號)) issued on September 7, 2009, under the centralised management of the MOC, the GAPP is responsible for the examination and approval process of online games prior to online publication. After such publication, the online games will only be administered by the MOC. Moreover, if an online game is launched on the internet without the prior approval of the GAPP, the MOC will be responsible for guiding the cultural market law enforcement team to conduct investigation and punishment, while the GAPP will not directly take actions against the online game already published online.

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The Circular of the MOC on Regulating Online Game Operation and Strengthening Concurrent and Ex-Post Supervision (《文化部關於規範網絡遊戲運營加強事中事後監管工作的通知》) (the “**Regulatory Circular of Online Games**”) has become effective since May 1, 2017, which sets out requirements in relation to the following aspects of online games: (1) clarifying the scope of online game operation; (2) regulating services for issuance of virtual items of online games; (3) strengthening the protection of the rights and interests of online game users; (4) strengthening the interim and ex post supervision of online game operation; and (5) stringent investigation and punishment of illegal operating activities.

### Virtual Currency and Virtual Items

The Notice on the Reinforcement of the Administration of Internet Cafés and Online Games (《關於進一步加強網吧及網絡遊戲管理工作的通知》) (the “**Internet Cafés Notice**”) jointly issued by the MOC, the PBOC and other governmental authorities on February 15, 2007 with the goal of strengthening the administration of virtual currency in online games and to avoid any adverse impact on the PRC economy and financial system, places strict limits on the total amount of virtual currency issued by online game operators and the amount purchased by individual players and requires a clear division between virtual transactions and real transactions carried out by way of electronic commerce. The Internet Cafés Notice further provides that virtual currency should only be used to purchase virtual items and prohibits any resale of virtual currency.

The Notice on Strengthening the Administration of Online Game Virtual Currency (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the “**Virtual Currency Notice**”) jointly issued by the MOC and the MOFCOM on June 4, 2009, defines the meaning of the term “virtual currency” and places a set of restrictions on the trading and issuance of virtual currency. The Virtual Currency Notice also states that online game operators are also not allowed to give out virtual items or virtual currency through lottery-base activities, such as lucky draws, betting or random computer sampling, in exchange for players’ cash or virtual money.

The Regulatory Circular of Online Games further clarifies that virtual items that (i) are distributed by enterprises engaging in online games operations, (ii) are purchased by users directly with lawful currency by using the virtual currency of online games or by exchanging the virtual currency of online games according to a certain percentage, and (iii) that enables users to directly exchange for other virtual items or value-added service functions in online games, shall be administered pursuant to the provisions on virtual currencies of online games.

### Content Review

The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) stipulates that internet information service providers shall not produce, reproduce, distribute or disseminate information that includes the following contents: (1) content that is against the basic principles determined by the State’s constitution, (2) content that impairs national security, divulges State secrets, subverts State sovereignty or jeopardizes national unity, (3) content that damages the reputation and interests of the State, (4) content that incites

ethnic hostility and ethnic discrimination or jeopardizes unity among ethnic groups, (5) content that damages State religious policies or that advocates sects or feudal superstitions, (6) content that disseminates rumors, disturbs the social order or damages social stability, (7) content that disseminates obscenity, pornography, gambling, violence, homicide and terror, or incites crime, (8) content that insults or slanders others or that infringes their legal rights and interests, and (9) other content prohibited by laws or administrative regulations. If a breach of such provisions constitutes a crime, the criminal liabilities shall be attached according to laws; if a breach does not constitute a crime, the public security authorities and national security authorities shall give punishment in accordance with the relevant laws and administrative regulations including the Public Security Administration Punishment Law of the People's Republic of China (《中華人民共和國治安管理處罰法》) and the Administration Measures on the Security Protection of Computer Information Network with International Connections (《計算機信息網絡國際聯網安全保護管理辦法》); as for commercial internet information service providers, the authorities responsible for issuing relevant business licenses shall order them to suspend their operations and even revoke their business licenses.

The Administrative Measures for the Content Self-examination of Online Culture Business Operators (《網絡文化經營單位內容自審管理辦法》) promulgated by the MOC and implemented on December 1, 2013 provide that prior to providing services to the public, online culture business operators shall examine in advance the content of culture products and services to be provided pursuant to law. The content examination of online culture products and services shall be carried out by at least two examiners with the Content Examiner Certificate (《內容審核人員證書》) issued by the provincial culture administrative department.

Pursuant to the Internet Publishing Measures, operators providing online publication services shall adopt an editor responsibility system to ensure the legality of the content of online publications; operators providing online publication services shall adopt a system of responsibility for examination of the content of publications, an editor responsibility system, a proofreader responsibility system and other management systems to ensure the quality of its web publications. In order to protect the lawful rights and interests of minors, online publications shall not include any content enticing minors to imitate the acts in violation of public ethics or illegal or criminal acts, nor shall they include such contents harming the physical and mental health of minors as terror, cruelty, etc., and shall not contain any content disclosing the personal privacy of minors. Where the contents in an online publication are untrue or unjust thereby infringing upon the lawful rights and interests of any citizen, legal person or any other organisation, the relevant online publication operator shall cease infringement, make correction publicly, eliminate the bad consequences, and bear other civil liabilities in accordance with the law.

### **Minors Protection**

Pursuant to the Implementation Plan of Project for Parental Monitoring of Minors in Online Games (《「網絡遊戲未成年人家長監護工程」實施方案》) which was issued by various departments such as the MCT, the Ministry of Education, the MIIT and the Ministry of Public Security on January 15, 2011, online game operators shall implement the Project for

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Parental Monitoring of Minors in Online Games (網絡遊戲未成年人家長監護工程) which is detailed as follows: (i) online game operators shall launch dedicated service webpage, set up special enquiry hotlines, open customised acceptance channels and introduce acceptance methods; (ii) parents who desire to understand, guide and control their children's in-game activities may provide relevant information to online game operators such as legal guardian testimonial, in-game or account username and restrictive measures, and restrictive measures may include: setting a limit on the daily or weekly playing time, the period of playing time, or prohibit playing games at all; and (iii) online game operators shall impose the restrictive measures on the account of minors as required by their parents, and shall provide necessary assistance to the parents by performing continuous follow-up observation and timely reporting the activities of such account, in order to curb or prohibit improper in-game behaviour of minors.

Pursuant to the Notice on Initialising the Verification of Real-name Registration for Anti-Fatigue System on Online Games (《關於啟動網絡遊戲防沉迷實名驗證工作的通知》) which was issued by various departments such as the GAPP, the Ministry of Education, the Ministry of Public Security and the MIIT on July 1, 2011, online game operators shall implement the verification of real-name registration for anti-fatigue system on all published online games (excluding online mobile games). The Notice of State Administration of Press, Publication, Radio, Film and Television on the Further Launch of Verification of Real-name Registration for Anti-Fatigue System on Online Games (《國家新聞出版廣電總局辦公廳關於深入開展網絡遊戲防沉迷實名驗證工作的通知》) was implemented on October 1, 2014, which further requires online game operators to further implement the verification of real-name registration for anti-fatigue system on online games. Pursuant to the regulation, the implementation of anti-fatigue system on online games applies to all online games other than mobile games. Due to hardware, functionality and other limitations, the implementation of anti-fatigue system on online games currently do not apply to mobile games.

Under the Notice on Regulating the Operation of Online Games (《網絡遊戲運營監管通知》), online game operators shall require online game users to use valid identity cards for real-name registration and shall keep record of user registration information, and shall not provide in-game crediting or consumer services to online game users who log in as guests; online game operators are encouraged, based on the implementation of the "Project for Parental Monitoring of Minors in Online Games" (網絡遊戲未成年人家長監護工程), to impose caps on the amount of money and time spent by minors on games and implement technical measures to limit the screening of scenes and functions not appropriate for minors.

### **Promotion and Marketing**

On March 19, 2015, the MOC issued the Notice on Strengthening the Regulation on Promotional Activities of Online Games (《關於加強網絡遊戲宣傳推廣活動監管的通知》), emphasising that the promotional activities of online games shall be regulated and requiring that online game operators shall conduct lawful marketing and be self-conscious of resisting illegal and non-compliant behaviors and vulgar marketing.



### INTELLECTUAL PROPERTY RIGHTS

#### Copyright

The Copyright Law of the People's Republic of China (Revised in 2010) (《中華人民共和國著作權法》(2010年修訂)) (the “**Copyright Law**”) provides that Chinese citizens, legal persons, or other organisations shall, whether published or not, enjoy copyright in their works which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The Computer Software Protection Regulations (Revised in 2013) (《計算機軟件保護條例(2013修訂)》) provide for the rights of software copyright owners and relevant matters associated with the protection, registration, licensing and transfer of software copyright, and stipulates that software copyright owners may obtain registration from the software registration authority acknowledged by the copyright administrative department under the State Council. The registration certificate issued by the software registration authority shall be the preliminary evidence for the registration. The Computer Software Copyright Registration Measures (《計算機軟件著作權登記辦法》) (the “**Software Copyright Measures**”) which was promulgated by the National Copyright Administration on February 20, 2002 regulate registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The National Copyright Administration shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Centre of China is designated as the software registration authority.

#### Trademark

The Trademark Law of the People's Republic of China (《中華人民共和國商標法》) and the Implementation Regulations on the Trademark Law of the People's Republic of China (《中華人民共和國商標法實施條例》) (the “**Trademark Law**”) provide the basic legal framework for the regulations of trademarks in China and protect registered trademarks. The Trademark Office of the SAIC (國家工商行政管理總局商標局) is responsible for the registration and administration of trademarks throughout the country. Trademarks are granted on a term of ten years. Twelve months prior to the expiration of the ten-year term, the trademark registrant shall apply for the renewal of registration; if the trademark registrant does not make the renewal during the foregoing period, another six-month extension can be granted. Upon registration of a trademark, the registrant will have the right to exclusively use the trademark.

### LABOUR AND SOCIAL SECURITY

The Labour Law of the People's Republic of China (《中華人民共和國勞動法》) was promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) (the “**SCNPC**”) on July 5, 1994 and became effective on January 1, 1995. The Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) was promulgated by the SCNPC on June 29, 2007 and became effective on January 1, 2008 and was subsequently amended on December 28, 2012. Under these laws, labour contracts in written

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## REGULATORY OVERVIEW

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form shall be executed to establish labour relationships between employers and employees. The wage paid to employees shall not be lower than the minimum wage standard of the locality and shall be paid to employees on time. Employees are also required to work in safe and sanitary conditions satisfying State rules and standards. Under the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》), which was promulgated by the SCNPC on October 28, 2010 and became effective on July 1, 2011 and the Regulations on the Administration of Housing Accumulation Funds (《住房公積金管理條例》) which became effective on April 3, 1999 and amended on March 24, 2002, employers shall contribute various social insurance premiums (including pension, medical, occupational injury, unemployment and maternity leave insurance) for employees at the rate and deposit base stipulated by the laws and regulations, and shall contribute to housing accumulation funds for employees.

### TAXATION

#### Enterprise Income Tax

The Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) (the “**EIT Law**”) was promulgated by the National People's Congress on March 16, 2007 and became effective on January 1, 2008 and amended on February 24, 2017. The Implementation Rules to the Enterprise Income Tax Law (《企業所得稅法實施條例》) (the “**Implementation Rules**”) was promulgated by the State Council on December 6, 2007 and became effective on January 1, 2008. Pursuant to these regulations, EIT taxpayers include resident enterprises and non-resident enterprises. Resident enterprises refer to enterprises that are established in the PRC under the PRC laws or established outside of the PRC according to foreign laws with “de facto management bodies” within the PRC. Non-resident enterprises refer to enterprises that are established according to foreign laws with “de facto management bodies” outside of the PRC but have set up organisations and sites in the PRC, and enterprises that have not set up organisations and sites in the PRC but have gains sourced from the PRC. The enterprise income tax rate is 25%. For non-resident enterprises which have not set up organisations or sites in the PRC or which have set up organisations and sites in the PRC but their gains from the PRC are not actually connected to the established organisations or sites, the enterprise income tax rate applicable to the gains sourced from China is 10%.

#### Value Added Tax

Pursuant to the Interim Regulations of the People's Republic of China Concerning Value Added Tax (《中華人民共和國增值稅暫行條例》) which was promulgated by the State Council on December 13, 1993 and subsequently amended on November 10, 2008, February 6, 2016 and November 19, 2017, respectively, enterprises and individuals who sell services within the PRC shall be subject to value added tax. The tax rate is 6% for general taxpayers who are engaged in value-added telecommunications services, research, development and technology services, information technology services and is 3% for small-scale taxpayers.



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## REGULATORY OVERVIEW

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### Dividend Withholding Tax

The EIT Law prescribes a standard withholding tax rate of 20% on dividends and other PRC-sourced income of non-resident enterprises. The Implementation Rules have reduced the tax rate from 20% to 10%. Pursuant to the Arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) (the “**Double Taxation Avoidance Arrangement**”), 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident that directly holds at least 25% of the equity interests in the PRC company, and 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident that holds less than 25% of the equity interests in the PRC company.

Pursuant to the Circular on Relevant Issues Relating to the Implementation of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) which was promulgated by the SAT on February 20, 2009, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a transaction or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. Based on the Notice on the Interpretation and Recognition of Beneficial Owners in Tax Treaties (《關於如何理解和認定稅收協定中「受益所有人」的通知》) which was promulgated by the SAT on October 27, 2009 and the Announcement on the Recognition of Beneficial Owners in Tax Treaties (《關於認定稅收協定中「受益所有人」的公告》) which was promulgated by the SAT on June 29, 2012, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognised as beneficial owners and thus will not be entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

### Income Tax Preferential Policies on High and New Technology and Software Enterprises

Pursuant to the EIT Law and its implementation regulations, qualified high and new technology enterprises are entitled to a preferential tax rate of 15%. The Notice on Taxation Policies for Further Encouraging the Development of the Software and Integrated Circuit Industries (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》) which was promulgated by the Ministry of Finance and the SAT and effected on January 1, 2011 and the Notice on Issues Relating to the Preferential Policies for Enterprise Income Tax in Software and Integrated Circuits Industry (《關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知》) which was promulgated by the Ministry of Finance, the SAT, the NDRC and the MIIT on May 4, 2016, provide that eligible software enterprises shall be exempt from the enterprise income tax for the first two years of the preferential period, and shall be levied thereon at half of the statutory rate of 25% for the next three years until the expiration of the preferential period. The preferential period starts from the first profitable year before December 31, 2017. Pursuant to the Measures on Handling of Enterprise Income Tax Incentives Matters (《企業所得稅優惠政策事項辦理辦法》) which was promulgated by the SAT on April 25, 2018, pursuant to which enterprises may enjoy preferential matters treatment through self-determination, self-declaration and keeping and documenting relevant information for inspection. As for

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## REGULATORY OVERVIEW

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software enterprises, required reference information shall be kept and documented upon completion of annual settlement and payment for the verification of tax authorities, and information listed in “Follow-up Management Requirements” under the Measures shall be submitted to tax authorities.

### FOREIGN EXCHANGE

Under the Foreign Currency Administration Rules of the People’s Republic of China (《中華人民共和國外匯管理條例》) which was promulgated on January 29, 1996 and last amended on August 5, 2008 and various regulations issued by the State Administration of Foreign Exchange of the People’s Republic of China (the “SAFE”) and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments and loans, requires the prior approval from the SAFE or its local office.

On July 14, 2014, the SAFE issued the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“Circular 37”). Pursuant to Circular 37, if a domestic individual resident directly establishes or indirectly controls an offshore enterprise (“SPV”) with his/her legally owned assets or equity in a domestic enterprise, or legally owned offshore assets or equity, for the purpose of offshore investment and financing, he/she shall complete the foreign exchange registration of overseas investments with the SAFE or its local branches before making contributions to the SPV with his/her legally owned onshore and offshore assets or equity. Following the initial registration, any change of basic information such as individual shareholder, name and term of operation or upon capital increase or deduction, share transfer or swap, merger or division and other significant change, shall report to the SAFE for foreign exchange alteration of the registration formality for offshore investment in time. According to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving Foreign Exchange Administration Policies Concerning Direct Investments (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) which became effective on June 1, 2015, banks are required to review and carry out foreign exchange registration under offshore direct investment directly. The SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks.

### Regulations on Dividend Distribution

According to the Company Law of the PRC (《中華人民共和國公司法》) and other relevant laws and regulations, companies in the PRC including foreign invested enterprises may pay dividends only out of their accumulated profit, if any, determined in accordance with the PRC accounting standards and regulations. PRC companies are required to set aside as at least 10% of their after-tax profit statutory reserve (法定公積金), until the cumulative amount of such reserve reaches 50% of their registered capital. The reserve funds may not be distributed as cash dividends.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### OVERVIEW

We are a leading IP-based game operator. We currently conduct our businesses and operations mainly through our three PRC Operating Entities, namely, Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou, through the Contractual Arrangements.

Our history can be traced back to October 2009 when V1 Group, a company listed on the Main Board of the Stock Exchange (stock code: 0082), tapped into the mobile game industry by acquiring a 70% equity interest in a mobile game developer, Huiyou Digital. The mobile game business of V1 Group continually expanded under the leadership of our Co-Founders, Mr. Xiao (our executive Director and the founder of Huiyou Digital) and Mr. Sin (our executive Director and the then executive director and chief financial officer of V1 Group).

In January 2011, CMGE Group was established as a subsidiary and a separate business arm of V1 Group to focus on mobile game development, and since then, CMGE Group has gradually transformed into a leading mobile game developer and publisher in China. We consider Mr. Xiao and Mr. Sin as our co-founders as they initiated and led the development of our mobile game business since V1 Group acquired Huiyou Digital in October 2009 to tap into the mobile game industry.

In September 2012, CMGE Group was spun off from V1 Group and successfully listed its ADSs on Nasdaq under the symbol “CMGE”, and became China’s first listed mobile game company on a U.S. stock exchange. Subsequent to CMGE Group’s listing on Nasdaq, Mr. Xiao, Mr. Sin and other senior management members of CMGE Group continued to grow CMGE Group and diversified its business by starting to publish mobile games developed by third parties in early 2013. Subsequent game portfolio of CMGE Group primarily included social games, single-player games and card and board games developed in-house and by third-party developers. Such strategic business development laid a solid foundation for the mobile game publishing business of our Group.

In August 2015, CMGE Group was delisted from Nasdaq after having been taken private by Pegasus Investment, which was incorporated by a consortium of passive financial investors consisting of Changpei Shanghai, Beijing Orient L.P., and Beijing HT. On November 27, 2015, all issued shares of CMGE Group held by Pegasus Investment were acquired by CMGE Mobile Tech, a company established in the PRC and was owned as to 44.67% by Changpei Shanghai, 22.33% by Beijing Orient L.P., 18.90% by Shanghai Pegasus, 4.90% by Yichong Investment and 9.20% by Zhongshouyou Brothers PRC. Since then and prior to the Reorganization, our business was held by CMGE Mobile Tech under the same ultimate ownership structure.

After the Delisting, Mr. Xiao and Mr. Sin, as the directors of CMGE Mobile Tech, further developed our business by continually enriching our IP reserve and enhancing our game sourcing and publishing capability. Compared with the business model of CMGE Group when it was listed on Nasdaq, our current mobile game publishing business has significantly expanded and we now play a critical role in the mobile game ecosystem founded on popular IPs in the PRC.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Since the inception of our business in 2011, our day-to-day operations have been managed by a professional management team primarily led by our Co-Founders, namely, Mr. Xiao and Mr. Sin, who make all of the key decisions of our business. After the Delisting, our Co-Founders continued to exercise independent and complete management autonomy with regard to CMGE Mobile Tech and its subsidiaries (prior to the Reorganization) and our Group (after the Reorganization) as entrusted in writing by the passive financial investors of CMGE Mobile Tech, namely Changpei Shanghai, Beijing Orient L.P., Shanghai Pegasus and Yichong Investment.

Subsequent to a series of reorganization steps as further elaborated in this section, our Company has assumed the business of CMGE Mobile Tech (excluding the Discontinued Operation) and became the holding company and listing vehicle of our mobile game business through the Contractual Arrangements. CMGE Mobile Tech and its subsidiaries, including CMGE Group, are not within our Group and are operating the Discontinued Operation.

### **Reorganization steps and shareholding changes before the Listing**

Set forth below is an overview of the material reorganization steps and shareholding changes of our Group before the Listing:

- Step 1**      ***Creation of CMGE Group and its subsequent Nasdaq listing:*** in January 2011, CMGE Group was established as a subsidiary and a separate business arm of V1 Group, and in September 2012, was spun off from V1 Group and successfully listed on Nasdaq. See “– CMGE Group and CMGE Mobile Tech – CMGE Group” in this section for further details.
- Step 2**      ***Privatization and the Delisting of CMGE Group:*** in August 2015, CMGE Group was delisted from Nasdaq after having been taken private by Pegasus Investment. See “– CMGE Group and CMGE Mobile Tech – CMGE Group” in this section for further details.
- Step 3**      ***Acquisition of all CMGE Group’s shares by CMGE Mobile Tech:*** on November 27, 2015, CMGE Mobile Tech, a PRC incorporated company, acquired all the issued shares of CMGE Group from Pegasus Investment. See “– CMGE Group and CMGE Mobile Tech – CMGE Mobile Tech” in this section for further details.
- Step 4**      ***Contemplated Acquisition by Shiji Huatong and voluntary withdrawal:*** in November 2015, the equity owners of CMGE Mobile Tech intended to sell their interests in CMGE Mobile Tech to Shiji Huatong, which was subsequently withdrawn in September 2016 due to market conditions and the tightened regulatory environment on capital market activities in China at that time. See “– CMGE Group and CMGE Mobile Tech – Contemplated Acquisition by Shiji Huatong and voluntary withdrawal” in this section for further details.

- Step 5**      ***Partnership restructuring of Changpei Shanghai:*** in December 2017, Changpei Shanghai, the single largest shareholder of CMGE Mobile Tech, underwent a partnership restructuring pursuant to which (i) Guohua Life transferred its 99.996% limited partnership interests in Changpei Shanghai to the Changpei Shanghai LPs, and (ii) Changjiang Growth transferred its 0.004% general partnership interests in Changpei Shanghai to Mr. Liu. See “– Partnership restructuring of Changpei Shanghai” in this section for further details.
- Step 6**      ***Exclusion of the Discontinued Operation:*** in December 2017, the PRC Operating Entities transferred the Discontinued Operation to Shenzhen Lanyue. See “– Reorganization – 1. Onshore Restructuring – 1.2 Exclusion of the Discontinued Operation” in this section for further details.
- Step 7**      ***Onshore and offshore restructuring in preparation for the Listing:*** for the period between January 2018 and August 2018, the Group underwent a series of onshore and offshore restructuring in preparation for the Listing, involving, in chronological order:
- (i) CMGE Mobile Tech transferring its direct and indirect onshore interests to Shenzhen Shengli Huyu and Shenzhen Zhongshouyou;
  - (ii) CMGE Group transferring its direct and indirect offshore interests to CMGE International BVI and CMGE Group BVI;
  - (iii) the equity owners of CMGE Mobile Tech establishing an offshore holding structure and incorporating Ridgeview Well for the sole purpose of facilitating the Reorganization;
  - (iv) Tianhu Software (which was indirectly wholly-owned by CMGE Group at the material time through CMGE International BVI) acquiring 99% equity interests in Shenzhen Shengli Huyu, and gaining effective control over the PRC Operating Entities by entering into the old contractual arrangements with the PRC Operating Entities and Shenzhen Lanyue;
  - (v) CMGE Group entering into a trust arrangement with Ridgeview Well upon which our Company, CMGE Group BVI and CMGE International BVI were under the common control of CMGE Group;
  - (vi) CMGE Group transferring all the issued shares of CMGE Group BVI and CMGE International BVI to Rocket Parade;

- (vii) the PRC Operating Entities and Shenzhen Lanyue terminating the old contractual arrangement with Tianhu Software, and entering into a new contractual arrangement with Shengyue Software, upon which our Company gained effective control over the PRC Operating Entities; and
- (viii) CMGE Group terminating the trust arrangement with Ridgeview Well, and the exit of Ridgeview Well.

See “– Reorganization” in this section for further details.

**Step 8**      ***Acquisitions by us and pre-IPO investments into us:*** we acquired a 51% equity interest in Beijing Softstar, acquired the entire equity interests in Wenmai Hudong, invested in Angel Fund and received two pre-IPO investments. See “– Disposals, Acquisitions and Investments” and “– Pre-IPO Investments” in this section for further details.

**Step 9**      ***Voluntary exit of Mr. Liu from our Group:*** in August 2018, Mr. Liu transferred (i) all his shares in Ambitious Profit (the general partner of Changpei Cayman which was an indirect controlling shareholder of our Company) to Mr. Xiao and Mr. Sin (via their respective offshore holding entities); and (ii) all his general partnership interests in Changpei Shanghai (which was an indirect controlling shareholder of Shenzhen Lanyue, which was in turn the registered shareholder of the PRC Operating Entities) to Wuhan Husheng, an independent third party. See “– Reorganization – 3. Establishment of an Offshore Holding Structure – 3.1 Offshore holding structure of Changpei Shanghai – Voluntary exit of Mr. Liu from our Group” in this section for further details.



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The table below provides further details in respect of major historical shareholding changes of our Company. Save for the exclusion of the Discontinued Operation to Shenzhen Lanyue (step 6), the business of our Company was not affected by the relevant shareholding changes. For details, see “– Disposals, Acquisitions and Investments” “– Pre-IPO Investments” in this section.

Step	Date	Event <sup>(1)</sup>	Shareholder(s) before the changes	Shareholder(s) after the changes	Consideration and basis	Source of funding	Reasons leading to the changes
1	Jan 2011 to Sept 2012	Creation of CMGE Group and its subsequent Nasdaq listing	V1 Group, as a controlling shareholder, together with other minority shareholders	Shareholders of CMGE Group before the Delisting	N/A	N/A	Under the direction of Mr. Xiao, Mr. Sin and other senior management members, CMGE Group gradually transformed into a leading mobile game developer and publisher in China, and became China's first listed mobile game company on a U.S. stock exchange. See “– CMGE Group and CMGE Mobile Tech – CMGE Group” in this section for further details
2	Aug 2015	Delisting of CMGE Group from Nasdaq and privatization by Pegasus Investment, a company formed by a consortium of passive financial investors, namely Changpei Shanghai, Beijing Orient L.P. and Beijing HT	Shareholders of CMGE Group before the Delisting	Pegasus Investment (which was held by Changpei Shanghai, Beijing Orient L.P. and Beijing HT)	US\$741 million (determined with reference to a valuation report of CMGE Group prepared by an independent valuer <sup>(3)</sup> )	Working capital of the respective shareholders of Pegasus Investment	Based on then existing market sentiments, Pegasus Investment decided to privatize CMGE Group for subsequent re-listing in Greater China with aspiration that the CMGE Group could potentially attract a higher valuation. See “– CMGE Group and CMGE Mobile Tech – CMGE Group – Reasons for the Delisting” in this section for further details
3	Nov 2015	Transferring the entire interests in CMGE Group from Pegasus Investment to CMGE Mobile Tech	Pegasus Investment (held by Changpei Shanghai, Beijing Orient L.P. and Beijing HT)	CMGE Mobile Tech (which was held by Changpei Shanghai, Beijing Orient L.P., Shanghai Pegasus, Yichong Investment and Zhongshouyou Brothers PRC)	US\$741 million (determined with reference to the consideration paid by Pegasus Investment for the privatization of CMGE Group)	Working capital of the respective shareholders of CMGE Mobile Tech	This transfer was to prepare for the Contemplated Acquisition (which necessitated a corporate restructuring to establish a PRC incorporated company as holding company of our business), and allowing Beijing HT to cash-out its investment. See “– CMGE Group and CMGE Mobile Tech – CMGE Mobile Tech” in this section for further details



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Step	Date	Event <sup>(1)</sup>	Shareholder(s) before the changes	Shareholder(s) after the changes	Consideration and basis	Source of funding	Reasons leading to the changes
4	Nov 2015	Shiji Huatong attempted to acquire CMGE Mobile Tech from its equity owners (which attempt was subsequently withdrawn) <sup>(2)</sup>	Not applicable	Not applicable	RMB6.5 billion (determined with reference to a valuation report of CMGE Mobile Tech as appraised by an independent valuer) <sup>(4)</sup>	Not applicable	Due to changes in market conditions and tightened regulatory environment on capital market activities, this acquisition was subsequently withdrawn. See “– CMGE Group and CMGE Mobile Tech – Contemplated Acquisition by Shiji Huatong and voluntary withdrawal” in this section for further details
5	Dec 2017	Partnership restructuring of Changpei Shanghai	LP Interests: Guohua Life GP Interests: Changjiang Growth	LP Interests: Changpei Shanghai LPs GP Interests: Mr. Liu	LP Interests: RMB3.2 billion (determined after Guohua Life’s own assessment with reference to its internal investment return benchmark) GP Interests: Nil	LP Interests: Funding of the Changpei Shanghai LPs financed by a loan from Huatong Holding GP Interests: Not applicable	This LP Interests transfer was primarily due to the potential practical difficulties for Guohua Life, being an insurance company in the PRC, to maintain its LPs Interests in Changpei Shanghai, as a result of the proposed listing plan on the Stock Exchange. This GP Interests transfer was primarily to ensure “ownership continuity and control” of Changpei Shanghai under Rule 8.05(1)(c) of the Listing Rules. See “– Partnership restructuring of Changpei Shanghai” in this section for further details
6	Dec 2017	Exclusion of the Discontinued Operation to Shenzhen Lanyue	Two of the PRC Operating Entities, namely, Shenzhen Douyue and Shenzhen Zhongshouyou	Shenzhen Lanyue	RMB43.5 million (determined with reference to the net book value of the Discontinued Operation)	Working capital of Shenzhen Lanyue	Reorganization prior to Listing to focus on our current scope of business. See “– Reorganization – 1. Onshore Restructuring – 1.2 Exclusion of the Discontinued Operation” in this section for further details
7	Jan 2018 to Aug 2018	Onshore and offshore restructuring in preparation for the Listing	See “– Reorganization” in this section for further details	See “– Reorganization” in this section for further details	See “– Reorganization” in this section for further details	See “– Reorganization” in this section for further details	Addressing PRC restrictions on the foreign ownership of certain assets in the on-line gaming space, by creating near-identical but separate onshore and offshore holding structures, to enable the PRC Operating Entities to be controlled by our Company through the offshore structure via the Contractual Arrangements between onshore entities and offshore entities

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Step	Date	Event <sup>(1)</sup>	Shareholder(s) before the changes	Shareholder(s) after the changes	Consideration and basis	Source of funding	Reasons leading to the changes
9	Aug 2018	The appointment of the Co-Founders as the general partners of Changpei Cayman (through Ambitious Profit) to replace Mr. Liu	Mr. Liu (100% interests in Ambitious Profit)	Mr. Xiao through Zhongshouyou Brothers BVI (64% interests in Ambitious Profit) Mr. Sin through Silver Joyce (36% interests in Ambitious Profit)	Mr. Xiao (RMB204,800), Mr. Sin (RMB115,200) (determined with reference to a valuation of Ambitious Profit as appraised by an independent valuer <sup>(5)</sup> )	Personal funding of Mr. Xiao and Mr. Sin	As Mr. Liu decided to voluntarily exit from our Group, the Changpei Shanghai LPs appointed the Co-Founders as the general partner of Changpei Cayman (through Ambitious Profit) to replace Mr. Liu. See “– Reorganization – 3. Establishment of an Offshore Holding Structure – 3.1 Offshore holding structure of Changpei Shanghai” in this section for further details
		The appointment of Wuhan Husheng as the general partner of Changpei Shanghai to replace Mr. Liu	Mr. Liu (100% GP Interests in Changpei Shanghai)	Wuhan Husheng (100% GP Interests in Changpei Shanghai)	RMB100,000 (determined with reference to a valuation of Changpei Shanghai as appraised by an independent valuer <sup>(6)</sup> )	Working capital of Wuhan Husheng	As Mr. Liu decided to voluntarily exit from our Group, the Changpei Shanghai LPs appointed Wuhan Husheng as the general partner of Changpei Shanghai to replace Mr. Liu. See “– Partnership restructuring of Changpei Shanghai – Transferring the GP Interests from Mr. Liu to Wuhan Husheng” in this section for further details.

### Notes:

- (1) Our Directors have confirmed that all shareholders’ approval, if applicable, have been obtained and no regulatory approval was required for these transfers.
- (2) CSRC approval had been sought by Shiji Huatong but was not obtained due to the subsequent voluntary withdrawal of the Contemplated Acquisition.
- (3) Based on the then issued shares and ADS of CMGE Group at the time of approving the relevant merger agreement, the total consideration payable by Pegasus Investment was estimated to be approximately US\$743 million. In concluding the merger agreement, based on the final number of shares and ADS of CMGE Group, the actual amount of consideration paid by Pegasus Investment, after deducting the payment of fees and expenses for the privatization, amounted to US\$741 million.
- (4) The fact that the consideration of the Contemplated Acquisition (i.e. RMB6.5 billion) was higher than the consideration paid by CMGE Mobile Tech to Pegasus Investment (namely US\$741 million, equivalent to approximately RMB5.1 billion) reflected (i) to the best of our Directors’ belief, the prevailing valuation of mobile game companies in the A share market at the time of the Contemplated Acquisition, and (ii) according to the report issued by Guotai Junan Securities Co. Ltd., the independent financial advisor appointed by Shiji Huatong in respect of the Contemplated Acquisition, the synergy that the mobile game business of CMGE Mobile Tech would bring to the mobile game business and profitability of Shiji Huatong.
- (5) For further details regarding the basis of the consideration, see “– Reorganization – 3. Establishment of an Offshore Holding Structure – 3.1. Offshore holding structure of Changpei Shanghai” in this section.
- (6) For further details regarding the basis of the consideration, see “– Partnership restructuring of Changpei Shanghai – Transferring the GP Interests from Mr. Liu to Wuhan Husheng” in this section.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### KEY MILESTONES

The following is a summary of our key business development milestones:

Year	Event
2011	Mr. Xiao, Mr. Sin and other senior management members of V1 Group co-founded CMGE Group as a subsidiary and a separate business arm of V1 Group focusing on mobile game development.
2012	CMGE Group was spun off from V1 Group and successfully listed its ADSs on Nasdaq under the symbol “CMGE”, and became China’s first listed mobile game company in a U.S. stock exchange.
2013	CMGE Group started publishing mobile game developed by third parties.  We launched two popular card games, <i>WuXia Q Chuan</i> (武俠Q傳) and <i>Three Kingdoms’ Power Advanced Version</i> (三國威力加強版).
2015	CMGE Group was taken private by a consortium of passive financial investors and was delisted from Nasdaq.  We launched <i>New Legend of Sword and Fairy</i> (新仙劍奇俠傳) and achieved gross billings of more than RMB10 million on the first day of launch.
2016	We launched <i>One Piece – the Road of the Strong</i> (航海王強者之路) and <i>Heaven Sword and Dragon Saber</i> (倚天屠龍記) and achieved gross billings of RMB62.5 million and more than RMB98 million, respectively, in the first month after their launch.
2017	We launched <i>Eternal Myth</i> (神話永恆) and achieved gross billings of RMB8.18 million and RMB70 million on its first day of launch and in the first month after launch.  CMGE Mobile Tech was named a Global Top 50 Publisher by Apple.
2018	We acquired two game developers, namely Beijing Softstar (as to a 51% equity interest) and Wenmai Hudong (as to a 100% equity interest), both of which have developed and launched successful mobile games.  We launched <i>Fighter of Destiny</i> (擇天記) and achieved gross billings of more than RMB170 million in the first month after launch.
2019	We launched <i>Dragon Ball – Awakening</i> (龍珠覺醒) and ranked first in the Top Free Games List of Apple’s App Store on its first day of launch and became a recommended game of the week on Apple’s App Store in the first week of its launch.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### CMGE GROUP AND CMGE MOBILE TECH

#### CMGE Group

CMGE Group was established as a subsidiary and a separate business arm of V1 Group to focus on mobile game development. We consider Mr. Xiao and Mr. Sin as our co-founders as they initiated and led the development of our mobile game business since V1 Group acquired Huiyou Digital in October 2009 to tap into the mobile game industry. In September 2012, CMGE Group was spun off from V1 Group and successfully listed its ADSs on Nasdaq under the symbol “CMGE”. Mr. Xiao and Mr. Sin continued to manage the day-to-day operations of CMGE Group during the listing of CMGE Group and significantly contributed to the continued success and business growth of CMGE Group.

#### *Financial performance of CMGE Group*

The table below sets forth the revenue, gross profit and net income/loss prepared in accordance with the U.S. GAAP for the periods indicated based on the publicly filed information of CMGE Group, the business of which included the Discontinued Operation at the relevant time:

	Year ended December 31,			Three months ended
	2012	2013	2014	March 31, 2015
	(RMB thousands)			
Net Revenue	187,593	353,007	1,264,695	411,795
Gross Profit	95,863	197,010	780,752	275,733
Net (Loss)/income	(14,473)	26,763	227,947	61,736

#### *Roles, beneficial interests and remuneration of Mr. Xiao and Mr. Sin in CMGE Group*

Mr. Xiao was the chief operating officer of CMGE Group between January and April 2012 and then became the chief executive officer and a director of CMGE Group from April 2012 until the Delisting. Mr. Sin served as the vice chairman of CMGE Group throughout the time when CMGE Group was listed on Nasdaq.

Throughout the time when CMGE Group was listed on Nasdaq, the total remuneration of Mr. Xiao and Mr. Sin together was approximately RMB2,815,239.51, RMB4,081,212.67, and RMB4,574,026.71 for the period from September 25, 2012 (being the date CMGE Group was listed on Nasdaq) to December 31, 2013, the year ended December 31, 2014 and the period from January 1, 2015 to August 10, 2015 (the date when CMGE Group was delisted from Nasdaq).

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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The table below sets forth the beneficial interests in CMGE Group held by Mr. Xiao and Mr. Sin (including the share options granted to them from time to time) as disclosed during the time when CMGE Group was listed on Nasdaq:

	Mr. Xiao	Mr. Sin
<i>September 2012 (Upon Listing on Nasdaq)</i>	Nil	2.80%
<i>As of April 5, 2013</i>	Less than 1%	3.34%
<i>As of February 20, 2014</i>	Less than 1%	3.13%
<i>As of March 27, 2015</i>	2.01%	3.80%

With the intention of eventually returning to one of the stock exchanges in Greater China, Pegasus Investment, which was incorporated by a consortium of financial investors, namely Changpei Shanghai, Beijing Orient L.P., and Beijing HT, decided to take private CMGE Group. On May 15, 2015, which is the trading day before CMGE Group announced that it had received the preliminary proposal to privatize the company at US\$21.50 per ADS, the trading price of CMGE Group's ADSs was US\$20.38 per ADS, resulting in a market capitalization of approximately US\$638.5 million and a proposed premium of US\$1.12 per ADS.

To launch the privatization and Delisting of CMGE Group, on June 9, 2015, Pegasus Investment entered into an agreement and plan of merger (the “**Merger Agreement**”) with CMGE Group, who had successfully negotiated an increase in the offer price from US\$21.50 per ADS (equivalent to US\$1.5357 per share) to US\$22.00 per ADS (equivalent to US\$1.5714 per share). Under the terms of the Merger Agreement, (i) each of the class A and class B ordinary shares of CMGE Group issued and outstanding immediately prior to the effective time of the merger was cancelled in exchange for the right to receive US\$1.5714 in cash per share without interest; and (ii) each of the ADSs of CMGE Group, representing 14 Class A ordinary shares of CMGE Group issued and outstanding immediately prior to the effective time of the merger, was cancelled in exchange for the right to receive US\$22.00 in cash per ADS without interest (less a cancellation fee of US\$5.00 per 100 ADSs), representing a premium of US\$1.62 per ADS over the trading price at the time the company first announced the receipt of the proposal. As of June 30, 2015, CMGE Group had 438,599,649 shares outstanding, which at the offering price of US\$22.00 per ADS (US\$1.5714 per share) resulted in a total market capitalization of US\$689.2 million. After consulting with and receiving a fairness opinion from an independent financial advisor, the then board of directors of CMGE Group recommended that shareholders accept the offer. The independent financial advisor considered a number of factors in making its recommendation, including the discounted projected cash flows of CMGE Group, CMGE Group's stock price, the valuation of similar companies and the results of similar transactions. Based on the number of CMGE Group shares issued and outstanding at the time the Merger Agreement was approved, including unexercised options and warrants, the total consideration payable by Pegasus Investment was estimated to be approximately US\$743 million. Based on the final number of shares and ADSs of CMGE Group, including unexercised options and warrants, after deducting the payment of fees and expenses in connection with the privatization of CMGE Group, the actual amount of consideration paid by Pegasus Investment under the Merger Agreement amounted to US\$741 million, which was fully-paid in August 2015 and was financed by the working capital of the respective shareholders of Pegasus Investment.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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The Merger Agreement was approved by the shareholders of CMGE Group at an extraordinary general meeting held on July 27, 2015. Approximately 65% of CMGE Group's total outstanding voting ordinary shares voted in person or by proxy at the extraordinary general meeting. Of the voting power represented by these ordinary shares voted in person or by proxy, approximately 99% were voted in favor of the Merger Agreement, significantly more than the two-thirds of the voting power required to approve the merger. Because the Co-Founders' interests under the Merger Agreement were the same as the other shareholders' of CMGE Group, the Co-Founders participated in the vote.

The Co-Founders did not receive any pay-outs in connection with the privatization, except for the amount they received from the buyer group for tendering their shares and options in CMGE Group under the Merger Agreement. Pursuant to the Merger Agreement, all outstanding ordinary shares and ADSs of CMGE Group, including all shares and ADSs held by the Co-Founders, were cancelled and Pegasus Investment then owned all the issued shares of CMGE Group after the Privatization. CMGE Group became wholly-owned by Pegasus Investment and ceased to be listed on Nasdaq.

### *Reasons for the Delisting*

Based on market sentiments at the time of the Delisting, privatization and subsequent re-listing in Greater China could potentially attract higher valuations for companies comparable to the CMGE Group. At the time of the Delisting, CMGE Group did not have a concrete plan on the listing venue in Greater China for re-listing. It was possible to re-list on any one of the stock exchanges in Greater China, including Hong Kong, Shenzhen or Shanghai, by way of an initial public offering or being acquired by an listed company. The reasons for CMGE Group agreeing to the Delisting include, among others:

- *Realization of the underlying value:* The lowest historical closing price of CMGE Group's ADSs on Nasdaq in the six months preceding the entering into the merger agreement on June 9, 2015 was substantially below the consideration per ADS and per share offered by Pegasus Investment. The directors of CMGE Group were of the view that the price of its ADSs had not been reflective of the perceived value of such securities;
- *Opportunity for the shareholders of CMGE Group to realize their investments:* The board of directors of CMGE Group recognized that the Delisting presented the shareholders with an opportunity to realize immediate liquidity and provide them with a specific amount of cash consideration for their holdings; and
- *Strong financial background and deep industry understanding of the financial investors:* The board of directors of CMGE Group recognized that the financial investors of Pegasus Investment, including Beijing Orient L.P., would provide strong financial support to CMGE Group for its development.



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### *Compliance with United States securities law*

Throughout the privatization and Delisting of CMGE Group, CMGE Group worked closely with its United States counsel to prepare the required disclosures for its shareholders. The main objective of such disclosure was to provide the shareholders of CMGE Group sufficient information to make an informed decision as to the fairness of the offer price. Based on the advice of the United States counsel to CMGE Group for the privatization and Delisting, our Directors are of the view that (i) the process and disclosure documents were fair to CMGE Group's shareholders and compliant with United States securities law, and (ii) the non disclosure of the arrangements entered into between the Co-Founders and CMGE Mobile Tech subsequent to the privatization as well as the subsequent potential listing plans of the surviving company on an exchange within Greater China was not a violation of United States securities law.

### *Class Action while Listed on Nasdaq*

Beginning in June 2014, CMGE Group was named as the defendant in two securities class actions filed in the United States District Court for the Southern District of New York, namely *Reitan v. China Mobile Games & Entertainment Group, LTD* (Case No. 14-cv-04471), and *Chang V. China Mobile Games & Entertainment Group, Ltd., et al.*, (Case No. 14-cv-04745). On November 20, 2014, the court consolidated the two actions and re-captioned the action as *In re China Mobile Games & Entertainment Group, Ltd Securities Litigation*. The defendants in this consolidated action were CMGE Group, Mr. Xiao, two individuals who were at the time members of management of CMGE Group, including Mr. Ying Shuling, and the underwriters in CMGE Group's public offering held on March 26, 2014.

On February 2, 2015, the plaintiffs filed a consolidated securities class action complaint (the “**Consolidated Complaint**”), asserting claims against the defendants under Section 10(b) of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and Rule 10b-5 promulgated thereunder, against the individual defendants under Section 20(a) of the Exchange Act, and against all defendants (except for one member of management) under Sections 11 and 15 of the U.S. Securities Act of 1933, as amended (the “**Securities Act**”). Among other things, the Consolidated Complaint alleged that between April 26, 2013 and January 14, 2015, the defendants made false and materially misleading statements to the then investors under the Exchange Act by failing to provide adequate disclosure regarding related-party transactions with Shenzhen Zhongzheng Ruanyin Science & Technology Co., Ltd. (“**Zhongzheng**”) and CMGE Group's alleged acts of bribery to curry favor with key distributors relating to the actions of Mr. Ying (both alleged disclosure failures, the “**Alleged Misstatements**”). The Consolidated Complaint also alleged that the defendants made false and misleading statements to potential investors under the Securities Act by failing to provide adequate information concerning the Alleged Misstatements in the offering documents disseminated in connection with CMGE Group's public offering held on March 26, 2014. Throughout the litigation, the defendants consistently maintained that they never made any statement to the market that was or that they believed was false or misleading, nor did they ever direct anyone to make public statements that were or that they believed were false and



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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misleading. The defendants maintained that at all times CMGE Group's public statements were truthful, accurate and not misleading. The defendants rejected all of the allegations in the Consolidated Complaint and filed a motion to dismiss the Consolidated Complaint on March 19, 2015. On March 7, 2016, the court granted the defendants' motion, dismissing all claims with leave to amend.

The plaintiffs of the Consolidated Complaint filed a second consolidated amended securities class action complaint ("SAC") on July 18, 2016, which included facts based on their further investigation of the alleged wrongdoing and an additional claim under Section 12 of the Securities Act. The defendants filed a motion to dismiss the SAC on September 2, 2016, arguing that the SAC, like the Consolidated Complaint, failed to state a claim for relief. The plaintiffs filed their opposition on October 17, 2016, and the defendants filed their reply on November 7, 2016. While the defendants' motion to dismiss was still pending before the court, the parties participated in a mediation session and ultimately agreed to settle the action based upon a proposal issued by the mediator. On March 23, 2017, the parties informed the court that they had agreed to a comprehensive resolution of all claims in the action. On May 22, 2017, CMGE Group entered into a settlement agreement with the class of plaintiffs for a settlement amount of US\$1.5 million, and the settlement was approved by a United States District Judge in the Southern District of New York on September 14, 2017. CMGE Group has duly complied with all conditions under the settlement agreement and our Group, which is separate from CMGE Group, has no ongoing liabilities in relation to these lawsuits.

The alleged bribery and undisclosed related party transactions that were the basis of the plaintiff's claim against CMGE Group and the other defendants largely related to the actions of Mr. Ying Shuling. Specifically, it was alleged that Mr. Ying engaged in acts of bribery to curry favor with key distributors, and that he was a shareholder of and had significant influence over Zhongzheng, which if true would make all transactions between CMGE Group and Zhongzheng related party transactions that were not properly disclosed. Concerned by these allegations, CMGE Group formed an independent committee on June 20, 2014, comprised four of its independent directors. The committee conducted an independent review, which included interviews with relevant personnel and a review of documents, digital information and data extracted through procedures recommended by the committee's counsel. The foregoing investigation did not find any evidence that suggested CMGE Group or anyone at CMGE Group had engaged in bribery. CMGE Group also engaged outside counsel to investigate whether Mr. Ying or any other employee of CMGE Group was a shareholder of Zhongzheng. The investigation concluded that neither Mr. Ying nor any other member of senior management owned stock or was a beneficial owner of Zhongzheng's shares (at the relevant time except as disclosed below).

### *Information pertaining to Zhongzheng*

Zhongzheng was engaged in the business of mobile game publication and promotion at the material time. It was founded on November 5, 2009 by Mr. Ying Shuling and two other shareholders. Mr. Ying was, inter alia, a director of Zhongzheng. On June 6, 2013, Mr. Ying and the other two shareholders transferred 100% of their ownership interests in Zhongzheng to

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Ms. Du Juan. Mr. Ying resigned from all of his positions in Zhongzheng and Ms. Du became, inter alia, a director of Zhongzheng. On February 14, 2014, Ms. Du transferred all of her ownership interests in Zhongzheng to her husband, Mr. Dan Chenghai, and Mr. Zhang Xu. On the same day, Ms. Du resigned from all of her positions in Zhongzheng.

*Mr. Ying, Ms. Du and Mr. Dan*

Mr. Ying Shuling joined CMGE Group in July 2013 and was appointed as the president of CMGE Group in October 2013. He stepped down as president in June 2014 during CMGE Group's internal restructuring and was subsequently appointed as the chief operating officer of CMGE Group in August 2014. He left CMGE Group in May 2015 and joined Tianjin Zhuoyue Yidong Technology Limited (天津卓越移動科技有限公司) ("**Tianjin Zhuoyue**") which was indirectly owned as to 90% by Mr. Ying and was an independent third party (and remains as such as of the Latest Practicable Date). After due enquiry and to the best knowledge of our Directors, save as disclosed in "– Disposals, Acquisitions and Investments – Disposal of Zhuoyue Chenxing and QLWX Software" in this section and Mr. Ying's employment with us between July 2013 and May 2015, Mr. Ying had no past or present relationship (including employment, financing, business, trust and family relationship) with the Company, its subsidiaries, their directors, shareholders, senior management or any of their respective associates.

Ms. Du Juan joined Chengdu Zhuoxing as the general manager of the publishing support center in March 2014 and left Chengdu Zhuoxing in November 2014 on her own accord.

Mr. Dan Chenghai was a secondee in the procurement division of Chengdu Zhuoxing between April to July 2014 while he maintained his positions at Zhongzheng.

Save for the foregoing shareholding and directorship information disclosed, there was no overlap in shareholders, directors, senior management and employees between Zhongzheng and CMGE Group at the relevant times.

### *Business relationship between Zhongzheng and CMGE Group*

Between 2013 to 2014, CMGE Group occasionally engaged Zhongzheng in the provision of game uploading and advertising services since Zhongzheng, being an advertising agent, maintained a more direct relationship with the relevant game publishing channels at the material time. Therefore, some of the games of CMGE Group were uploaded under the name of Zhongzheng to facilitate communications with the game publishing channels while CMGE Group remained as the publisher and operator of the relevant games at all times. The PRC Legal Adviser confirmed that such practice is not in violation of the applicable PRC laws and regulations. Furthermore, Analysys has confirmed that this arrangement is in line with industry practice as advertising agencies are often engaged to upload games on game publishing channels in their names for and on behalf of the game operators so as to facilitate communications with the relevant game publishing channels. CMGE Group did not enter into any advertising agency agreement with Zhongzheng after 2015.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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In 2013, CMGE Group had 5 games uploaded and advertising services provided by Zhongzheng. In the same year, approximately 6% of CMGE Group's cost was associated with Zhongzheng and less than 1% of CMGE Group's revenue was associated with Zhongzheng. In 2014, CMGE Group had 15 games uploaded and advertising services provided by Zhongzheng. In the same year, less than 3% of CMGE Group's cost was associated with Zhongzheng and less than 1% of CMGE Group's revenue was associated with Zhongzheng. In 2013 and 2014, Zhongzheng uploaded and provided advertising services in relation to 15 of the CMGE Group's games, namely, *Ming Jiang Feng Yun* (名將風雲), *Three Kingdoms' Power Advanced Version* (三國志威力加強版), *The Guard* (天朝小將), *Monster Island* (怪獸島), *I am Ninja* (我是忍者), *Qiang Ni Mei* (搶你妹), *The Empty War* (紙上談兵), *Magical Ninja* (夢幻忍者), *Wuxia* (武俠), *WuXia Q Chuan* (武俠Q傳), *Knighthood* (熱血騎士團), *Meng Jiang Chuan Qi* (萌將傳奇), *Feng Yun Tian Xia* (風雲天下), *Call of the Dragon* (龍之召喚) and *Long Zhan San Guo* (龍戰三國). After due enquiry and to the best knowledge of our Directors, there was no overlap between the customers and suppliers of the Group and those of Zhongzheng during the time when we had business cooperation with Zhongzheng. During the Track Record Period and up to the Latest Practicable Date, we had no business relationship with Zhongzheng, and none of our games were uploaded by, and under the name of, Zhongzheng.

To the best knowledge of our Directors, save as disclosed in this section, Zhongzheng, its shareholders and directors do not have any past or present relationship (including employment, financing, business, trust and family relationship) with the Company, its subsidiaries, their directors, shareholders, senior management or any of their respective associates.

### **Compliance status on Nasdaq and Reasons for Listing on the Stock Exchange**

Our Co-Founders have confirmed that, to the best of their knowledge after making reasonable enquiries, (i) CMGE Group was in material compliance with all applicable U.S. securities law and regulations as well as the rules and regulations of Nasdaq during the time it was listed on Nasdaq; (ii) CMGE Group was not subject to any material disciplinary action by regulators during its listing on Nasdaq; and (iii) save for the abovementioned two securities class actions duly settled pursuant to a settlement agreement on May 22, 2017 and approved by a United States District Judge on September 14, 2017, there are no matters in relation to the Nasdaq listing and the Delisting that need to be brought to the attention of our Shareholders and our investors.

Our Directors consider the Stock Exchange to be an appropriate listing venue for our business and an opportunity to leverage the public equity market of Hong Kong to expand our business. When reaching the decision to list our mobile game business in Hong Kong, we took into account the facts that (i) our business has been significantly expanded since the Delisting and we ranked first in terms of revenue generated from publishing IP-based games during the Track Record Period among all Chinese independent mobile game publishers, according to Analysys; (ii) we recorded a profit of RMB316.0 million for the year ended December 31, 2018 compared to a loss in 2015; (iii) the Shanghai and Shenzhen Stock Connect programme between mainland China and Hong Kong may allow mainland investors, who are more familiar with our business and operation and market position and recognition, to invest in us after the Listing if our Shares become eligible for such programmes; and (iv) the overall capital market conditions and investor sentiment have been significantly improved, leading to higher valuations for listed Chinese internet players.

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### CMGE Mobile Tech

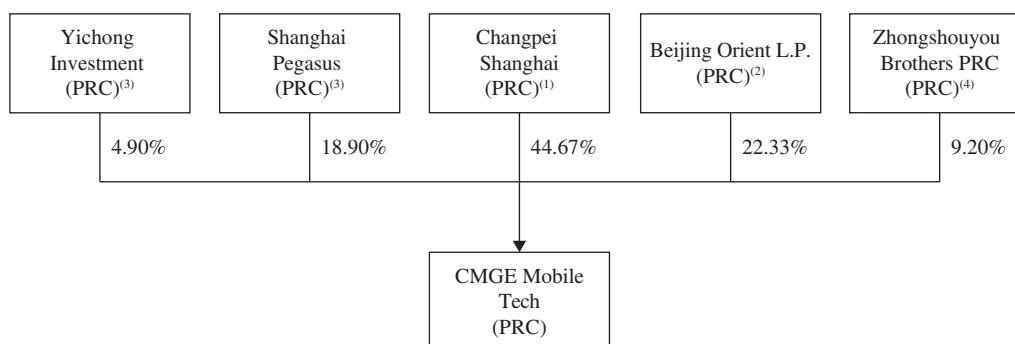
After the privatization of CMGE Group, CMGE Mobile Tech was established in China to acquire all the issued shares of CMGE Group from Pegasus Investment for a consideration of US\$741 million, which consideration was determined after arm's length negotiation between the parties after taking into account the consideration paid by Pegasus Investment pursuant to the Merger Agreement dated June 9, 2015.

The reasons for this acquisition were primarily to (i) change the holding company of CMGE Group from Pegasus Investment (a company incorporated in the Cayman Islands) to CMGE Mobile Tech (a company established in the PRC) in preparation for the Contemplated Acquisition (which necessitated a corporate restructuring to establish a PRC incorporated company as holding company of our business), (ii) allow Beijing HT to capitalize its investment in CMGE Group given the then policy and uncertainty of the A share market and consequential impact on their investment exit timing, and (iii) introduce new investment from Shanghai Pegasus and Yichong Investment.

A concrete plan of pursuing a listing of CMGE Group in the PRC, which necessitated a corporate restructuring to establish a PRC incorporated company (i.e. CMGE Mobile Tech) as holding company of our business, was only considered after the Delisting. Therefore, at the time of the Delisting, CMGE Group would not be able to foresee and disclose to its then shareholders the plan of Pegasus Investment which was formed after the Delisting.

### *Ownership structure of CMGE Mobile Tech*

The chart below sets forth the ownership structure of CMGE Mobile Tech as of the Latest Practicable Date:



#### *Notes:*

- (1) Changpei Shanghai is a limited partnership established in China on June 2, 2015, and was ultimately controlled by Mr. Liu before August 2018. Changpei Shanghai underwent a series of partnership restructuring in preparation for the Listing. For further details, see “– Reorganization – Partnership restructuring of Changpei Shanghai” in this section.
- (2) Beijing Orient L.P. is a limited partnership established in China on May 22, 2015, and is controlled by its managing partner ultimately controlled by Mr. Ma.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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- (3) Shanghai Pegasus and Yichong Investment are two limited partnerships established in the PRC, the general partner of both of which is Dazi Dingcheng, a limited liability company established in the PRC wholly-owned by Beijing Zhongrong Dingxin, which is in turn wholly-owned by Zhongrong Trust. Shanghai Pegasus and Yichong Investment have two distinct and separate groups of beneficiaries. The investment and management decisions of Shanghai Pegasus and Yichong Investment are made by two different fund managers nominated by the respective group of beneficiaries. Dazi Dingcheng does not have the right to change the respective fund managers of Shanghai Pegasus and Yichong Investment unless it obtained consent from the respective beneficiaries. Accordingly, Shanghai Pegasus and Yichong Investment are managed independently.
- (4) Zhongshouyou Brothers PRC is a limited partnership established in China on November 23, 2015. Mr. Xiao held all the equity interests in Zhongshouyou Brothers PRC with an agreement that 36% of the economic interests and disposition power in respect of the equity interests held by Mr. Xiao in Zhongshouyou Brothers PRC would be retained for Mr. Sin until the transfer of the relevant equity interests to Mr. Sin at his request.

### *Entrustment of the Management Autonomy to our Co-Founders*

As Changpei Shanghai, Beijing Orient L.P., Yichong Investment and Shanghai Pegasus are all passive financial investors, they have entrusted our Co-Founders in writing with sufficient, independent and complete rights to manage the business operation of CMGE Mobile Tech (the “**Management Autonomy**”). Accordingly, notwithstanding the privatization and the subsequent acquisition of CMGE Group by CMGE Mobile Tech, by virtue of the Management Autonomy granted to the Co-Founders with regard to CMGE Mobile Tech and subsequently our Group, our business has always been directed and managed by our Co-Founders and they will continue to lead the management and development of our Group upon and after the Listing. See “– Reorganization – 5. Other Reorganization Steps – 5.5 Flipping down to the Cayman Islands level and renewal of the Management Autonomy” in this section for further details.

### **Contemplated Acquisition by Shiji Huatong and voluntary withdrawal**

On November 30, 2015, the equity owners of CMGE Mobile Tech, as vendors, and Shiji Huatong, which is a company listed on the Shenzhen Stock Exchange (SZSE:002602), as purchaser, entered into an asset purchase agreement pursuant to which Shiji Huatong agreed to acquire, among other target assets, all the equity interests in CMGE Mobile Tech from the equity owners of CMGE Mobile Tech (the “**Contemplated Acquisition**”).

### *Reasons for the Contemplated Acquisition*

Instead of applying for an initial public offering on one of the exchanges in the PRC at the relevant time, the then equity owners of CMGE Mobile Tech considered that it would be to their best interests to list the business of CMGE Mobile Tech in the PRC through the Contemplated Acquisition as CMGE Mobile Tech and Shiji Huatong would both be able to further expand and diversify their gaming business in the PRC through leveraging the experience and knowledge of each other, and hence strengthening CMGE Mobile Tech’s market position in the PRC.

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### *Conditions of the Contemplated Acquisition*

The Contemplated Acquisition was subject to certain conditions, which included obtaining (i) the approval of the CSRC, as the Contemplated Acquisition, together with other contemplated acquisitions of Shiji Huatong, were treated as a material assets restructuring of Shiji Huatong; (ii) the approval of the board of directors of Shiji Huatong; (iii) the approval of the shareholders of Shiji Huatong; and (iv) the approval of the NDRC and other competent authorities.

### *Consideration of the Contemplated Acquisition*

The aggregate consideration of the Contemplated Acquisition amounted to approximately RMB6.5 billion, of which approximately RMB5.1 billion would be settled by the issue of consideration shares by Shiji Huatong and approximately RMB1.4 billion would be settled in cash. This consideration was arrived at after arm's length negotiations between the parties taking into account the valuation of CMGE Mobile Tech as appraised by an independent valuer at the relevant time. The fact that the consideration of the Contemplated Acquisition (i.e. RMB6.5 billion) was higher than the consideration paid by CMGE Mobile Tech to Pegasus Investment (namely US\$741 million, equivalent to approximately RMB5.1 billion) reflected (i) to the best knowledge of the Co-Founders, the prevailing valuation of mobile game companies in the A share market at the time of the Contemplated Acquisition, and (ii) according to the report issued by Guotai Junan Securities Co. Ltd., the independent financial advisor appointed by Shiji Huatong in respect of the Contemplated Acquisition, the synergy that the mobile game business of CMGE Mobile Tech would bring to the mobile game business and profitability of Shiji Huatong.

### *Background of Shiji Huatong*

Shiji Huatong was established in 2005 and listed on the Shenzhen Stock Exchange in July 2011 (SZSE:002602). It is a large scale gaming company in the PRC and is principally engaged in the online gaming business and the manufacturing and sales of automotive parts and accessory systems. We have cooperated with Wuxi Man Huang Internet Technology Limited (無錫蠻荒網絡科技有限公司), a subsidiary of Shiji Huatong, on the development and publishing of mobile games. See “Business – Our Business Model – Game Sourcing – Existing IP Reserve” in this prospectus. On May 31, 2018, Shenzhen Shengli Huyu, a wholly-owned subsidiary of our Company, acquired 51% equity interests in Wenmai Hudong from Ningbo Qiku Investment Co., Ltd. (寧波七酷投資有限公司), a wholly-owned subsidiary of Shiji Huatong, see “– Disposals, Acquisitions and Investments – Acquiring all of the equity interests in Wenmai Hudong” in this section for details.

According to the information published by Shiji Huatong as of the Latest Practicable Date, Shiji Huatong acquired 100% equity interests in Shengyue Technology, which is the ultimate controller of Shengqu Technology, one of our Pre-IPO Investors. This acquisition was approved by the CSRC and had been completed as of the Latest Practicable Date.



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To the best knowledge of our Directors, save for the above and the Contemplated Acquisition, Shiji Huatong did not have any other past or present relationships (business or otherwise) with our Group, CMGE Group or CMGE Mobile Tech, their directors, substantial shareholders, senior management, or any of their respective associates.

### *Application to the Shenzhen Stock Exchange*

As part of the transaction, Shiji Huatong submitted a reorganization proposal to the Shenzhen Stock Exchange for its review. The Shenzhen Stock Exchange raised one round of comments on December 4, 2015, which were subsequently addressed by Shiji Huatong on December 7, 2015. To the best knowledge of our Directors, the Shenzhen Stock Exchange did not raise further comments thereafter.

Our Directors are of the view that the comments raised by the Shenzhen Stock Exchange in relation to CMGE Mobile Tech were not material, and were duly addressed and resolved in the responses of Shiji Huatong on December 7, 2015. The comments raised by the Shenzhen Stock Exchange mainly included: (i) disclosing certain financial information and operating data; (ii) elaborating the business model of CMGE Mobile Tech; (iii) disclosing the background of an incidental loss recognized by CMGE Mobile Tech due to a share-based compensation expense in 2015; and (iv) disclosing the basis and rationale for the proposed profit guarantee arrangement between the Co-founders and Shiji Huatong. The Shenzhen Stock Exchange did not raise any comments as to the suitability or eligibility of our Company's business for listing.

### *Voluntary withdrawal of the application to the Shenzhen Stock Exchange*

Due to changes in market conditions and the tightened regulatory environment on capital market activities in China at that time, resulting in uncertainty as to the timing of obtaining CSRC approval on the Contemplated Acquisition, the equity owners of CMGE Mobile Tech and Shiji Huatong mutually agreed not to proceed with the Contemplated Acquisition, and entered into a termination agreement to terminate the relevant asset purchase agreement on September 20, 2016. Neither CMGE Mobile Tech nor Shiji Huatong was required to pay any break-up fee as a result of this termination. CMGE Mobile Tech had not been subject to any investigation by the Shenzhen Stock Exchange or the CSRC, nor were CMGE Mobile Tech in any disagreement with other professional parties in the Contemplated Acquisition.

### **Obtaining 9.2% equity interests by the Co-Founders**

In the course of negotiations of the Contemplated Acquisition, to protect Shiji Huatong's position as a potential acquirer of the CMGE Group's business, Shiji Huatong required the following commitments from CMGE Group and its shareholders, as conditions for the Contemplated Acquisition:

- (a) CMGE Group's senior management, including the Co-Founders, would "remain stable" for at least three years after the proposed merger;



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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- (b) CMGE Group's senior management, including the Co-Founders, would not compete, directly or indirectly, with CMGE Group; and
- (c) CMGE Group's shareholders would provide to Shiji Huatong a profit guarantee. The Co-Founders agreed to use the 9.2% equity interests acquired by them in CMGE Mobile Tech for RMB11 million (together with the shares of Shiji Huatong agreed to be subscribed by the Co-Founders for RMB600 million, should the Contemplated Transaction proceed) as collateral to guarantee Shiji Huatong that CMGE Group would achieve a net profit of at least RMB400 million, RMB530 million and RMB680 million for the years ending 2016, 2017 and 2018, respectively (i.e. a total of RMB1.61 billion). As this profit guarantee proposed by Shiji Huatong under the relevant asset purchase agreement was conditional upon CSRC's approval of the Contemplated Acquisition, and given such approval was never received, this profit guarantee did not become effective, and the Co-Founders did not acquire shares of Shiji Huatong for RMB600 million.

Based on Shiji Huatong's requests under the Contemplated Acquisition, it was apparent that the Co-Founders were considered critical to Shiji Huatong and to the passive financial investors of CMGE Mobile Tech, and without the Co-Founders, it would be challenging for CMGE Mobile Tech to meet the guaranteed profits that Shiji Huatong sought. The Co-Founders were considered the most suitable individuals to manage CMGE Mobile Tech's business, such that the guaranteed profits might be achievable. In this connection, the passive financial investors (i.e. the passive financial investors of CMGE Mobile Tech) sought to find a way to bind the Co-Founders to CMGE Mobile Tech. If the Contemplated Acquisition was unsuccessful, the passive financial investors would still need the Co-Founders to remain with CMGE Mobile Tech (or risk trying to replace them with new management), in order for them to realize their investments in future. Accordingly, the passive financial investors of CMGE Mobile Tech decided that they should offer the Co-Founders an appropriate equity stake, which was agreed to be 9.2% in CMGE Mobile Tech for RMB11 million, which consideration was determined based on the registered capital of CMGE Mobile Tech.

When determining the 9.2% equity stake offered to the Co-Founders, the passive financial investors also took into account the difference between the consideration paid by the passive financial investors for the privatization of CMGE Group (i.e. US\$741 million or approximately RMB5.1 billion) and the consideration payable by Shiji Huatong under the Contemplated Acquisition (i.e. RMB6.5 billion).

Accordingly, pursuant to a management subscription agreement dated November 25, 2015 entered into by, among others, the passive financial investors of CMGE Mobile Tech and Zhongshouyou Brothers PRC (a limited partnership designated by the Co-Founders), CMGE Mobile Tech issued to Zhongshouyou Brothers PRC 9.2% equity interest in its registered capital. Such issuance was recognized as our payment of share-based compensation to the Co-Founders in 2015.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Since the passive financial investors (i) entrusted our Co-Founders with the Management Autonomy to make all key business decisions, and (ii) were not involved in our day-to-day operation, the issuance of 9.2% of the total equity interests in CMGE Mobile Tech to Zhongshouyou Brother PRC aligned the Co-Founders' interests with those of the passive financial investors, and in turn effectively preserved the investment made by the passive financial investors and guaranteed the investment return thereupon. Accordingly, to the best knowledge of our Directors, the passive financial investors considered the issuance of 9.2% of the total equity interests in CMGE Mobile Tech to be fair and reasonable. Furthermore, such arrangement was not prohibited under law as neither U.S. nor Cayman Islands law prevents a surviving company from contracting with or issuing shares to the prior management or shareholders of a publicly-listed target company at any time before or after the privatization.

### OUR PRC OPERATING ENTITIES

Our business is substantially operated through our PRC Operating Entities, namely, Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou, which are controlled by us through the Contractual Arrangements. Our PRC Operating Entities contributed a significant portion of our revenue during the Track Record Period. For further details of the Contractual Arrangements, see “Contractual Arrangements” in this prospectus.

#### Chengdu Zhuoxing

Chengdu Zhuoxing was established by Huiyou Digital as a limited liability company in the PRC on June 24, 2013 with its business commenced on the same day. The initial registered capital of Chengdu Zhuoxing was RMB5 million. On September 22, 2013, Huiyou Digital agreed to transfer all of its equity interests in Chengdu Zhuoxing to Shenzhen Lanyue, which is a subsidiary of CMGE Mobile Tech, for a consideration of RMB5 million. This consideration was determined based on the then registered capital of Chengdu Zhuoxing. On the same date, Shenzhen Lanyue agreed to increase the registered capital of Chengdu Zhuoxing from RMB5 million to RMB10 million. Upon completion of the above transfer and allotment, Chengdu Zhuoxing has been wholly-owned by Shenzhen Lanyue. The principal business of Chengdu Zhuoxing involves the operations of games through online platforms. Chengdu Zhuoxing held an ICP License and an Online Culture Operation License as of the Latest Practicable Date.

#### Shenzhen Douyue

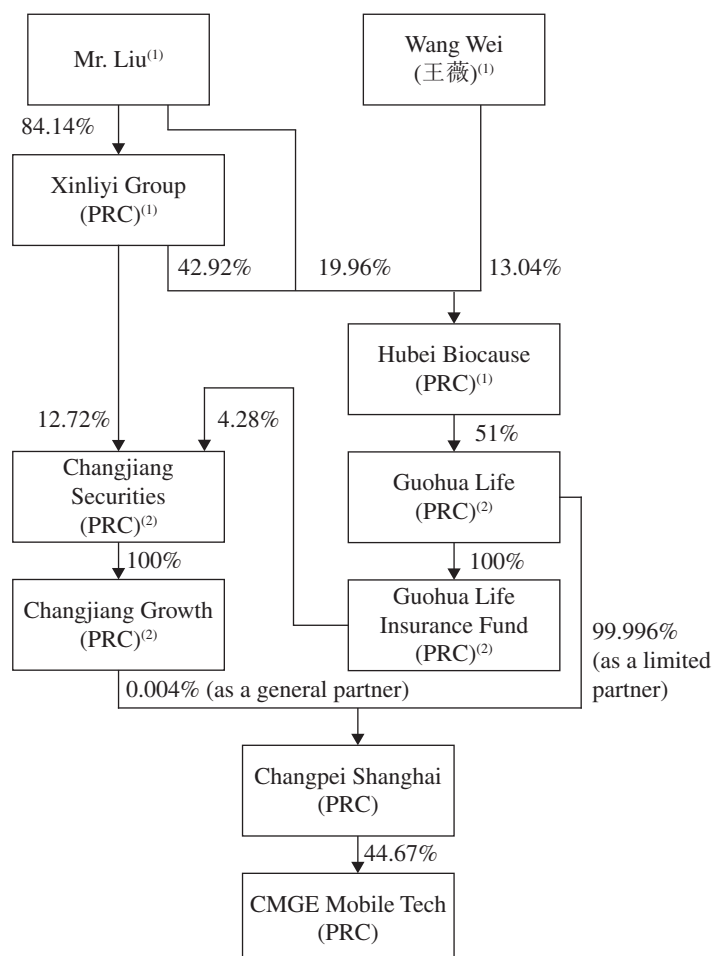
Shenzhen Douyue was established by Shenzhen Lanyue as a limited liability company in the PRC on November 21, 2014 with its business commenced on the same day. The initial registered capital of Shenzhen Douyue was RMB10 million, which remained the same as of the Latest Practicable Date. Since its establishment, Shenzhen Douyue has been wholly-owned by Shenzhen Lanyue. The principal business of Shenzhen Douyue involves the operations of games through online platforms. Shenzhen Douyue held an ICP License and an Online Culture Operation License as of the Latest Practicable Date.

## Shenzhen Zhongshouyou

Shenzhen Zhongshouyou was established by Shenzhen Lanyue as a limited liability company in the PRC on July 10, 2015 with its business commenced on the same day. The initial registered capital of Shenzhen Zhongshouyou was RMB100,000. Shenzhen Lanyue subsequently increased the registered capital of Shenzhen Zhongshouyou from RMB100,000 to RMB10 million, which remained the same as of the Latest Practicable Date. Since its establishment, Shenzhen Zhongshouyou has been wholly-owned by Shenzhen Lanyue. The principal business of Shenzhen Zhongshouyou involves the publication and operations of games through online platforms. Shenzhen Zhongshouyou held an Online Publication License, an ICP License and an Online Culture Operation License as of the Latest Practicable Date.

## PARTNERSHIP RESTRUCTURING OF CHANGPEI SHANGHAI

Changpei Shanghai is a limited partnership established in the PRC on June 2, 2015, and is one of the passive financial investors that participated in the privatization and Delisting of CMGE Group in 2015. Prior to the partnership restructuring of Changpei Shanghai, Changpei Shanghai held a 44.67% equity interest in CMGE Mobile Tech. Changpei Shanghai was the only registered shareholder of CMGE Mobile Tech holding more than 30% of its equity interest. The chart below sets forth the partnership structure of Changpei Shanghai prior to the partnership restructuring of Changpei Shanghai (the “**Partnership Restructuring**”):



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*Notes:*

1. Mr. Liu, Ms. Wang Wei (王薇) (the spouse of Mr. Liu) and Xinliyi Group Co., Ltd. (新理益集團有限公司) (“**Xinliyi Group**”) are parties acting in concert in Hubei Biocause Pharmaceutical Co., Ltd. (天茂實業集團股份有限公司) (“**Hubei Biocause**”), a company listed on the Shenzhen Stock Exchange (SZSE:000627). Immediately prior to the Partnership Restructuring, Mr. Liu, together with those acting in concert with him, is the single largest shareholder of Hubei Biocause. Mr. Liu has been the chairman of Hubei Biocause since March 2015.
2. Guohua Life is a PRC insurance company, which held 100% of Guohua Life Insurance Co., Ltd. Dividend 3 (國華人壽保險股份有限公司分紅3號) (“**Guohua Life Insurance Fund**”). Changjiang Securities Co., Ltd. (長江證券股份有限公司) (SZSE: 000783) (“**Changjiang Securities**”) was owned as to 4.28% and 12.72% by Guohua Life Insurance Fund and Xinliyi Group, respectively. Changjiang Growth Capital Investment Co., Ltd. (長江成長資本投資有限公司) (“**Changjiang Growth**”) was wholly-owned by Changjiang Securities. Mr. Liu has been the chairman of Guohua Life since September 2009.

### ***Reasons for the Partnership Restructuring***

The proposed listing plan of our business in Hong Kong presented the following potential practical difficulties for Guohua Life to maintain its limited partnership interest in Changpei Shanghai:

- (a) Guohua Life is a PRC insurance company, regulated by the CBIRC. Under PRC law, including (i) the Interim Measures for the Administration of Overseas Investment with Insurance Funds issued on 28 June 2007, (ii) the Detailed Rules for the Implementation of the Interim Measures for the Administration of Overseas Investment with Insurance Funds issued on 12 October 2012 and (iii) the Notice on Adjusting the Policies Relating to Overseas Investment by Insurance Funds issued by CBIRC on 27 March 2015, Guohua Life would have to satisfy a range of requirements, in order to invest in an overseas business; and
- (b) The “overseas investment” requirements which Guohua Life would have had to satisfy are extensive. Guohua Life would have needed to file an application with CBIRC for its approval with respect to the proposed overseas investment. As prerequisites to such application, Guohua Life would have been required to appoint a qualified trustee and custodian to be responsible for supervising the management of, and acting as a custodian for, any funds invested, and would also have had to designate a country or region that is recognised by the CBIRC into which such funds would be invested. In addition, Guohua Life would have had to meet CBIRC requirements in relation to corporate governance, internal controls, adequate solvency, size and experience of its management team, its track record of compliance with PRC law, and any other conditions prescribed by CBIRC.

The above practical difficulties caused Guohua Life to undergo the Partnership Restructuring in order to realize its investment in CMGE Mobile Tech and exit Changpei Shanghai.

### *The Changpei Shanghai LPs*

Shi Jian (施劍) learned about the exit intention of Guohua Life in around mid-October 2017, and reached out to Wang Yao (王瑤), Zheng Tao (鄭濤), Wang Lingdi (王凌迪) and Zhao Liang (趙亮) (together, the “**Changpei Shanghai LPs**”), to invest in CMGE Mobile Tech through Changpei Shanghai as limited partners with a view to sharing the financial burden of acquiring the limited partnership interests of Changpei Shanghai.

In view of the considerations and the timely payment arrangement offered by the Changpei Shanghai LPs, which presented a justifiable commercial decision from Guohua Life’s perspective based on the investment duration (since the privatization in 2015 to the partnership interest transfer in December 2017 described below) and the associated investment return, Guohua Life decided to sell its limited partnership interests in Changpei Shanghai to the Changpei Shanghai LPs. See “– Background of the Changpei Shanghai LPs” in this section for further details.

### *Transfers of the LP Interests and the GP Interests*

Accordingly, on December 29, 2017:

- (a) Guohua Life entered into a partnership interest transfer agreement with each of the Changpei Shanghai LPs, under which Guohua Life sold to each of them 19.9992% of Guohua Life’s limited partnership interests in Changpei Shanghai, i.e. 99.996% in total (the “**LP Interests**”), for RMB645.66 million each (a total of approximately RMB3.23 billion). This consideration was arrived at after arm’s length negotiation between the parties, and was settled by the Changpei Shanghai LPs using their funding which was financed by a three-year unsecured loan of RMB3.23 billion at an annual interest rate of 10% from Huatong Holding, the controlling shareholder of Shiji Huatong (the “**Huatong Holding Loan**”);
- (b) to seek to ensure that there would be “ownership continuity and control” with respect to Changpei Shanghai under Rule 8.05(1)(c) of the Listing Rules and, accordingly, CMGE Mobile Tech, Mr. Liu agreed to replace Changjiang Growth as Changpei Shanghai’s general partner. Accordingly, on the same day (December 29, 2017), Changjiang Growth transferred its 0.004% interests in Changpei Shanghai (the “**GP Interests**”) to Mr. Liu. See “– Partnership restructuring of Changpei Shanghai – The transfer of the GP Interests to Mr. Liu” in this section for further details; and
- (c) Mr. Liu and the Changpei Shanghai LPs entered into a partnership agreement under which Mr. Liu had the exclusive right to make decisions on, and to manage, Changpei Shanghai’s business, in accordance with the terms of the agreement.

### *Funds flow of the Huatong Holding Loan*

Shanghai Jingren Investment Management Co., Ltd. (“**Jingren Investment**”), a company which was ultimately owned as to 50% by Mr. Shi Jian and 50% by Mr. Zhao Liang (two of the Changpei Shanghai LPs), to enter into a loan agreement for the Huatong Holding Loan pursuant to which Jingren Investment borrowed RMB3.23 billion from Huatong Holding. It was understood that the loan proceeds of the Huatong Holding Loan would be used for the settlement of the consideration payable to Guohua Life for the LP Interests. On November 8, 2017, Huatong Holding paid the loan proceeds of RMB3.2 billion to Jingren Investment.

On the same date, at the direction of the Changpei Shanghai LPs, Jingren Investment transferred the loan proceeds of RMB3.23 billion to Mr. Shi Jian, then in turn to Shanghai Shiguan Investment Management Center (Limited Partnership) (上海時貫投資管理中心(有限合夥)) (“**Shanghai Shiguan**”), a limited partnership in which Mr. Shi Jian was the general partner. These fund transfers were made at the direction of the Changpei Shanghai LPs as they intended to designate Shanghai Shiguan to be the holder of the LP Interests. Shanghai Shiguan, as a limited partnership established in the Qingpu District of Shanghai, might be able to enjoy benefits from the favourable policy of the local government of Qingpu District of Shanghai. On November 8, 2017, at the direction of Changpei Shanghai LPs, Shanghai Shiguan transferred the loan proceeds of RMB3.23 billion to Changpei Shanghai, which was subsequently transferred to Guohua Life on November 9, 2017 for the settlement of the consideration payable by the Changpei Shanghai LPs to Guohua Life.

After the fund transfers on November 8, 2017, Shanghai Shiguan was informed verbally that Shanghai Shiguan might not receive benefits of the relevant favourable local policy, as such benefits were policy-driven. The designation of Shanghai Shiguan as holder of the LP Interests might also affect the Company’s overseas listing structure. Accordingly, on December 29, 2017, the Changpei Shanghai LPs decided to hold the LP Interests directly under their respective names, instead of through Shanghai Shiguan.

### *Background of the Huatong Holding Loan*

The Changpei Shanghai LPs obtained the Huatong Holding Loan from Huatong Holding in November 2017 to finance the acquisition of the LP Interests. Huatong Holding is an independent third party from our Company privately held by the family members of Mr. Wang Yifeng (the “**Wang Family**”), and is a controlling shareholder of Shiji Huatong, a Shenzhen-listed company. Shiji Huatong attempted to acquire all the equity interests in CMGE Mobile Tech in November 2015, and this transaction was subsequently withdrawn in September 2016. See “– CMGE Group and CMGE Mobile Tech – Contemplated Acquisition by Shiji Huatong and voluntary withdrawal” in this section for further details.



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To the best knowledge of our Directors, while, at the time the loan was made, there was nothing ostensibly stopping the Wang Family from negotiating with our Company's shareholders to acquire a direct equity stake in our Company, the Wang Family did not want to take equity risk. Instead, they preferred to have a stable 10% per annum return on their loan (the annual interest agreed with the Changpei Shanghai LPs) to the Changpei Shanghai LPs. Also, at the time, the Wang Family and Huatong Holding were not offered any direct equity stake in our Company.

### *Confirmations of the Changpei Shanghai LPs*

Each of the Changpei Shanghai LPs has confirmed in writing that he/she is a third party independent of Mr. Liu, and is the beneficial owner of 19.9992% limited partnership interests of Changpei Shanghai under their respective name. Upon completion of these transfers, Guohua Life (and Hubei Biocause through its 51% equity interest in Guohua Life) capitalized their indirect 44.67% economic interest in CMGE Mobile Tech for an aggregate amount of approximately RMB3.2 billion. The profit made by Guohua Life in this divestment amounted to approximately RMB799.9 million.

### *Voluntary lock-up undertaking of the Changpei Shanghai LPs*

Each of the Changpei Shanghai LPs has undertaken to our Company that he or she will not, during the first six months after the Listing, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, his or her limited partnership interests in Changpei Cayman (the “**Cayman LP Interests**”).

### *Voluntary disclosure of the post-listing transfers of the Cayman LP Interests*

The Changpei Cayman's partnership agreement entered into between the Changpei Shanghai LPs and Ambitious Profit has specified that, as long as (i) Ambitious Profit is the sole general partner of Changpei Cayman; (ii) Ambitious Profit is held 100% directly or indirectly by the Co-Founders or their respective affiliates; and (iii) Changpei Cayman, the Co-Founders and their respective affiliates together control more than 30% of the voting power in our Company, Ambitious Profit shall notify our Company of any direct transfer of any partnership interests (i.e. interests in Changpei Cayman itself) or indirect transfer of any partnership interests (such as a transfer of beneficial interests in Changpei Cayman, including transfers in the shares of the corporate entities holding Changpei Cayman's partnership interests) held by the limited partners and general partner of Changpei Cayman (including the identity of the transferee) within 10 business days of the transfer being effected. Ambitious Profit shall use its best efforts to procure that our Company makes voluntary disclosures in its annual and interim report when we receive notification from Ambitious Profit of any direct or indirect transfer of limited partnership interests in Changpei Cayman.

Our Company has agreed to make voluntary disclosures in our annual and interim report after the Listing when we receive notification from Ambitious Profit of any direct or indirect transfer of limited partnership interests in Changpei Cayman, including disclosure of the identity of any beneficial owners of the limited partnership interests.



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### *Acquisition of our Shares by Changpei Cayman*

The Changpei Shanghai LPs and Ambitious Profit have agreed that before the Listing, they will amend Changpei Cayman's partnership agreement such that Changpei Cayman shall not acquire any further shares in our Company, except pursuant to (i) an offer to subscribe for shares in our Company made to all shareholders of our Company on a pro rata basis; (ii) a pro rata issue of shares by our Company to all our Shareholders as a share dividend or otherwise; or (iii) a share subdivision or other similar capital reorganisation by our Company.

### *The transfer of the GP Interests to Mr. Liu*

When Guohua Life transferred its LP Interests in Changpei Shanghai to the Changpei Shanghai LPs on December 29, 2017 for approximately RMB3.2 billion, Guohua Life has already realized its investment returns from the privatization of CMGE Group. Accordingly, all and any indirect economic benefits of Mr. Liu in respect of the 44.67% indirect equity interests in CMGE Mobile Tech were capitalized indirectly through Guohua Life in December 2017.

In light of the transfer of the LP Interests and taking into account Mr. Liu's experience in fund management, the Changpei Shanghai LPs decided to appoint Mr. Liu as the general partner of Changpei Shanghai, which maintained the *de facto* controller status of Mr. Liu with respect to Changpei Shanghai to avoid unnecessary interruption to our Company in anticipation of a listing plan, and simplified the holding structure of the general partner. As such, on December 29, 2017, Changjiang Growth transferred the GP Interests of Changpei Shanghai to Mr. Liu, as a result of which Mr. Liu assumed the then amount payable by Changjiang Growth to Changpei Shanghai of RMB100,000. After such Partnership Restructuring, Mr. Liu as a general partner was contractually entrusted to exercise the rights and obligations in Changpei Shanghai for the sole benefit of the Changpei Shanghai LPs according to the partnership agreement entered into between Mr. Liu and the Changpei Shanghai LPs.

### *Background of the Changpei Shanghai LPs*

The Changpei Shanghai LPs are all financial investors with investment experience. Based on public information, key investments made by the Changpei Shanghai LPs include investment management companies and companies engaged in the space of network technology consultation and services, computer software development, game operation management, information technology services, and advertisement and production.

To the best knowledge of our Directors, save for acquiring the limited partnership interests in Changpei Shanghai from Guohua Life, none of the Changpei Shanghai LPs has past or present relationships (including employment, financing, business, trust and family relationship) with the Company, its subsidiaries, their directors, shareholders, senior management, Mr. Liu (including the entities in which he held/holds indirect interest through any investment funds in which he is interested) or any of their respective associates.

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The Changpei Shanghai LPs, through their respective holding companies in the BVI, are beneficial owners of the limited partners of Changpei Cayman. The Changpei Shanghai LPs are presumed to be acting in concert with Mr. Xiao and Mr. Sin under the Takeovers Code by virtue of being partners of Changpei Cayman. Upon the Listing, the voting rights of our Company held by Mr. Xiao and Mr. Sin (directly through their respective wholly-owned entity and indirectly through Changpei Cayman) and the Changpei Shanghai LPs shall be aggregated for the purpose of ascertaining their obligations under the Takeovers Code (including whether an obligation to make a general offer for the shares of the Company has arisen).

The Changpei Shanghai LPs has agreed to indemnify our Company in respect of any legal liability of our Company in connection with the disclosure made in this prospectus relating to the Changpei Shanghai LPs (including their sources of funding and their economic interest in our Company).

### **Transferring the GP Interests from Mr. Liu to Wuhan Husheng**

In August 2018, Mr. Liu decided to exit from our Group and dispose of his 0.004% general partnership interests in Changpei Cayman (being one of the controlling shareholders of our Company) and Changpei Shanghai (being one of the indirect registered shareholders of our PRC Operating Entities). Mr. Liu transferred his interests in Ambitious Profit (the holder of the 0.004% general partnership interests of Changpei Cayman) to the Co-Founders on August 29, 2018 (the **“GP Transfer of Changpei Cayman”**), and his 0.004% general partnership interests in Changpei Shanghai to Wuhan Husheng, an independent third party nominated by the Changpei Shanghai LPs for a consideration of RMB100,000 (the **“GP Transfer of Changpei Shanghai”**). For further details of the exit of Mr. Liu and the GP Transfer of Changpei Cayman, see “– Reorganization – 3. Establishment of an Offshore Holding Structure – 3.1 Offshore holding structure of Changpei Shanghai” in this section.

The consideration for the GP Transfer of Changpei Shanghai was arrived at after arm’s length negotiation between the parties with reference to the valuation of Changpei Shanghai as appraised by an independent valuer, and was settled by Wuhan Husheng using its own working capital. Upon completion of the GP Transfer of Changpei Shanghai, Wuhan Husheng, as a general partner, held a 0.004% partnership interest in Changpei Shanghai.

The Changpei Shanghai LPs decided to appoint Wuhan Husheng, instead of Ambitious Profit or the Co-Founders, as the general partner of Changpei Shanghai, because:

- (i) the general partner of Changpei Shanghai does not need to be the same as the general partner of Changpei Cayman. Under the Contractual Arrangements, Shengyue Software (wholly-owned by our Company) effectively controls our PRC Operating Entities and is entitled to their economic benefits. Hence, the appointment of Wuhan Husheng as the general partner of Changpei Shanghai, which is an indirect registered shareholder of our PRC Operating Entities but has no control over them, would not affect the ownership continuity and control requirements under Rule 8.05(1)(c) of the Listing Rules. For further details of the Contractual Arrangements, see “Contractual Arrangements” in this prospectus; and

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- (ii) the Changpei Shanghai LPs wished to appoint a professional, PRC-based investment management or consultancy firm as Changpei Shanghai's general partner, and had explored the possibility of appointing Wuhan Husheng as the general partner of Changpei Shanghai before Mr. Liu's exit from our Group.

Our PRC legal adviser has confirmed that the appointment of Wuhan Husheng as Changpei Shanghai's general partner does not violate PRC laws.

Given that Wuhan Husheng is an independent third party, we have adopted a series of measures to ensure that the assets and businesses of the PRC Operating Entities could be safeguarded going forward. In particular, pursuant to a deed of undertaking executed by Wuhan Husheng, dated August 23, 2018, Wuhan Husheng undertook that it will not, and will procure that its close associates (as defined under the Listing Rules) will not, take any actions or inactions which may cause (a) Shenzhen Lanyue or the PRC Operating Entities to breach or be not in compliance with any of the agreements under the Contractual Arrangements, (b) Shengyue Software to be unable to exercise or enjoy any of its rights under any of the agreements under the Contractual Arrangements, or (c) any of the agreements under the Contractual Arrangements to become invalid, unable to be implemented or unenforceable. For details of these measures, see "Contractual Arrangements – Operations in compliance with the Contractual Arrangements" in this prospectus.

For the potential risks of Wuhan Husheng being the general partner of Changpei Shanghai, see "Risk Factors – Risks Related to Our Contractual Arrangements – The registered shareholder of our PRC Operating Entities, Shenzhen Lanyue, is indirectly controlled as to 44.67% by Wuhan Husheng, which is the general partner of Changpei Shanghai appointed by the Changpei Shanghai LPs and is an independent third party. Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. Our PRC Operating Entities or their shareholders, Shenzhen Lanyue, may fail to perform their obligations under our Contractual Arrangements." in this prospectus.

### *Information of Wuhan Husheng*

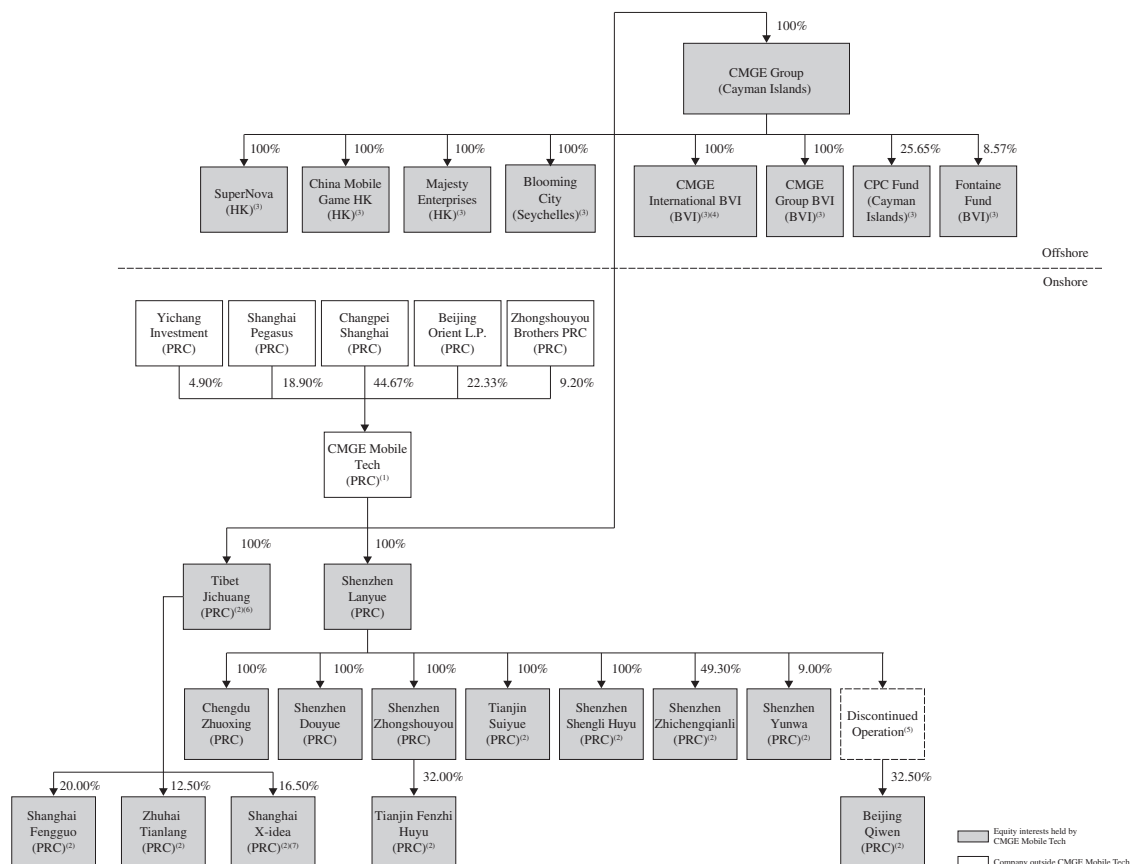
Wuhan Husheng is a company established in the PRC on September 6, 2011 and is principally engaged in investment consultancy services. During the Track Record Period and up to the Latest Practicable Date, Wuhan Husheng was wholly-owned by Yu Jianying (於建英) and Hu Luping (胡陸平), and the sole director of Wuhan Husheng was Yu Jianying.

To the best knowledge of our Directors after making all reasonable enquiries, our Directors have confirmed that: (i) Wuhan Husheng, together with its shareholders (i.e. Yu Jianying and Hu Luping), director (i.e. Yu Jianying), employees and their respective associates (except for Changpei Shanghai, which is a shareholder of CMGE Mobile Tech), do not have any past or present relationship, including employment, financing, business, trust and family relationship, with our Company, our subsidiaries, the PRC Operating Entities, their directors, shareholders, senior management, Mr. Liu (including the entities in which he held/holds indirect interest through any investment funds in which he is interested) or any of their respective associates; and (ii) that there were/are no other agreements, side arrangements, understanding or undertakings between the aforesaid parties.

# HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

## REORGANIZATION

The chart below sets forth the corporate structure of CMGE Mobile Tech and CMGE Group immediately prior to the Reorganization:



### Notes:

- (1) For details of the equity owners of CMGE Mobile Tech, see the notes underneath the corporate chart of CMGE Mobile Tech under “– CMGE Group and CMGE Mobile Tech – CMGE Mobile Tech” in this section.
- (2) In preparation for the Listing, we underwent an onshore restructuring whereby the respective interests directly or indirectly held by CMGE Mobile Tech in PRC, namely Tibet Jichuang Internet Technology Co., Ltd. (西藏創創網絡科技有限公司) (“**Tibet Jichuang**”), Beijing Qiwen Network Technology Co., Ltd. (北京奇文網絡科技有限公司) (“**Beijing Qiwen**”), Tianjin Fenzhi Huyu Technology Co., Ltd. (天津紛至互娛科技有限公司) (“**Tianjin Fenzhi Huyu**”), Tianjin Suiyue Technology Co., Ltd. (天津隨悅科技有限公司) (“**Tianjin Suiyue**”), Shenzhen Zhichengqianli Investment Enterprise (Limited Partnership) (深圳市志成千里投資企業(有限合夥)) (“**Shenzhen Zhichengqianli**”), Shenzhen Yunwa Technology Co., Ltd. (深圳雲娃科技有限公司) (“**Shenzhen Yunwa**”), Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司) (“**Shanghai Fengguo**”), Shanghai X-idea Info Tech Co., Ltd. (上海交叉點信息科技有限公司) (“**Shanghai X-idea**”) and Zhuhai Tianlang Interactive Technology Co., Ltd. (珠海天朗互動科技有限公司) (“**Zhuhai Tianlang**”), were transferred to Shenzhen Shengli Huyu or Shenzhen Zhongshouyou, as applicable. For further details, see “– Reorganization – 1. Onshore Restructuring” in this section.
- (3) In preparation for the Listing, we underwent an offshore restructuring whereby the respective interests held by CMGE Group in (i) Hong Kong, namely China Mobile Game HK, Majesty Enterprises Limited (萬捷企業有限公司) (“**Majesty Enterprises**”) and SuperNova Overseas Limited (“**SuperNova**”); (ii) Seychelles, namely Blooming City Holding Limited (“**Blooming City**”); (iii) Cayman Islands, namely CPC Fund; and (iv) BVI, namely Fontaine Capital Fund, L.P. (“**Fontaine Fund**”), were transferred to CMGE International Limited (“**CMGE International BVI**”) or CMGE Group Limited (“**CMGE Group BVI**”). For further details, see “– Reorganization – 2. Offshore Restructuring” in this section.
- (4) CMGE International BVI holds all the issued shares of Parkinson Enterprises Limited (栢盛企業有限公司), a limited company incorporated in Hong Kong, which in turn holds all the issued shares of CMGE Korea Corporation, a company incorporated in Korea.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (5) Certain companies held by Shenzhen Lanyue are engaged in the Discontinued Operation, which are excluded from our Group. For further details, see “– Reorganization – 1. Onshore Restructuring – 1.2 Exclusion of the Discontinued Operation” in this prospectus.
- (6) Apart from Shanghai Fengguo, Zhuhai Tianlang and Shanghai X-idea, Tibet Jichuang holds certain equity investments in China. For further details, see “Business – Our Investments – Investment Portfolio” in this prospectus.
- (7) We invested in Shanghai X-idea by way of the Convertible Loans. For details, see “Business – Our Investments – Investment by way of Convertible Loans” in this prospectus.

### 1. Onshore Restructuring

#### 1.1. Onshore transfers

In preparation for the Listing, certain onshore interests directly or indirectly held by CMGE Mobile Tech were transferred to Shenzhen Shengli Huyu or Shenzhen Zhongshouyou as follows:

Date	Target Company	Transferor	Transferee	% of interest	Consideration	Basis of consideration
January 8, 2018	Beijing Qiwen <sup>(1)</sup>	Horgos Mobile	Shenzhen Shengli Huyu	32.5%	RMB1.6 million	Based on the registered capital contributed by Horgos Mobile
February 7, 2018	Tibet Jichuang	CMGE Mobile Tech	Shenzhen Shengli Huyu	100.0%	RMB30 million	Based on the valuation of Tibet Jichuang as of December 31, 2017 conducted by an independent valuer
February 28, 2018	Tianjin Fenzhi Huyu	Shenzhen Zhongshouyou	Shenzhen Shengli Huyu	32.0%	RMB6 million	Based on the net book value of Tianjin Fenzhi Huyu
March 31, 2018	Tianjin Suiyue <sup>(2)</sup>	Shenzhen Lanyue	Shenzhen Shengli Huyu	100.0%	RMB10 million	Based on the registered capital contributed by Tianjin Suiyue
May 13, 2018	Shenzhen Zhichengqianli	Shenzhen Lanyue	Shenzhen Shengli Huyu	49.3%	RMB35 million	Based on the registered capital contributed by Shenzhen Lanyue
June 15, 2018	Shanghai Fengguo	Tibet Jichuang	Shenzhen Zhongshouyou	20.0%	RMB37 million	Based on the valuation of Shanghai Fengguo conducted by an independent valuer
June 25, 2018	Zhuhai Tianlang	Tibet Jichuang	Shenzhen Zhongshouyou	12.5%	RMB3.75 million	Based on investment cost contributed by Tibet Jichuang
June 26, 2018	Shenzhen Yunwa	Shenzhen Lanyue	Shenzhen Zhongshouyou	9.0%	RMB8 million	Based on the registered capital contributed by Shenzhen Lanyue
June 27, 2018	Shanghai X-idea	Tibet Jichuang	Shenzhen Zhongshouyou	16.5%	RMB8.24 million	Based on the initial investment amount contributed by Tibet Jichuang

Notes:

- (1) Beijing Qiwen was owned as to 32.5% by Horgos Mobile Games Venture Capital Co., Ltd. (霍爾果斯中手游創業投資有限公司) (“**Horgos Mobile**”), which in turn is wholly-owned by CMGE Mobile Tech.
- (2) Tianjin Suiyue is undergoing a liquidation process. We have been scaling down the operation of Tianjin Suiyue during the Track Record Period with a view to streamlining our business flow and simplifying our Group structure.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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On March 29, 2018, Shenzhen Lanyue transferred 1% of the equity interest in Shenzhen Shengli Huyu to Mr. Sin for a consideration of RMB150,000, which was arrived at after arm's length negotiations between the parties taking into account the valuation by an independent valuer. Upon completion of this transfer, Shenzhen Shengli Huyu became a sino-foreign equity joint venture and was owned as to 99% by Shenzhen Lanyue and 1% by Mr. Sin.

On June 25, 2018, Shanghai Yousu Investment Management Co., Ltd. (上海游素投資管理有限公司) transferred 23.47% in Shanghai Fengguo, which was accounted for as an associate of our Company, to Shenzhen Zhongshouyou for a consideration of RMB50 million, which was arrived at after arm's length negotiations between the parties taking into account the valuation of Shanghai Fengguo by an independent valuer.

### ***1.2 Exclusion of the Discontinued Operation***

On December 2, 2017, Shenzhen Douyue and Shenzhen Zhongshouyou transferred the Discontinued Operation to Shenzhen Lanyue at a consideration of RMB43.5 million based on the net book value of the Discontinued Operation, which transfer was completed on December 31, 2017. Our Directors believe the Discontinued Operation does not and will not materially compete with, and is clearly delineated from, the games of our Group as the Discontinued Operation displays distinctly different features compared to the games published and operated by our Group, including:

- (i) *Different games features*: the Discontinued Operation consists primarily of *Fight the Landlord* (鬥地主) and mahjong games, which are mostly turn-based, relatively straight-forward and without a storyline. By contrast, the games of our Group are mostly social games, such as MMORPG or CCG games, which generally have more advanced playing methods and more developed storylines. Also, the Discontinued Operation is generally non-IP based while most of the games published by our Group are IP based; and
- (ii) *Interaction with other players*: the Discontinued Operation is standalone games through which the players do not generally interact with other players. By contrast, most of the games of our Group, in particular our social games, were designed to promote interaction between players, who can leverage their existing social networks and create new virtual communities on our platform. While playing our games, players can compare their progress to that of their peers, share requests, send and receive gifts, and converse with each other.

Due to the above distinct features, the skill sets and player services required for and strategies applied in the Discontinued Operation are different from those of our games. In particular, our games incorporate many sophisticated technological features to enhance players' overall experience as set out in the section headed "Business – Our Business Model – Our Games" in this prospectus.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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To maintain the independence between our Group and the Discontinued Operation from management, operational and financial perspectives, CMGE Mobile Tech has been and will continue to operate the Discontinued Operation independent of our Group. Our Directors, do not hold any management positions in the Discontinued Operation, and the management teams of our Group and of the Discontinued Operation were entirely separate as of the Latest Practicable Date.

### *1.3 Confirmation by our PRC Legal Adviser*

Our PRC Legal Adviser has confirmed that the above onshore restructuring steps were legally and validly completed and all required registrations with the SAIC have been completed. In addition, the transfer of the equity interests in Shenzhen Yunwa is pending to be approved by the competent local branch of MIIT, which approval is expected to be obtained by the end of 2019. Our PRC Legal Adviser is of the view that such pending approval from the local branch of MIIT do not affect the effectiveness of the transfer of equity interests in Shenzhen Yunwa and there is no legal impediment to obtaining such registrations and approval once their processes are initiated.

## **2. Offshore Restructuring**

In preparation for the Listing, certain offshore interests held by CMGE Group were transferred to CMGE International BVI or CMGE Group BVI as follows:

Date	Target Company	Transferee	% of interest	Consideration	Basis of consideration
March 29, 2018	China Mobile Game HK	CMGE International BVI	100%	HK\$100	Based on par value of the sale shares
March 29, 2018	Blooming City	CMGE International BVI	100%	US\$1	Based on par value of the sale share
April 6, 2018	Majesty Enterprises	CMGE International BVI	100%	HK\$1	Based on par value of the sale share
April 4, 2018	SuperNova	CMGE International BVI	100%	HK\$1	Based on par value of the sale share
April 9, 2018	CPC Fund	CMGE Group BVI	25.7%	Nil	By way of assignment
April 10, 2018	Fontaine Fund	CMGE Group BVI	8.6%	Nil	By way of assignment



### 3. Establishment of an Offshore Holding Structure

In preparation for the Listing, an offshore holding structure mirroring the onshore holding structure of CMGE Mobile Tech was established.

#### 3.1 Offshore holding structure of Changpei Shanghai

Changpei Cayman was established as a limited partnership in the Cayman Islands on March 2, 2018. The general partner of Changpei Cayman is Ambitious Profit, which was wholly-owned by Mr. Liu at the time, holding 0.004% general partnership interests of Changpei Cayman. The limited partners of Changpei Cayman are the shareholding platforms of the Changpei Shanghai LPs, namely (i) Glamorous Entertainment Investment Limited (“**Glamorous Entertainment**”); (ii) Pleasant Ridge Investment Limited (“**Pleasant Ridge**”); (iii) Joyful Fair Investment Limited (“**Joyful Fair**”); (iv) Delightful Rhythm Investment Limited (“**Delightful Rhythm**”); and (v) Perfect Mighty Investments Limited (“**Perfect Mighty**”). Each of Glamorous Entertainment, Pleasant Ridge, Joyful Fair, Delightful Rhythm and Perfect Mighty is a BVI incorporated holding company of the Changpei Shanghai LPs that holds 19.9992% partnership interest of Changpei Cayman.

In March 2018, Changpei Cayman established an offshore holding structure in which Changpei Cayman owned all the issued shares of Profound Power, a limited company incorporated in the BVI, which in turn owned all the issued shares of Motion Game, a limited company incorporated in Hong Kong, and in turn owned all the issued shares of Fairview Ridge, a limited company incorporated in the BVI.

#### *Voluntary exit of Mr. Liu from our Group*

On August 29, 2018, Mr. Liu transferred 64 shares and 36 shares of Ambitious Profit, representing the then total issued share capital of Ambitious Profit, to the respective holding company of Mr. Xiao and Mr. Sin, namely Zhongshouyou Brothers BVI and Silver Joyce, for a consideration of RMB204,800 and RMB115,200, respectively. This consideration was determined after arm’s length negotiation between the parties with reference to the valuation on Ambitious Profit as appraised by an independent valuer, which was paid out of the personal funding of Mr. Xiao and Mr. Sin and was fully settled on August 28, 2018 (the “**Transfer of Ambitious Profit**”). Upon completion of the Transfer of Ambitious Profit, Ambitious Profit was owned as to 64% and 36% by our Co-founders, Mr. Xiao (through Zhongshouyou Brothers BVI) and Mr. Sin (through Silver Joyce), respectively. On the basis that (a) Mr. Liu had already realized his indirect investment return in CMGE Group via the transfer of the LP Interests in Guohua Life to the Changpei Shanghai LPs on December 29, 2017, and (b) the consideration for the Transfer of Ambitious Profit was arrived at after arm’s length negotiation between the parties with reference to the valuation of Ambitious Profit as appraised by an independent valuer, the Directors are of the view that the consideration for the Transfer of Ambitious Profit is reasonable.

For the voluntary exit of Mr. Liu from Changpei Shanghai, see “– Partnership restructuring of Changpei Shanghai – Transferring the GP Interests from Mr. Liu to Wuhan Husheng” in this section.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### *Background of Mr. Liu*

Mr. Liu is the *de facto* controller of Xinliyi Group. In 2011, Xinliyi Group was penalized by the CSRC for a market misconduct in respect of the shares of BOE Technology Group Co. Ltd. (京東方科技集團股份有限公司), a company listed on the Shenzhen Stock Exchange (SZSE: 000725), where Mr. Liu received a warning and an administrative fine due to having management responsibility as the chairman of Xinliyi Group. Mr. Liu has confirmed that he was not involved in the misconduct concerned as he, as the chairman of Xinliyi group, is responsible for making strategic decisions and not involved in the day-to-day management of Xinliyi Group's business. According to the decision of the CSRC about this incident, the CSRC acknowledged that there was insufficient evidence to conclude that Mr. Liu directly directed or participated in the market misconduct concerned. Notwithstanding such incident, Mr. Liu is (i) the *de facto* controller of the single largest shareholder of Changjiang Securities, a licensed and regulated securities company listed on the Shenzhen Stock Exchange; (ii) the *de facto* controller and chairman of Hubei Biocause, a company listed on the Shenzhen Stock Exchange with a market capitalization of over RMB30 billion as of the Latest Practicable Date; and (iii) the *de facto* controller and chairman of Guohua Life, a leading licensed and regulated PRC insurance company with an annual revenue of approximately RMB52.9 billion in 2017.

In preparation for the Listing and in support of the Co-Founders' control over the management and operation of the Company, Mr. Liu voluntarily exited from our Company through (i) the Transfer of Ambitious Profit and (ii) the Transfer of Changpei Shanghai. Other than the above mentioned indirect and immaterial interest, our Directors have confirmed that Mr. Liu does not hold any other direct or indirect beneficial interests in our Company, our subsidiaries or the PRC Operating Entities.

### *No material change in influence on our management despite the voluntary exit of Mr. Liu*

Notwithstanding the privatization and the Delisting, the day-to-day operations of our Group continued to be managed by a management team led by our Co-Founders, namely, Mr. Xiao and Mr. Sin, who exercise independent and complete Management Autonomy with regard to our Group as entrusted in writing by our passive financial investors, namely, Changpei Shanghai, Beijing Orient L.P., Shanghai Pegasus and Yichong Investment. Mr. Liu, being the *de facto* controller of Changpei Shanghai, was an indirect passive financial investor in our Company and never held any directorship nor management role in any member of our Group. Our Directors have confirmed that Mr. Liu did not have any actual influence over our management during the Track Record Period and up to the Latest Practicable Date.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Notwithstanding the fact that Mr. Liu ceased to be a controlling shareholder of our Company as a result of the Transfer of Ambitious Profit and the Transfer of Changpei Shanghai, our Directors are of the view that these transfers did not render our Company ineligible for the Listing, and that our Company is able to satisfy the spirit of the ownership continuity and control requirement under Rule 8.05(1)(c) of the Listing Rules and the guidance letter GL89-16 on the basis that there was no material or substantive change in our controlling Shareholders' actual influence over the management of our Company as a result of these transfers, as our business has all along been independently managed by our Co-Founders, namely Mr. Xiao and Mr. Sin, since the Delisting. For the avoidance of doubt, we are able to meet the requirements of profit test under Rule 8.05(1) of the Listing Rules during the Track Record Period.

### *Relationship between Mr. Liu and our Shareholders as of the Latest Practicable Date*

Mr. Liu is a financial investor in certain investment projects initiated or led by Yunzhuo Hontai Capital Investment (Beijing) Company Limited (雲卓弘泰資本投資(北京)有限公司) (“**Yunzhuo Hontai**”). Mr. Ma, our non-executive Director, was the general manager of Yunzhuo Hontai. Notwithstanding such business relationships, Mr. Ma is independent from Mr. Liu and is not under the control or influence of Mr. Liu considering: (i) Yunzhuo Hontai was a subsidiary of Orient Securities at the material time, which is listed on both the Stock Exchange and Shanghai Stock Exchange. The relevant investment projects initiated or led by Yunzhuo Hontai and participated in by Mr. Liu have gone through the internal control and approval procedures of Yunzhuo Hontai; (ii) the business relationships between Mr. Liu and Mr. Ma were entered into in the ordinary course of business of Yunzhuo Hontai and in Mr. Ma's professional capacity as the general manager of Yunzhuo Hontai; (iii) the relevant investment projects were initiated or led by Yunzhuo Hontai and Mr. Liu is merely a passive financial investor in such projects; and (iv) other than the investment projects involving Mr. Liu as one of the financial investors, Yunzhuo Hontai has many other projects which do not involve Mr. Liu at all. Yunzhuo Hontai does not have any reliance on Mr. Liu as a financial investor in any of its investment projects.

There was no arrangement with respect to the operation or management of our Company among Mr. Liu, our Shareholders as of the Latest Practicable Date and our Company before and after the Transfer of Ambitious Profit and the Transfer of Changpei Shanghai, save for the Management Autonomy.

### *Major terms of the partnership agreement of each Changpei Shanghai and Changpei Cayman*

Changpei Cayman was established to mirror the limited partnership structure of Changpei Shanghai at that time for the purpose of setting up the Contractual Arrangements. Due to the exit of Mr. Liu, the Changpei Cayman partnership agreement was amended and restated on August 28, 2018 after the share transfer of Ambitious Profit from Mr. Liu to the Co-Founders. The table below sets out a comparison of the major

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

terms of the partnership agreements of Changpei Shanghai and Changpei Cayman, including terms relating to the powers, appointment and removal of the general partner and limited partners, and restrictions on transfers of partnership interests.

	<u>The partnership agreement of Changpei Shanghai</u>	<u>The partnership agreement of Changpei Cayman</u>
Date	August 28, 2018	August 28, 2018
Parties	<p><b><i>General Partner</i></b></p> <p>Wuhan Husheng, an Independent Third Party</p> <p><b><i>Limited Partners</i></b></p> <p>Wang Yao</p> <p>Zheng Tao</p> <p>Wang Lingdi</p> <p>Zhao Liang</p> <p>Shi Jian</p>	<p><b><i>General Partner</i></b></p> <p>Ambitious Profit, a Cayman Islands company wholly-owned by the Co-Founders</p> <p><b><i>Limited Partners</i></b></p> <p>Glamorous Entertainment, the BVI holding vehicle of Wang Yao</p> <p>Pleasant Ridge, the BVI holding vehicle of Zheng Tao</p> <p>Joyful Fair, the BVI holding vehicle of Wang Lingdi</p> <p>Delightful Rhythm, the BVI holding vehicle of Zhao Liang</p> <p>Perfect Mighty, the BVI holding vehicle of Shi Jian</p>
Investment “project”	CMGE Mobile Tech	Our Company
Removal of general partner	General partners may be removed by a resolution adopted by the relevant limited partners within 120 days after the occurrence of any major economic loss to the partnership or occurrence of any major obligation or liability of the partnership is unable to repay or settle as result of any wilful misconduct or gross negligence of the relevant general partner.	
Appointment of general partner	<p>Neither limited partnership agreement sets out qualification requirements for general partners. There is no requirement that the general partners of both Changpei Shanghai and Changpei Cayman be the same.</p> <p>If any general partner is removed by the limited partners pursuant to the terms in the partnership agreement, the limited partners shall make a decision to admit another person as general partner. The new general partner shall enter into a written document indicating its consent to be bound by and perform duties and obligations required to be performed by general partners under the relevant partnership agreements.</p>	
Rights of the general partners	General partners shall have the exclusive and sole right of management of the affairs of the partnership as provided in the applicable laws and the limited partnership agreements, including deciding and managing of investments and other businesses of the partnership.	
Powers of the limited partners	Limited partners shall have no power to conduct the business of the partnership nor shall they represent the partnership. None of the limited partners may participate in the management or control of the investment business of the partnership, or other activities, transactions or businesses in the name of the partnership, nor enter into documents on the behalf of the partnership, nor conduct any other act that is binding upon the partnership.	

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

	The partnership agreement of Changpei Shanghai	The partnership agreement of Changpei Cayman
Transfer of general partners' interests	<p>General partner may not assign any of its interests in the partnership, in any other manner, except for the transfer as expressly provided below:</p> <ul style="list-style-type: none"> <li>(i) if general partner is declared bankrupt, or it is required to withdraw from the partnership, and therefore it has to transfer its interests for the continuous existence of the partnership, and if the transferee undertakes to assume all obligations and duties of such general partner, the general partner may transfer its interests subject to the approval of the meeting of all general partners and limited partners, otherwise the partnership shall enter into liquidation proceedings;</li> <li>(ii) general partner may at its sole discretion determine to transfer its partnership interest to its related parties. Subject to the approval of all general partners and limited partners, general partner may transfer its partnership interest to non-related party; and</li> <li>(iii) if the partnership determines to remove the existing general partner and admit other person as the general partner by unanimous consent, then the existing general partner shall transfer all partnership interest it holds to the newly admitted general partner at a price to be determined by an independent third party acceptable to general partner and the transferee.</li> </ul>	
Transfer of limited partners' interests	Without the consent of general partner, no limited partner may transfer any interest it holds in the partnership (including the rights to capital contribution and receipt of distributions).	
Investment committee	<p>The general partner shall establish an investment committee composed of three members, two of which are designated by the general partner and one of which is designated by the limited partners jointly. The investment committee shall be responsible for providing approval for any sale of the equity interests in CMGE Mobile Tech held by Changpei Shanghai.</p> <p>Unless otherwise provided in the partnership agreements, resolutions of the investment committee shall be passed by the votes of at least two-thirds of the investment committee members acting in person or by proxy, with each member having one vote.</p>	<p>The general partner shall establish an investment committee composed of three members, two of which are designated by the general partner and one of which is designated by the limited partners jointly. The investment committee shall be responsible for providing approval for the following matters:</p> <ul style="list-style-type: none"> <li>(1) any sale of the shares in the Company held by Changpei Cayman; and</li> <li>(2) any other matters required to be submitted for approval by the investment committee pursuant to the partnership agreements.</li> </ul> <p>Unless otherwise provided in the partnership agreements, resolutions of the investment committee shall be passed by the votes of at least two-thirds of the investment committee members acting in person or by proxy, with each member having one vote.</p> <p>Resolutions of the investment committee may also be passed without a meeting or prior notice, by consent in writing signed by at least two-thirds of the members of the investment committee.</p>

### *3.2 Offshore holding structure of Beijing Orient L.P.*

Zhike L.P. is a limited partnership established in the Cayman Islands on April 26, 2018. The general partner of Zhike L.P. is Hontai Zhike Cayman Limited (“**Hontai Zhike**”), which is a company incorporated in the Cayman Islands. The limited partner of Zhike L.P. is Orient Zhike (HK) Limited (“**Orient HK**”), which is a company incorporated in Hong Kong. Both Hontai Zhike and Orient HK are wholly-owned by Orient Zhike Limited (“**Orient BVI**”), which is in turn wholly-owned by Beijing Orient L.P. Beijing Orient L.P. is controlled by its executive general partner ultimately controlled by Mr. Ma. One of the non-executive general partners and one of the limited partners of Beijing Orient L.P. are ultimately controlled by Orient Securities.

### *3.3 Offshore holding structure of Shanghai Pegasus*

Pegasus HK is wholly-owned by Pegasus BVI, which is in turn wholly-owned by Pegasus Technology. Pegasus Technology is owned as to 99.6% by Shanghai Pegasus (a company ultimately controlled by Zhongrong Trust) and 0.4% by an independent third party. Under the SFO, Zhongrong Trust, Shanghai Pegasus, Pegasus Technology and Pegasus BVI are deemed to be interested in the Shares held by Pegasus HK.

### *3.4 Offshore holding structure of Yichong Investment*

Yichong HK is wholly-owned by Yichong BVI, which is in turn wholly-owned by Jichong Shanghai. Jichong Shanghai is owned as to 99.6% by Yichong Investment (a company ultimately controlled by Zhongrong Trust) and 0.4% by an independent third party. Under the SFO, Zhongrong Trust, Jichong Shanghai, Yichong Investment and Yichong BVI are deemed to be interested in the Shares held by Yichong HK.

### *3.5 Offshore holding structure of Zhongshouyou Brothers PRC*

Zhongshouyou Brothers BVI is a limited company incorporated in BVI on January 2, 2018. As of the date of its incorporation, Zhongshouyou Brothers BVI issued one share to Mr. Xiao with an agreement that 36% of the economic interest and disposition power in respect of this one share would be retained for Mr. Sin until the transfer of this one share to Mr. Sin or his designated entity at his request. On April 17, 2018, Zhongshouyou Brothers BVI incorporated Magic Power Global Investment Limited (“**Magic Power**”), a limited company incorporated in the BVI.

At the request of Mr. Sin, on April 19, 2018 and May 28, 2018, Magic Power allotted and issued shares to Zhangshou Brothers BVI, a BVI company wholly-owned by Mr. Xiao, and Silver Joyce, a BVI company wholly-owned by Mr. Sin at par. Upon which, Magic Power was owned as to 64% by Zhongshouyou Brothers BVI and 36% by Silver Joyce.

### ***3.6 Incorporation of Ridgeview Well***

Ridgeview Well Investment Limited (“**Ridgeview Well**”) is a company incorporated in the BVI with limited liability on March 15, 2018. After a series of transfers and allotments and immediately before our investment in Angel Fund (for further details, see “– Disposals, Acquisitions and Investments – Investment in Angel Fund” in this section) and the Pre-IPO investments, Ridgeview Well was owned as to (i) 44.67% by Fairview Ridge, representing 53,599,680 shares; (ii) 22.33% by Zhike L.P., representing 26,801,280 shares; (iii) 18.90% by Pegasus HK, representing 22,677,120 shares; (iv) 9.20% by Magic Power, representing 11,036,040 shares; and (v) 4.90% by Yichong HK, representing 5,885,880 shares.

Ridgeview Well was incorporated for the sole purpose of facilitating our Reorganization by temporarily holding all the issued shares of our Company for a limited period of time.

### ***3.7 Incorporation of our Company and Rocket Parade***

On March 20, 2018, our Company was incorporated as the holding company of our Group. Upon its incorporation, the authorized share capital of our Company was US\$50,000 divided into 500,000,000 Shares with a par value of US\$0.0001 each. On the date of incorporation on March 20, 2018, one Share was allotted and issued at par, credited as fully paid, to the initial subscriber, who is an independent third party, and such Share was transferred at par to Ridgeview Well on the same date.

On March 21, 2018, our Company incorporated Rocket Parade, a company incorporated in the BVI with limited liability.

### ***3.8 Establishment of CMGE Group HK and Shengyue Software***

On October 23, 2017, CMGE Group incorporated CMGE Group HK as its wholly-owned subsidiary. On the date of incorporation, one Share was allotted and issued at par, credited as fully paid to CMGE Group.

On March 5, 2018, CMGE Group HK established a wholly foreign owned enterprise, namely Shengyue Software (Shenzhen) Co., Ltd. (盛悦软件(深圳)有限公司) (“**Shengyue Software**”), in the PRC with a registered capital of HK\$15 million.

On March 29, 2018, CMGE Group transferred all of its issued shares in CMGE Group HK to Rocket Parade, a wholly-owned subsidiary of our Company, at par. Upon completion, our Company owned all the issued shares of Rocket Parade, which in turn owned all the issued shares of CMGE Group HK, and in turn owned all the registered capital of Shengyue Software.



### 4. Injecting our Business Operation into our Offshore Holding Structure

#### *4.1 Acquisition of a 99% equity interest in Shenzhen Shengli Huyu by Tianhu Software*

On April 9, 2018, Tianhu Software, an indirectly wholly-owned subsidiary of CMGE Group at the material time and a wholly foreign owned enterprise, acquired a 99% equity interest in Shenzhen Shengli Huyu from Shenzhen Lanyue for a consideration of RMB14,850,000. This consideration was arrived at after arm's length negotiations between the parties taking into account the registered capital of Shenzhen Shengli Huyu, which has been fully settled as of the Latest Practicable Date.

#### *4.2 Entering into the Old Contractual Arrangements*

In order to comply with the PRC laws and regulations, on April 9, 2018, Tianhu Software entered into a series of contractual arrangements with the PRC Operating Entities and Shenzhen Lanyue (the “**Old Contractual Arrangements**”), the effect of which was for CMGE Group, the then ultimate owner of Tianhu Software, to gain an effective control over the PRC Operating Entities at the material time.

#### *4.3 Entering into the Trust Arrangement*

On April 13, 2018, Ridgeview Well, as trustee, and CMGE Group, as beneficiary, entered into a declaration of trust pursuant to which Ridgeview Well agreed to hold all the issued shares in our Company on trust and as a nominee for CMGE Group (the “**Trust Arrangement**”). As a result of the Trust Arrangement, CMGE Group became the beneficial owner of the issued share of our Company at the material time. Accordingly, our Company, CMGE Group BVI and CMGE International BVI were under the common control of CMGE Group.

#### *4.4 Transferring the entire issued shares of CMGE Group BVI and CMGE International BVI to Rocket Parade*

On May 28, 2018, Rocket Parade acquired all the issued shares in CMGE Group BVI and CMGE International BVI, respectively, from CMGE Group at par value of the sale shares. Upon completion, CMGE Group BVI and CMGE International BVI became the wholly-owned subsidiaries of Rocket Parade.

#### *4.5 Terminating the Old Contractual Arrangement and entering into the New Contractual Arrangements*

On May 30, 2018, Tianhu Software, the PRC Operating Entities and Shenzhen Lanyue entered into an agreement to terminate the Old Contractual Arrangements.

On the same day, Shengyue Software entered into contractual arrangements with the PRC Operating Entities and Shenzhen Lanyue (the “**New Contractual Arrangements**”), the effect of which was for our Company to gain an effective control over the PRC Operating Entities and enable us to enjoy the economic benefit and consolidate financial results of the PRC Operating Entities into our Group. For further details, see “Contractual Arrangements” in this prospectus.

### **5. Other Reorganization Steps**

#### ***5.1 Allotment of shares for our Pre-IPO RSU Schemes***

On May 31, 2018, Ridgeview Well allotted 13,915,781 shares, representing 10% of the total issued shares at the material time, to JW Holdings, an exempted limited company incorporated in the Cayman Islands on February 4, 2016 for a cash consideration of US\$139,157. JW Holdings is an independent third party trustee holding such shares on trust for the purpose of our Pre-IPO RSU Schemes. For further details, see “Statutory and General Information – E. Share Incentive Schemes – 1. Pre-IPO RSU Schemes” in Appendix IV to this prospectus.

#### ***5.2 Acquisition of a 1% equity interest in Shenzhen Shengli Huyu from Mr. Sin***

Prior to this acquisition, Shenzhen Shengli Huyu was a sino-foreign enterprise owned as to 99% by Tianhu Software and 1% by Mr. Sin. On June 22, 2018, Tianhu Software acquired 1% equity interest in Shenzhen Shengli Huyu from Mr. Sin for a consideration of RMB150,000. This consideration was arrived at after arm’s length negotiations between the parties taking into account the registered capital of Shenzhen Shengli Huyu. Upon completion, Shenzhen Shengli Huyu became a wholly-owned subsidiary of Tianhu Software.

#### ***5.3 Terminating the Trust Arrangement***

On August 22, 2018, Ridgeview Well and CMGE Group entered into a deed to terminate the Trust Arrangement, thereby CMGE Group ceased to be the beneficial owner of our Company.

#### ***5.4 The restoration of direct holding of Mr. Xiao and Mr. Sin***

On August 22, 2018, Magic Power made a pro rata distribution to its shareholders in specie of all of the ordinary shares of Ridgeview Well that Magic Power owned. Immediately after this distribution, Ridgeview Well was owned as to 5.10% by Zhongshouyou Brothers BVI, a company wholly-owned by Mr. Xiao, and 2.90% by Silver Joyce, a company wholly-owned by Mr. Sin.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### *5.5 Flipping down to the Cayman Islands level and renewal of the Management Autonomy*

On August 28, 2018, the shareholdings of the then shareholders of Ridgeview Well, including the Pre-IPO Investors, were flipped down to our Company as a Cayman Islands holding vehicle by way of a distribution of specie by Ridgeview Well (which was holding one share in our Company at the time), pursuant to which we issued and allotted 139,157,814 of our ordinary Shares to Ridgeview Well and Ridgeview Well made a pro rata distribution to its shareholders all of our ordinary Shares that Ridgeview Well owned as follows:

<u>Shareholders</u>	<u>Number of Shares</u>	<u>Percentage to total</u>
Fairview Ridge	53,599,680	38.52%
Zhike L.P.	26,801,280	19.26%
Pegasus HK	22,677,120	16.30%
Yichong HK	5,885,880	4.23%
Zhongshouyou Brothers BVI	7,063,066	5.08%
Silver Joyce	3,972,974	2.86%
JW Holdings	13,915,781	10.00%
Angel Partners	1,270,963	0.91%
Big Achieve	1,985,535	1.43%
Shengqu Technology	1,985,535	1.43%
<b>Total:</b>	<b>139,157,814</b>	<b>100.00%</b>

On August 28, 2018, to extend and replicate the Management Autonomy granted to the Co-Founders with regard to the management of CMGE Mobile Tech, each of Changpei Cayman, Fairview Ridge, Beijing Orient L.P., Zhike L.P., Shanghai Pegasus, Pegasus HK, Yichong HK, Yichong Investment, Zhongshouyou Brothers BVI, Silver Joyce, Mr. Xiao and Mr. Sin entered into a shareholder's agreement pursuant to which they confirmed that the Co-Founders had been granted the Management Autonomy with regard to our Company and its subsidiaries since the incorporation of the Company.

### *5.6 Establishment of the Xiao Family Trust*

On July 9, 2019, Mr. Xiao, as settlor, and CMB Wing Lung (Trustee) Limited, as trustee, entered into a deed of settlement for the establishment of the Xiao Family Trust, a discretionary trust established by Mr. Xiao (as settlor) for the benefit of Mr. Xiao and his spouse. On July 24, 2019, Mr. Xiao transferred all his shares in Zhongshouyou Brothers BVI, by way of gift, to Victory Aspire, a company wholly-owned by Antopex Limited, the nominee for CMB Wing Lung (Trustee) Limited. Victory Aspire holds the shares in Zhongshouyou Brothers BVI on trust for the Xiao Family Trust.

### *5.7 Share transfer of JW Holdings*

On September 26, 2019, JW Holdings transferred 11,071,163 Shares to C&T Services at a consideration of US\$110,711 for the purpose of the Pre-IPO RSU Schemes.

### DISPOSALS, ACQUISITIONS AND INVESTMENTS

#### Disposal of Zhuoyue Chenxing and QLWX Software

In May 2015, we entered into an agreement to transfer 51% of the equity interests in Beijing Zhuoyue Chenxing Technology Co., Ltd (“**Zhuoyue Chenxing**”) (which held two subsidiaries, namely Tianjin Zhuoyue Chenxing Co., Limited and HK Zhuoyue Chenxing Co., Limited at the time) to Tianjin Zhuoyue Mobile Technology Limited, which was 90% indirectly owned by Mr. Ying Shuling. This transaction, which was structured with a profit guarantee made by Tianjin Zhuoyue, was in substance a strategic restructuring of Zhuoyue Chenxing with an aim to transfer the operation and other contractual rights of two of CMGE Group’s games, namely *National Gunfight* (全民槍戰) and *Dance Group* (炫舞團) (the “**Designated Games**”) to Zhuoyue Chenxing. Subsequently, the parties agreed to restructure the arrangement in relation to the Designated Games and aborted the above transaction. Accordingly, the operation and other contractual rights of the Designated Games were transferred to Qi Le Wu Xian Software Development Co., Ltd (“**QLWX Software**”) and a separate agreement was entered into in January 2016 (and amended in May 2016), pursuant to which we transferred 100% equity interests in QLWX Software to Hero Entertainment, a company quoted on the NEEQ with Mr. Ying as its *de facto* controller. The consideration for this transfer was RMB494.5 million, of which, RMB94.5 million was settled in cash and RMB400 million was settled through issuing 48,780,480 new shares of Hero Entertainment, which represented approximately 3.40% of Hero Entertainment’s shareholding at the time. In January 2016, we disposed of Zhuoyue Chenxing (together with its two subsidiaries) to an independent third party for a consideration of RMB35.5 million in preparation for the Contemplated Acquisition. We disposed of the Designated Games because the Designated Games are “e-Sport (電競)” games, which were not our focus at that time. We considered the consideration offered was reasonable and would allow us to achieve an immediate return on investment. Subsequently, in 2017 and the first half of 2018, we sold 36,112,000 and 3,208,000 shares in Hero Entertainment on the NEEQ, respectively, and recorded investment gains of RMB124.9 million and RMB2.3 million, respectively, which reflected an increase in value from the amount that we are deemed to have purchased them for and the amount we received for their disposition.

#### Acquiring a 51% equity interest in Beijing Softstar

Our Company, Taiwan Softstar, Softstar International Inc. (“**Softstar International**”) and Beijing Softstar entered into a share subscription agreement on April 25, 2018 and three supplemental agreements dated May 28, 2018, January 30, 2019 and April 30, 2019, respectively, pursuant to which our Company agreed to make a capital contribution of RMB213 million in Beijing Softstar on or before October 31, 2019, among which, RMB8.6 million will be used to increase the registered capital of Beijing Softstar. Based on this agreement, upon completion, the registered capital of Beijing Softstar increased from RMB8.3 million to RMB16.9 million, and Beijing Softstar was owned as to 51% by our Company. The remaining 49% equity interest in Beijing Softstar was owned by Softstar International. As advised by our PRC Legal Adviser, such share subscription agreement has been legally and validly executed and the administrative procedure of the relevant corporate registration has been completed. The

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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consideration for this subscription was determined based on arms' length negotiation among the parties and the valuation and prospect of the underlying business of Beijing Softstar. Our Company procured its subsidiary, Shenzhen Zhongshouyou (as an onshore entity), to pay a deposit of RMB213 million to Beijing Softstar, which deposit had been paid as of the Latest Practicable Date. The parties further agreed that, if our Company (as an offshore entity) is not able to settle the relevant capital contribution under the agreements by October 31, 2019, Beijing Softstar is entitled to use the deposits held by Beijing Softstar (i.e. RMB213 million in total) to settle the relevant capital contribution payable by our Company. Beijing Softstar was a joint venture of our Company upon completion of the acquisition in May 2018, and became a subsidiary of our Company in August 2018 as a result of a change in its articles of association which gave our Group control over Beijing Softstar.

Beijing Softstar, together with its wholly-owned subsidiary, Softstar Technology (Shanghai) Co., Ltd (軟星科技(上海)有限公司) (“**Shanghai Softstar**”), are game development companies which have developed and launched successful mobile game. Our Directors believe acquiring 51% equity interests in Beijing Softstar will enable our Company to gain access to the popular IPs owned by Beijing Softstar and Shanghai Softstar as well as their leading game development capability, which in turn create synergy with our mobile game publishing business.

### **Acquiring all of the equity interests in Wenmai Hudong**

Pursuant to an equity transfer agreement dated May 31, 2018 and a supplemental agreement dated March 7, 2019, our indirect wholly-owned subsidiary, Shenzhen Shengli Huyu, agreed to acquire all equity interests in Wenmai Hudong from two independent third parties, namely, an individual and Ningbo Qiku Investment Co., Ltd. (寧波七酷投資有限公司), which is a wholly-owned subsidiary of Shiji Huatong for a total consideration of RMB800 million by installments with a price adjustment mechanism with reference to the profits achieved by Wenmai Hudong. This consideration was determined based on arms' length negotiations among the parties with reference to (i) market comparables of Wenmai Hudong; and (ii) the profit guarantees provided by the vendors. We paid RMB299.9 million as of the Latest Practicable Date and intend to use our self-generated working capital or bank borrowing to settle the remaining consideration. As advised by our PRC Legal Adviser, such equity transfers have been legally and validly executed and are pending completion of the relevant corporate registration, which does not affect the effectiveness of the transfers.

Wenmai Hudong, together with its wholly-owned subsidiary, Horgos Zhongsheng Huyu Entertainment Technology Co., Limited (霍爾果斯鐘聲互娛科技有限公司), are game development companies which have developed and launched successful mobile game. Our Directors believe acquiring all of the equity interests in Wenmai Hudong creates synergy with our mobile game publishing business.

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### Investment in Angel Fund

On May 29, 2018, our Company entered into a share swap agreement with Angel Partners, pursuant to which Ridgeview Well, the then sole shareholder of our Company at the time of the agreement, issued a total of 1,270,963 shares to Angel Partners. In exchange, Angel Partners transferred 13,000 shares, representing 26.0% of the total issued shares, of Angel Fund to Rocket Parade, a wholly-owned subsidiary of our Company. To the best knowledge of our Directors, Angel Partners and its ultimate beneficial owner are independent third parties of our Company. The following table sets out the key particulars of this share swap:

Date of completion	:	May 29, 2018
Information on Angel Fund	:	Immediately prior to the completion of the share swap on May 29, 2018: (i) Angel Fund was an investment holding company which was owned as to 51% by Angel Partners and 49% by Future Kemy Limited (“ <b>Future Kemy</b> ”), an independent third party of our Company, and; (ii) Angel Fund held 9,740,562 shares, representing 20.368% of the total issued shares, of Taiwan Softstar, which is a company listed on the Taiwan Stock Exchange (TAIPEI: 6111) and is principally engaged in game development and owns numerous famous IPs in Taiwan. Angel Fund was the single largest shareholder of Taiwan Softstar as of the Latest Practicable Date.
Cost per share paid by Angel Partners	:	Approximately RMB6.37 per share (equivalent to approximately HK\$7.06) and taking into account the Capitalization Issue and the Global Offering and without taking into account any exercise of the Over-allotment Option and the options which may be granted under the Post-IPO Share Option Scheme, representing a premium of approximately 181.3% to an Offer Price of HK\$2.51 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)
Basis for consideration	:	Based on arms’ length negotiation between the parties after taking into account the value of the shares held by Angel Fund in Taiwan Softstar

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Indirect shareholdings held by Angel Partners in our Company immediately before the Global Offering	:	0.91%
Shareholdings held by Angel Partners in our Company immediately after the Capitalization Issue and the Global Offering without taking into account any exercise of the Over- allotment Option	:	0.73%
Lock-up	:	Shares held by Angel Partners are not subject to any lock-up undertaking
Public float	:	Angel Partners is wholly-owned by Mr. Tu Chun Kuang who is the chairman of Taiwan Softstar. Each of Angel Partners and Mr. Tu is an independent third party of our Company. As Angel Partners is not a core connected person of our Company pursuant to Chapter 1 of the Listing Rules, and its acquisition was not financed directly or indirectly by the core connected persons of our Company, the Shares held by Angel Partners will be counted towards our public float after the Listing
Special rights	:	Angel Partners is not entitled to any special rights with regard to Ridgeview Well or our Company

### ***Conditional acquisitions of the remaining 25% and 49% of the issued shares of Angel Fund***

On June 11, 2018, our Company entered into a share purchase agreement with Angel Partners, which was supplemented by an agreement dated June 8, 2019 pursuant to which Rocket Parade will acquire the remaining 25% of the issued shares of Angel Fund from Angel Partners, subject to the satisfaction of certain conditions precedent including, among others, (i) Angel Partners obtaining all regulatory and shareholder approvals in Taiwan in respect of the change in control of Angel Fund and Taiwan Softstar; and (ii) our Company obtaining approval from our Shareholders, if necessary, pursuant to the Listing Rules, in respect of the acquisition. Our Company paid a deposit of RMB50 million to Angel Partners, which has been fully paid in cash in June 2018, and will be fully repayable to our Company if the relevant conditions cannot be satisfied on or before December 31, 2019.



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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On September 21, 2018, our Company entered into a share purchase agreement with Future Kemy, which was supplemented by two agreements dated March 25, 2019 and June 30, 2019, respectively, pursuant to which Rocket Parade will acquire 49% of the issued shares of Angel Fund from Future Kemy for a consideration of RMB199.6064 million, subject to the satisfaction of certain conditions precedent on or before December 31, 2019, including, among others, (i) Future Kemy obtaining all regulatory and shareholder approvals in Taiwan in respect of the change in control of Angel Fund and Taiwan Softstar; and (ii) our Company obtaining approval from our Shareholders, if necessary, pursuant to the Listing Rules, in respect of the acquisition. Our Company paid a deposit of RMB50 million to Future Kemy, which has been fully paid in cash in September 2018. To the best knowledge of our Directors, Future Kemy and its ultimate beneficial owner are independent third parties of our Company.

Upon completion of the acquisitions of 25% and 49% Angel Fund's shares from Angel Partners and Future Kemy, respectively, we will acquire all issued shares of Angel Partners, and in turn interest in the shareholding held by Angel Partners in Taiwan Softstar. We have applied for a waiver from strict compliance with Rules 4.04(2) and 4.04(4) of the Listing Rules. For further details, see "Waivers from Strict Compliance with the Listing Rules" in this prospectus.

### ***Background information of Angel Fund, their contribution to our Group, and reasons for and benefits of the acquisition***

Angel Fund is an investment holding company holding 9,740,562 shares, representing 20.368% of the total issued shares, of Taiwan Softstar as of the date of the share swap agreement on May 29, 2018. Angel Fund was the single largest shareholder of Taiwan Softstar as of the Latest Practicable Date. Our Directors believe that the acquisition of 26% of the issued shares of Angel Fund from Angel Partners enables our Company to benefit from Angel Fund's investment in Taiwan Softstar and diversify our investment portfolio. Upon completing the acquisitions of the remaining 25% and 49% of the issued shares of Angel Fund from Angel Partners and Future Kemy, respectively, we will obtain all the issued shares of Angel Fund and in turn become the single largest shareholder of Taiwan Softstar and so pave the way for our Company to access to the popular IPs owned by Taiwan Softstar. Our Directors believe the IPs that we currently co-own with Taiwan Softstar, including their popular IPs such as *Legend of Sword and Fairy* (仙劍奇俠傳), *Xuan Yuan Sword* (軒轅劍), *Monopoly* (大富翁), *Stardom* (明星志願) and *Empire of Angels* (天使帝國), will in the future create new business and new business opportunities for our Company. According to the financial information published by Taiwan Softstar on the Taiwan Stock Exchange, Taiwan Softstar recorded an unaudited total asset of TWD1,608,640,000 (equivalent to approximately RMB355,509,440) as of June 30, 2019; an audited revenue of TWD855,738,000 (equivalent to approximately RMB192,541,050) for the year ended December 31, 2018; and an audited profit before tax of TWD138,562,000 (equivalent to approximately RMB31,176,450) for the year ended December 31, 2018.

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### PRE-IPO INVESTMENTS

We received two pre-IPO investments (the “**Pre-IPO Investments**”) from Shengqu Technology and Big Achieve by way of entering into a share purchase agreement with each of them, pursuant to which 1,985,535 shares of Ridgeview Well were issued to each of Shengqu Technology and Big Achieve with an anticipation that the shareholdings would be flipped down to our Company as a Cayman Islands holdings vehicle.

The following table sets out the key particulars of the Pre-IPO Investments:

		<u>Shengqu Technology</u>	<u>Big Achieve</u>
Total consideration paid <sup>(1)</sup>	:	US\$20,000,000	US\$20,000,000
Number of Ridgeview Well’s shares transferred	:	1,985,535 shares of Ridgeview Well	1,985,535 shares of Ridgeview Well
Completion date of share transfer	:	May 31, 2018	May 31, 2018
Settlement date of consideration	:	June 1, 2018	June 1, 2018
Price per Share calculated based on investment consideration	:	Approximately US\$0.78, equivalent to approximately HK\$6.12	Approximately US\$0.78, equivalent to approximately HK\$6.12
Cost per Share paid (after taking into account the effect of the Capitalization Issue and the Global Offering and without taking into account any exercise of the Over-allotment Option)	:	US\$0.78, equivalent to approximately HK\$6.12	US\$0.78, equivalent to approximately HK\$6.12
Premium to the Offer Price <sup>(2)</sup>	:	143.82%	143.82%

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	<u>Shengqu Technology</u>	<u>Big Achieve</u>
Indirect shareholding held in our Company immediately before the Global Offering	: 1.43%	1.43%
Shareholding held in our Company immediately after the Capitalization Issue and the Global Offering without taking into account any exercise of the Over-allotment Option	: 1.14%	1.14%
Use of proceeds <sup>(3)</sup>	: General working capital	General working capital

*Notes:*

- (1) This represents the total consideration paid for the relevant Shares. These considerations were arrived at after arm's length negotiations between the parties.
- (2) The premium of the price paid per Share to the Offer Price is calculated based on the assumption that the Offer Price is HK\$2.51 per Share, being the mid-point of the indicative Offer Price range of HK\$2.19 to HK\$2.83, and is adjusted by the effect of the Capitalization Issue and the Global Offering and without taking into account any exercise of the Over-allotment Option.
- (3) As of the Latest Practicable Date, the proceeds from the Pre-IPO Investments had not been fully utilized.

### No special right and no lock-up undertaking

Pursuant to the relevant share purchase agreements, Shengqu Technology and Big Achieve are not entitled to any special right (save for a redemption right which is only exercisable if the Listing does not take place and will be terminated upon the Listing), and the relevant Shares held by Shengqu Technology and Big Achieve are not subject to any lock-up undertaking.

### Public float

As each of Shengqu Technology and Big Achieve is not a core connected person of our Company pursuant to Chapter 1 of the Listing Rules, and these acquisitions were not financed directly or indirectly by the core connected persons of our Company, the Shares held by Shengqu Technology and Big Achieve will be counted towards our public float after the Listing.

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### **Background information of Shengqu Technology and Big Achieve, their contribution to our Group and the strategic benefits to our Company**

Shengqu Technology is a company incorporated in the BVI and ultimately wholly-owned by Shengyue Technology, a company established in the PRC with limited liability, which was in turn wholly-owned by Shiji Huatong as of the Latest Practicable Date. Shengqu Technology is principally engaged in the development and distribution of online games.

Big Achieve is an exempted limited partnership registered under the laws of the Cayman Islands and is a private equity fund established for the pre-IPO investment. Big Achieve is managed by its general partner, Big Achieve Cayman Limited (“**Big Achieve GP**”) which in turn is an exempted limited liability company incorporated in the Cayman Islands. The limited partners of Big Achieve are private investors. Big Achieve, its limited partners and Big Achieve GP and their ultimate beneficial owners were third parties independent of and not connected with the Group prior to the pre-IPO investment.

Our Directors are of the view that we could benefit from the additional capital provided by the Pre-IPO Investors, and their investments demonstrate their confidence in our operation and serve as an endorsement of our performance strength and prospects. The investment from Shengyue Technology, which is an established online game operator in China with popular game IP, including *The World of Legend* (傳奇世界) which is licensed to us, shows their confidence and willingness for further collaboration with us after the Listing, and potentially encourage them to provide us with advice on our business operation and development based on their industry insight.

### **Compliance with Interim Guidance and Guidance Letter**

The Joint Sponsors confirm that the Pre-IPO Investments are in compliance with the applicable requirements under Guidance Letter HKEx-GL29-12 issued in January 2012 and updated in March 2017 by the Stock Exchange and Guidance Letter HKEx-GL43-12 issued in October 2012 and updated in July 2013 and March 2017 by the Stock Exchange.

### **PRE-IPO RSU SCHEMES AND POST-IPO SHARE OPTION SCHEME**

We have granted RSUs under the Pre-IPO RSU Schemes. For further details, see “Statutory and General Information – E. Share Incentive Schemes – 1. Pre-IPO RSU Schemes” in Appendix IV to this prospectus.

We have also conditionally adopted the Post-IPO Share Option Scheme. For further details, see “Statutory and General Information – E. Share Incentive Schemes – 2. Post-IPO Share Option Scheme” in Appendix IV to this prospectus.

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### CAPITALIZATION ISSUE

Subject to the share premium account of our Company being credited by an amount of US\$166,084.22 as a result of the issue of the Offer Shares pursuant to the Global Offering, our Company will, on the Listing Date, allot and issue a total of 1,660,842,186 Shares credited as fully paid at par to the holders of Shares whose names appear on the register of members of our Company on the day preceding the Listing Date in proportion to their then existing shareholdings in our Company by capitalizing the sum of US\$166,084.22 from the share premium account of our Company. The Shares allotted and issued pursuant to the above Capitalization Issue will rank *pari passu* in all respects with the existing issued Shares.

### PRC REGULATORY REQUIREMENTS

Our PRC Legal Adviser has confirmed that all necessary approvals and permits in relation to the share transfers in respect of the PRC companies in our Group as described in this section were obtained and the administrative procedures required for effecting such transfers were carried out in accordance with PRC laws and regulations. Our PRC Legal Adviser has also confirmed that the share transfers and subscriptions in respect of our PRC subsidiaries and the PRC companies in which we held minority interests as described in this section have been properly and legally completed.

According to the Regulations for Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”) jointly issued by MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, the SAIC and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise.

The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. As advised by our PRC Legal Adviser, (i) Shengyue Software and Tianhu Software classified as foreign invested enterprises were established by incorporation instead of acquisition; (ii) Tianhu Software’s acquisition of the equity interests in Shenzhen Shengli Huyu is governed by the Several Provisions for the Change of Investors’ Equity Interests in Foreign Invested Enterprises (《外商投資企業投資者股權變更的若干規定》); (iii) our other PRC subsidiaries are either held by foreign invested enterprises under the Interim Provisions on Foreign-invested Enterprises Investing Domestic Enterprises (《關於外商投資企業境內投資的暫行規定》) or classified as domestic PRC enterprises; and (iv) no provision in the M&A Rules clearly defines contractual arrangements as a type of transaction subject to the M&A Rules. As such, the M&A Rules are not applicable and approval from the CSRC is not required for this Listing.

### SAFE REGISTRATION IN THE PRC

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 37**”), promulgated by SAFE which became effective on July 14, 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**SAFE Circular 13**”), promulgated by SAFE and became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

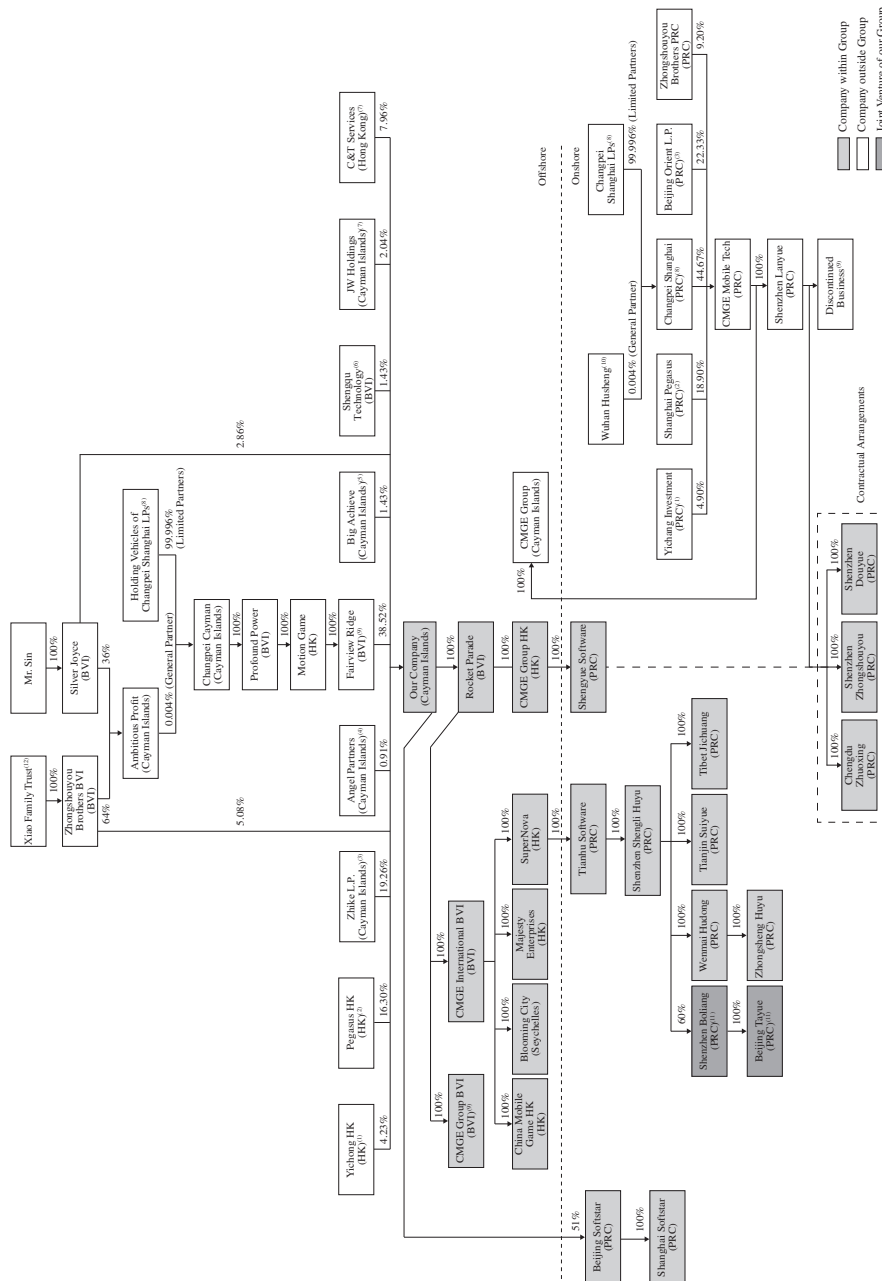
As advised by our PRC Legal Adviser, each of our indirect shareholders as of the Latest Practicable Date who was a PRC resident, namely Mr. Xiao and the Changpei Shanghai LPs, has completed the registration required by SAFE Circular 37 in February 2018.

### PUBLIC FLOAT

As each of Angel Partners, Big Achieve, Shengqu Technology and JW Holdings is not a core connected person of our Company pursuant to Chapter 1 of the Listing Rules, the Shares held by Angel Partners, Big Achieve, Shengqu Technology and JW Holdings shall be counted as part of the public float for the purposes of Rule 8.08 of the Listing Rules.

**CORPORATE STRUCTURE IMMEDIATELY BEFORE THE COMPLETION OF THE GLOBAL OFFERING**

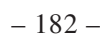
The following chart depicts the shareholding and beneficial ownership structure of our Group after, among others, the Reorganization and the Pre-IPO Investments, and immediately before the completion of Capitalization Issue and the Global Offering:



Please refer to the notes underneath the corporate and shareholding structure chart of our Group under “– Corporate Structure Immediately Following the Completion of the Global Offering” in this section.



The following chart depicts the shareholding and beneficial ownership structure of our Group immediately following the completion of the Capitalization Issue and the Global Offerings, without taking into account any Shares which may be issued upon the exercise of the Over-allotment Options and the options which may be granted under the Post-IPO Share Option Scheme:



*Notes:*

- (1) Yichong HK is wholly-owned by Yichong BVI, which is in turn wholly-owned by Jichong Shanghai, and in turn owned as to 99.6% by Yichong Investment and 0.4% by an independent third party. Yichong Investment is a limited partnership established in the PRC, the general partner of which is Dazi Dingcheng, a limited liability established in the PRC which is wholly-owned by Beijing Zhongrong Dingxin and in turn wholly-owned by Zhongrong Trust.
- (2) Pegasus HK is wholly-owned by Pegasus BVI, which is in turn wholly-owned by Pegasus Technology, and in turn owned as to 99.6% by Shanghai Pegasus and 0.4% by an independent third party. Shanghai Pegasus is a limited partnership established in the PRC, the general partner of which is Dazi Dingcheng, a limited liability established in the PRC which is wholly-owned by Beijing Zhongrong Dingxin and in turn wholly-owned by Zhongrong Trust.
- (3) Zhike L.P. is a limited partnership in Cayman Islands and is controlled by Beijing Orient L.P. which is controlled by its executive general partner ultimately controlled by Mr. Ma.
- (4) Angel Partners is an exempted company incorporated in the Cayman Islands and is wholly-owned by Mr. Tu Chun Kuang, who is the chairman of Taiwan Sofistar and an independent third party.
- (5) Big Achieve is a limited partnership in the Cayman Islands and is ultimately controlled by an independent third party.
- (6) Shengqu Technology is a company incorporated in the BVI and is wholly-owned by Shengyue Technology, an independent third party.
- (7) JW Holdings and C&T Services are the trustees of our Pre-IPO RSU Schemes which are independent third parties holding such shares on trust for the purpose of our Pre-IPO RSU Schemes.
- (8) The Changpei Shanghai LPs, namely Wang Yao (王瑤), Zheng Tao (鄭濤), Wang Lingdi (王凌迪), Zhao Liang (趙亮) and Shi Jian (施劍), hold their limited partnership interests through their respective holding vehicle in the BVI, being Glamorous Entertainment, Pleasant Ridge, Joyful Fair, Delightful Rhythm and Perfect Mighty.
- (9) Shenzhen Lanyue retained certain companies which engage in the Discontinued Operation which can be clearly delineated with the games published by our Group. For further details, see “– Reorganization – 1. Onshore Restructuring – 1.2 Exclusion of the Discontinued Operation” in this section.
- (10) Wuhan Husheng is a company established in the PRC and is wholly-owned by Yu Jianying (於建英) and Hu Luping (胡陸平).
- (11) Shenzhen Boliang was established in June 2018 and owned as to 60% by Shenzhen Shengli Huyu and 40% by two independent third parties. As of the Latest Practicable Date, Shenzhen Boliang wholly-owned Beijing Tayue Technology Co., Limited (北京踏月科技有限公司), a limited liability company established in the PRC on August 7, 2018.
- (12) Victory Aspire is wholly-owned by Antopex Limited, the nominee for CMB Wing Lung (Trustee) Limited, the trustee of the Xiao Family Trust. The Xiao Family Trust is a discretionary trust established by Mr. Xiao (as settlor) for the benefit of Mr. Xiao and his spouse.

**OVERVIEW**

We are a leading IP-based game operator and publisher, focusing primarily on IPs relating to well-known cultural products and art works, such as icons or characters from popular animations, novels, and motion pictures, which have a significant fan base, market acceptance and commercial value. According to Analysys, amongst all Chinese independent mobile game publishers, we:

- ranked first in terms of cumulative revenue generated from publishing IP-based games from January 1, 2015 to June 30, 2019;
- ranked first in terms of the total number of published IP-based games from January 1, 2015 to June 30, 2019; and
- had the largest IP reserve that can be used to develop into IP-based games as of June 30, 2019.

We supply players around the world with mobile games based on the IPs that we license and own. We develop mobile games based upon these IPs by cooperating with third-party game developers and through our own in-house development team and then publish these games on our extensive publishing network. We also actively invest in IP owners and game developers to strengthen our mobile game ecosystem. We plan to further enhance our operation of IP brands globally by developing pan-entertainment products based on our IPs that grow in popularity and eventually develop their own dedicated fan base and subculture.

During the Track Record Period, the majority of our most popular games in terms of gross billings were IP-based games, such as *Fighter of Destiny* (擇天記), *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) and *One Piece – the Road of the Strong* (航海王強者之路), all of which generated gross billings of over RMB62 million in their first month of launch, with *Fighter of Destiny* (擇天記) and *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) achieving highest monthly gross billings of over RMB170 million and RMB200 million, respectively. Our relationships with top-grade IP owners allow us to license popular IPs, placing us in a better position as compared to our competitors. As of the Latest Practicable Date, we held licenses over 31 IPs and owned 68 proprietary IPs. As a critical part of our strategy to expand our access to IPs, we directly and indirectly invest in companies that create IPs which appeal to mobile game players and have the potential to be developed into successful IP-based mobile games. For example, we acquired a 51% equity interest in Beijing Softstar, a former subsidiary of Taiwan Softstar, and as a result we now possess five series of popular IPs, namely *Legend of Sword and Fairy* (仙劍奇俠傳), *Xuan Yuan Sword* (軒轅劍), *Monopoly* (大富翁), *Stardom* (明星志願) and *Empire of Angels* (天使帝國), comprising 68 video and PC game IPs in total. Through this acquisition we also gained the right to use all the IPs owned by Taiwan Softstar. We aim to further cooperate with Taiwan Softstar in the pan-entertainment expansion of its top Chinese IPs, explore their global value, and together build popular global IP brands.

We have a diversified, commercially successful and extensive mobile game portfolio. From the beginning of the Track Record Period and up to the Latest Practicable Date, we launched 97 mobile games. As of the Latest Practicable Date, we operated 73 games, amongst which 64 had been launched from the beginning of the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, 11 of our published games had lifecycles of over three years. During the six months ended June 30, 2019, we had an average paying user conversion rate of 7.3%, which is significantly higher than the industry average, according to Analysys. We have a strong game pipeline, and as of the Latest Practicable Date, we had identified 29 games to potentially launch by the end of 2020. To further expand our game portfolio, we strategically invest in game developers whose core team has a track record of successful game development and with whom we have a working history. As of the Latest Practicable Date, we held equity interests in 12 mobile game developing companies, which serve as an important source of our new games. We have also acquired two game developers, namely Beijing Softstar (as to 51% equity interest) and Wenmai Hudong (as to 100% equity interest), both of which have developed and launched successful IP-based mobile games.

We have industry-leading and multifaceted global publishing capabilities and one of the largest mobile game publishing networks in China, and we are capable of publishing on all major platforms in China. As of the Latest Practicable Date, we cooperated with over 400 third-party publishing channels, including application stores and third-party open platforms, application stores operated by mobile phone manufacturers, and social network platforms. Because of the high quality of our games, we are well-regarded by publishing channels. For example, in 2017, we were granted the Best Cooperation Partner Award (最佳合作夥伴獎) by Tencent, were named a Global Top 50 Publisher by Apple, and ranked the third in terms of the number of new games recommended by Apple's App Store in China.

We derive the majority of our revenue from providing game publishing services to game developers, and we share a portion of the gross billings paid by game players with other participants of our mobile game ecosystem. Third-party publishing channels collect gross billings from game players and remit a portion to us after deducting their share of the gross billings. We retain a prescribed percentage of the gross billings collected from publishing channels, and remit the remaining amounts to third-party game developers and IP owners. We acquired our own publishing platform, namely VClub (勝利俱樂部), in September 2018. For our games published on VClub (勝利俱樂部), we collect gross billings directly from payment channels. During the Track Record Period, we also generated game development and IP licensing revenues. Revenue from our continuing business for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019 was RMB1,001.2 million, RMB1,012.8 million, RMB1,596.2 million, RMB672.5 million and RMB1,529.1 million, respectively. Our net profit from our continuing business for these periods was RMB188.5 million, RMB265.0 million, RMB316.0 million, RMB162.7 million and RMB249.9 million, respectively. For further details, see "Financial Information – Consolidated Statements of Profit or Loss" in this prospectus.

**COMPETITIVE STRENGTHS****Largest Chinese Independent Mobile Game Publisher of IP-based Games with a Popular and High-quality Game Portfolio**

According to Analysys, amongst all Chinese independent mobile game publishers, during the Track Record Period, we had the highest revenue generated from publishing IP-based games on a cumulative basis and the highest number of published IP-based games. Our gross billings for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019 was RMB1.4 billion, RMB1.4 billion, RMB2.4 billion, RMB1.1 billion and RMB2.0 billion, respectively<sup>(Note)</sup>. We launched 97 mobile games from the beginning of the Track Record Period and up to the Latest Practicable Date, the majority of which have become popular hits, such as *Fighter of Destiny* (擇天記), *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) and *One Piece – the Road of the Strong* (航海王強者之路), all of which generated gross billings of over RMB62 million in their first month of launch, with *Fighter of Destiny* (擇天記) and *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) achieving highest monthly gross billings of over RMB170 million and RMB200 million, respectively. As of the Latest Practicable Date, 73 of our games remained active and 11 had lifecycles of over three years. During the six months ended June 30, 2019, we had an average paying user conversion rate of 7.3%, which is significantly higher than the industry average, according to Analysys. Our successful and extensive game portfolio ensures that our overall success is not dependent on any single game.

In addition, as of the Latest Practicable Date, we had identified 29 games in our pipeline for potential launch by the end of 2020, many of which are IP-based, including mobile application games, H5 games and mini program games such as *One Piece – The Voyage* (航海王熱血航線), *SNK Top Battle* (SNK巔峰對決), *Legend of Sword and Fairy – the Magnificence* (仙劍:九野), *Reborn!* (家庭教師), *Xuan Yuan Sword – Cang Zhi Yao* (軒轅劍 – 蒼之曜), *Hua Jiang Hu: Bei Mo Ting* (畫江湖之杯莫停), *Xuan Yuan Sword – the Origin* (軒轅劍 – 劍之源) and *Dynasty Warriors* (真•三國無雙).

We have built and are committed to maintaining strong and long-lasting licensing relationships with well-known game developers. During the Track Record Period and up to the Latest Practicable Date, among the 105 game developers that we had cooperated with, we had a contract term of at least three years with 67 of them. We also invest in game developers with a proven track record and high potential. These investments generally give us the right of first refusal for the games they develop, and have enabled us to establish strategic relationships with promising game developers to supplement our game pipeline.

Our high-quality games have earned us many awards, including recognition as one of China's Top 10 Branded Game Enterprises (中國遊戲十強獎十大品牌遊戲企業) by the Game Publishing Working Committee under The China Audio-video and Digital Publishing Association (中國音像與數字出版協會遊戲出版工作委員會) in 2018.

*Note:* Our gross billings for the periods indicated are calculated based on our total revenue adjusted by factors including our IP licensing revenue and our gross billings shared with game developers, amongst others.

### **Pioneer and Leader among IP-based Game Operators with the Largest IP Reserve amongst all Chinese Independent Mobile Game Publishers**

As of the Latest Practicable Date, we had 31 licensed IPs and 68 proprietary IPs in our reserve, covering manga, animations, internet literature and popular games. We are a pioneer in the mobile game market as we were the first mobile game operator to focus on cooperating with IP owners in fields including manga, animation, motion picture and internet literature. We generally license IPs with existing stable fan base to reduce player acquisition costs and prolong the lifecycle of the games developed based on such IPs. Our IP-focused strategy has made us a pioneer and gained us a head start in building up our IP reserve. As of the Latest Practicable Date, we had collaborative relationships with 22 IP owners, including TOEI Animation, GREE, Shanda Group, SNK Playmore, Kodansha and Skybound. In addition, for many of our licensed IPs, we have obtained the right to publish mobile games globally, and the geographic coverage of other IP licenses may be expanded depending on the domestic performance of the developed games.

We acquired a 51% equity interest in Beijing Softstar, a former subsidiary of Taiwan Softstar, and obtained the right to use all the IPs owned by Taiwan Softstar. We are in the process of acquiring a 51% equity interest in Angel Fund, the single largest shareholder of Taiwan Softstar with 20.3% shareholding. As of the Latest Practicable Date, we had already completed the purchase of a 26% equity interest in Angel Fund, and the remaining 25% will be completed upon satisfaction of certain conditions. This acquisition will enable us to easily further cooperate with Taiwan Softstar in the pan-entertainment development of its top Chinese IPs, exploit the global value of these IPs, expand cooperation in relation to motion pictures, manga and derivatives and thereby diversify our income sources, and together build a globally popular Chinese brand.

We also invest in CPC Fund as a limited partner, which invests in IP owners, IP incubating platforms and vertical platforms, thereby giving us access to high-quality IPs. As of the Latest Practicable Date, we licensed four IPs from the portfolio companies of CPC Fund, such as *Code Geass* (叛逆的魯路修).

### **Large and Multifaceted Publishing Network**

We have one of the largest publishing networks for mobile games in China, and can publish on all major platforms across China. As of the Latest Practicable Date, we cooperated with over 400 third-party publishing channels, including major domestic and overseas application stores and third-party open platforms, application stores operated by mobile phone manufacturers, and social network platforms.

We have established long-lasting relationships with application stores. We maintain close cooperation with Apple's App Store, and Apple named us a Global Top 50 Publisher in 2017. We also engage in extensive collaboration with renowned third-party open platforms, including Tencent App Store (騰訊應用寶), Qihoo 360 Mobile App Developer Center (奇虎360手機助手) and Baidu App Store (百度手機助手). In 2017, we were granted the Best Cooperation Partner



Award (最佳合作夥伴獎) by Tencent. We also publish our games on application stores operated by mobile phone manufacturers, including Xiaomi's App Store, Huawei AppGallery (華為應用市場), OPPO's App Store and vivo's App Store.

We also publish our games on social network platforms, through which we are able to reach a broader and more diverse user base, thereby maximizing our publication coverage and more effectively promote our games. In particular, commencing from 2018, we have collaborated with WeChat and Mobile QQ, China's largest social network platforms, to publish and promote our games. As of the Latest Practicable Date, we had entered into exclusive licensing agreements with Tencent for three of our games, namely *Fighter of Destiny* (擇天記), *Candleman* (蠟燭人) and *The National Gunlord – The Frontier* (全民槍神：邊境王者), and we had entered into exclusive licensing agreements with Today's Headlines (今日頭條) for two of our games, namely *SNK Top Battle* (SNK 巔峰對決) and *One Piece: The Voyage* (航海王熱血航線). We plan to extend such arrangement to additional games in the future. Through these collaborations with Tencent and Today's Headlines (今日頭條), we are able to promote our games to their huge user base.

#### **State-of-the-art Game Development Capabilities and Industry-leading Game Development Talents**

As a result of our acquisition of Wenmai Hudong and a 51% equity interest in Beijing Softstar, we now possess industry-leading game development capabilities. Beijing Softstar, along with its wholly-owned subsidiary, developed popular PC games such as the *Legend of Sword and Fairy* (仙劍奇俠傳) series, the *Monopoly* (大富翁) series and *Legend of Sword and Fairy Lodge* (仙劍客棧), and the mobile game *Legend of Sword and Fairy – Fantasy Mirror* (仙劍奇俠傳 – 幻璃鏡). Wenmai Hudong developed several popular MMORPGs, including *The Blood Legend* (血飲傳說), *War Song* (熱血戰歌) and *Dragon Buster* (屠龍戰記).

As part of our game development plans, Beijing Softstar will develop PC and mobile games, including *Monopoly 10* (大富翁10), *Legend of Sword and Fairy 7* (仙劍奇俠傳7), *Legend of Sword and Fairy – the Magnificence* (仙劍奇俠傳:九野) and *Xuan Yuan Sword – Cang Zhi Yao* (軒轅劍 – 蒼之曜), whilst Wenmai Hudong will further develop more competitive MMORPGs including the *World of Legend* (傳奇世界), *Zork* (魔域) and *Dragon Raja* (龍族).

As a result of our acquisitions, we now have three industry-leading talents working for us, including Mr. Yao Chuang-Hsien (姚壯憲), the producer of *Legend of Sword and Fairy I* (仙劍奇俠傳1) and the *Monopoly* (大富翁) series, Mr. Chang Hsiao-Chuan (張孝全), the producer of *Legend of Sword and Fairy III* (仙劍奇俠傳3), *Legend of Sword and Fairy III Extended* (仙劍奇俠傳3外傳), *Legend of Sword and Fairy IV* (仙劍奇俠傳4) and *Legend of Sword and Fairy – Fantasy Mirror* (仙劍奇俠傳 – 幻璃鏡), and Mr. Fan Yingjie (樊英傑), the producer of *The Blood Legend* (血飲傳說), *War Song* (熱血戰歌) and *Dragon Buster* (屠龍戰記). We believe these talents will greatly facilitate our in-house development of games based on popular IPs.



### **Visionary and Experienced Management Team**

We have a visionary and experienced management team that successfully leads our operations.

Our chairman and chief executive officer, Mr. Xiao, is a reputable figure in China's mobile game industry with over ten years of industry experience and abundant experience in corporate management, strategic planning and execution. Our vice chairman, Mr. Sin, has over 15 years of experience in corporate management, finance and investment banking, and possesses deep insights into the mobile game industry. Mr. Xiao and Mr. Sin have worked together since 2009.

Our Board and senior management team bring together a complementary mix of diverse backgrounds, with our senior management team having an average of approximately seven years of experience in the mobile game industry. Our Board and senior management team have also led us to successfully invest in companies along China's mobile game industry value chain to realize strategic synergies for our publishing business. For further details on our investments, see “– Our Investments” in this section. For the qualifications and experience of our Directors and senior management team, see “Directors and Senior Management” in this prospectus.

We believe that our management team's industry experience and vision have led us to our industry-leading position. In the future, our management team will continue to lead us in capturing market opportunities and ensuring our rapid and sustainable growth. Our management team will also continue to be player-oriented, and foster a corporate culture of bold innovation supported by disciplined data analysis.

### **BUSINESS STRATEGIES**

We aspire to continue focusing primarily on the mobile game market and remain IP-focused. We aim to enhance our collaborative relationships with IP owners through in-house development and licensed publishing, and to invest in IP owners and game developers to strengthen our mobile game ecosystem founded on IPs. We intend to implement the following strategies to enhance our market competitiveness.

#### **Further Our Cooperation with Other Market Participants**

We aim to further our cooperation with other market participants including IP owners, game developers and publishing channels.

#### ***IP Owners***

We will continue strengthening our collaborative relationship with existing IP partners to continue converting their IPs into games. Our successful cooperation with existing IP partners has contributed positively to our commercial image and set an exemplary precedent for our cooperation with other IP owners. We will continue cultivating both well-established IPs and new promising IPs from animations, literature, video and PC games and motion pictures, amongst others. We aim to enhance our IP reserve and market advantages through obtaining both global and regional licenses.

### ***Game Developers***

We will further strengthen our relationship with existing game developers by licensing multiple games from them. We are also actively exploring collaboration opportunities with new game developers. We may continue investing in game developers with track records of success and high potential, which will further provide us with a steady source of quality games. In addition to developers of mobile application games, we have also begun to invest in developers of H5 games and mini program games to enable us to collaborate with more game developers and license a greater variety of mobile games, thereby making us competitive in more segments of the mobile game market.

We aim to establish collaborative relationships with more promising innovative game developers, thereby further supplementing our game pipeline. For certain popular and innovative games, we may work with the game developer and external graphic designers to convert such games into IPs, and develop pan-entertainment products based on these IPs, thereby diversifying our income sources.

### ***Publishing Channels***

We intend to strengthen and exploit our publishing advantages and further strengthen our cooperation with existing publishing partners. We also seek to collaborate with new publishing channels with large user bases to better promote our games. We plan to cooperate with vertical platforms to deliver more targeted promotion and marketing of our games.

In addition, we will strengthen our close collaborative relationships with China's largest mobile game publishing channels such as Tencent. We intend to continue publishing our games on their publishing platforms, purchasing user traffic from their social network platforms and granting them exclusive licenses over our games.

### **Explore International Business Opportunities and Continue to Enhance the Scale of Our Global Business**

We are one of the first Chinese mobile game publishers to explore overseas markets. During the Track Record Period, seven of our games, including *Uri: The Sprout of Lotus Creek* (Uri: 蓮花溪之苗), *Candleman* (蠟燭人), *Adventures in Dreamland* (夢旅人) and *3DTD: Chicka Invasion* (攻堡雞兵), were recommended on the front page of Apple's App Store globally. Our games *New Legend of Sword and Fairy* (新仙劍奇俠傳), *Xuan Yuan Sword III Mobile* (軒轅劍三手遊版) and *Immortal Spell* (長生訣) had been published in Singapore, Malaysia and other overseas countries and regions, and achieved outstanding performance.

We will further explore overseas markets such as the United States, South Korea and Southeast Asia, taking into consideration factors such as the nature of our IPs, and the graphics and gameplay methods of our games, thereby expanding our overseas business and making it an important source of our revenue and profit.

**Diversify Our Income Sources by Developing Pan-entertainment Products Based on Our Proprietary IPs**

We will cooperate with Taiwan Softstar to develop pan-entertainment products based on our proprietary IPs including *Legend of Sword and Fairy* (仙劍奇俠傳), *Xuan Yuan Sword* (軒轅劍), *Monopoly* (大富翁), *Stardom* (明星志願) and *Empire of Angels* (天使帝國). We intend to work with industry-leading companies in fields including motion picture, manga, animation, novel, derivatives and music, amongst others, through licensing, co-production and co-development arrangements, thereby diversifying our income sources. For example, as of the Latest Practicable Date, we had entered into manufacturing contracts in relation to various pan-entertainment products based on our IP *Legend of Sword and Fairy* (仙劍奇俠傳), including postcards, soft toys, figurines and key rings, amongst others. During the Track Record Period, we also licensed our IPs to third parties for the development and operation of TV series. For example, we entered into an IP licensing agreement with Tencent, pursuant to which we granted a five-year exclusive license over our IP *Legend of Sword and Fairy III* (仙劍奇俠傳III) to Tencent for the development and operation of a TV series. In addition, in March 2019, we entered into an IP cooperation agreement with Shenzhen Overseas Chinese Town Cultural Tourism Technology Co., Ltd. (深圳華僑城文化旅遊科技股份有限公司) (“**Overseas Chinese Town**”), pursuant to which we licensed one of our proprietary IPs, namely *Legend of Sword and Fairy VI.0* (仙劍奇俠傳VI.0), to Overseas Chinese Town for their offline application in industries including hotels and theme parks, amongst others, in return for a prescribed percentage of the revenue generated. We will also work with Taiwan Softstar in exploring overseas market, and together build popular global brands.

**Enhance Our Monetization and Operational Capabilities**

We will continue focusing on publishing IP-based games to enhance our IP-focused mobile game ecosystem. We aim to expand our player base through attracting the fan base of classical IPs by developing games that closely reflect the original IPs. We will also identify IPs from popular manga and Chinese comics to develop such IPs into games, thereby further expanding our player base. Furthermore, we will promote and publish more innovative games on various vertical platforms to acquire more targeted user traffic. Based on our deep understanding of IPs that we gained from cooperating with IP owners, and our involvement in the game development process, we will further exploit IPs to extend the lifecycle of our games and increase the number of our paying users to generate higher revenue.

We will explore games in other formats and genres, including H5 games, mini program games such as *Monopoly* (大富翁), *The National Gunlord* (全民槍神) and *3D Race Car* (3D極品賽車), female-oriented games such as *SNH48 Love Story* (戀愛48天) and *MakeS*, and nijigen (二次元) games such as *VGAME*, *Kamihime Project* (幻想神姬) and *The Ultimate Nijigen* (突破二次元), thereby reaching a broader and more diverse player base, and achieving more effective monetization and higher revenue. From the beginning of the Track Record Period and up to the Latest Practicable Date, we have published nine H5 games, including *New Legend of Sword and Fairy H5* (新仙劍奇俠傳H5) and *The Story of the Flying Mortal H5* (凡人飛仙傳H5), with *The Story of the Flying Mortal H5* (凡人飛仙傳H5) achieving first-month gross billings of over RMB25 million.

We will continue to improve our technical service and player service, and provide valuable technical support tailored to the specific needs of game developers. We will continue to implement our long-term strategies to improve our service quality by analyzing data collected, and to improve player loyalty by enhancing the quality of our games based on our understanding of player preference. We will also improve our data collection system and big data platform to better analyze player behavior and achieve more effective monetization of our games. We will also enhance our game development capabilities through investing more in research and development.

### OUR BUSINESS MODEL

We operate in a mobile game ecosystem founded on popular IPs, which forms the basis of our business model. Within this ecosystem, we work closely with our business partners, including IP owners, game developers and publishing channels to offer a wide range of games to our game players. We both license IPs from their owners and possess proprietary IPs. We develop mobile games based upon these IPs by cooperating with third-party game developers and through our own in-house development team. We also license games directly from third-party game developers. Prior to the launch of our games, we cooperate with game developers to optimize the games through beta testing, and conduct sales and marketing activities to promote the games. Our games are published and made available to players on publishing channels, which provide us with player feedback and player in-game behavior data. After launching our games, we continue cooperating with game developers to operate our games and provide player services and technical support. Our central role in this ecosystem allows us to take advantage of our diverse operational capabilities, and ensures that we are able to supply mobile games to our players while also maximizing our gross billings and revenue. The diagram below illustrates the mobile game ecosystem in which we operate.



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## BUSINESS

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As an IP-based game operator, we distinguish ourselves from other mobile game publishers in the following manners:

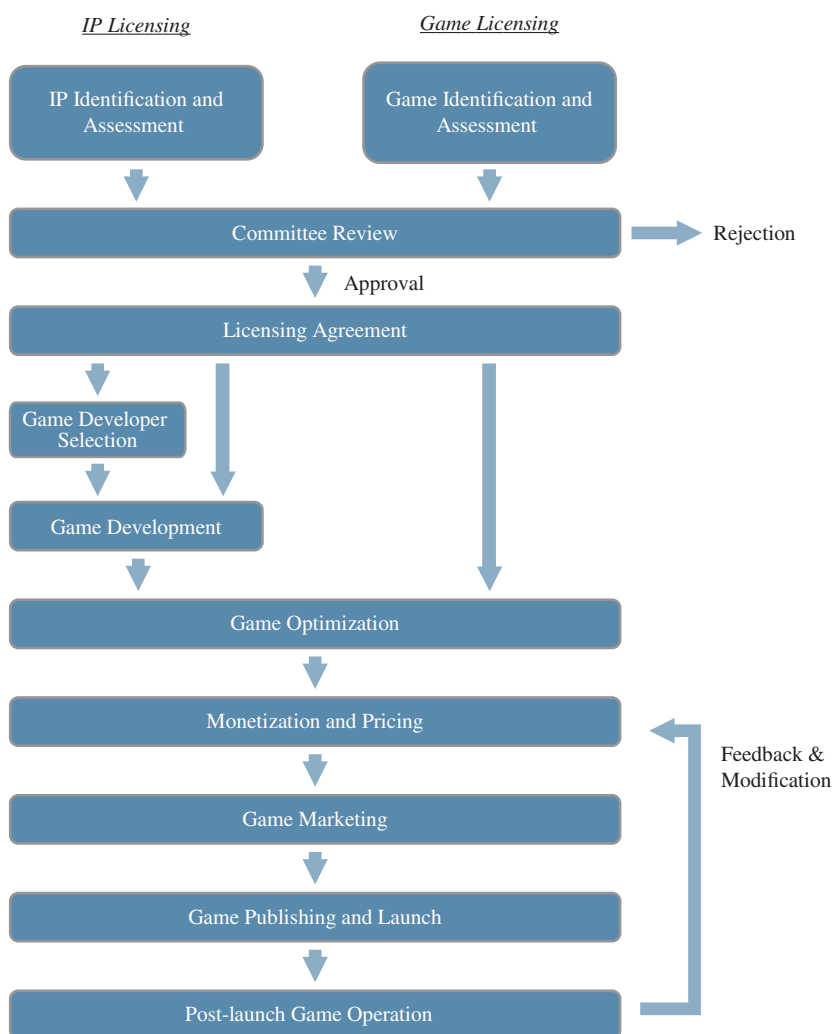
1. as of the Latest Practicable Date, IP-based games constituted the majority of our game portfolio, and according to Analysys, amongst all Chinese independent mobile game publishers, we ranked first in terms of the total number of published IP-based games from January 1, 2015 to June 30, 2019;
2. during the Track Record Period, the majority of our revenue was generated from IP-based games, and according to Analysys, amongst all Chinese independent mobile game publishers, we ranked first in terms of cumulative revenue generated from publishing IP-based games from January 1, 2015 to June 30, 2019;
3. as of the Latest Practicable Date, we had a vast IP reserve comprising 31 licensed IPs and 68 proprietary IPs, and according to Analysys, amongst all Chinese independent mobile game publishers, we had the largest IP reserve as of June 30, 2019;
4. the IPs that we license are those relating to well-known cultural products and art works that have an extensive and engaging fan base, including *One Piece* (航海王), *Dragon Ball Z* (龍珠Z) and *Naruto* (火影忍者), all of which are popular IPs with large global fan base; and
5. it is our strategy to publish more IP-based games and to further enhance our operation of IP brands globally by developing pan-entertainment products based on our IPs that grow in popularity and eventually develop their own dedicated fan base and subculture.

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We primarily source our games from two channels, namely IP licensing, where we license IPs from their owners and engage third-party game developers to develop them into games, and game licensing, where we license developed games from third-party game developers. IP owners license their IPs to us because of our proven track record in developing and operating successful mobile games based on popular IPs, while third-party game developers engage us because of our sound understanding, relationships and capabilities across the mobile game ecosystem, particularly in the PRC. We offer one-stop solutions to game developers, including game optimization, monetization and pricing, marketing, publishing and post-launch game operation services. Our large and diverse IP reserve enable game developers to develop games that will appeal to the existing fan base of the IP, making the player acquisition process more efficient and effective. Leveraging our extensive market experience, deep insight in market trends and player preferences, paired with our strong data analysis capabilities, we are well-positioned to assist game developers with game optimization and monetization methods and strategies. Our large publishing network of over 400 third-party publishing channels facilitate more effective marketing and publishing of our games. Our experience in game operation enables us to provide high-quality post-launch game operating services, including player services and technical support. The diagram below illustrates our business model.



## BUSINESS

### Game Sourcing

We source our games primarily through IP licensing and game licensing. The following table sets forth a breakdown of our revenue and gross billings generated by games developed with or without IP during the Track Record Period.

	Year ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	Revenue	Gross billings <sup>(Note)</sup>	Revenue	Gross billings <sup>(Note)</sup>	Revenue	Gross billings <sup>(Note)</sup>	Revenue	Gross billings <sup>(Note)</sup>	Revenue	Gross billings <sup>(Note)</sup>
(in RMB thousands)						(Unaudited)				
IP-based games										
– our licensed/										
proprietary IP	518,609	786,537	447,057	629,723	490,215	1,005,107	321,647	625,370	996,797	1,289,528
– IP held by										
game										
developer	270,276	372,855	220,573	320,366	141,092	234,184	37,764	40,774	21,291	50,677
Non-IP based										
games	212,278	278,076	345,161	438,101	964,897	1,153,237	313,097	408,811	511,030	641,861
<b>Total</b>	<b>1,001,163</b>	<b>1,437,468</b>	<b>1,012,791</b>	<b>1,388,190</b>	<b>1,596,204</b>	<b>2,392,528</b>	<b>672,508</b>	<b>1,074,955</b>	<b>1,529,118</b>	<b>1,982,066</b>

*Note:* Our gross billings for the periods indicated are calculated based on our total revenue adjusted by factors including our IP licensing revenue and our gross billings shared with game developers, amongst others.

### IP Licensing and Ownership

#### Our IPs

We license IPs relating to well-known cultural products and art works that have an extensive and engaging fan base. We enter into arrangements with the owner of the IP that give us the right to develop, publish and operate mobile games based upon the IP within certain geographical markets. We then engage third-party game developers to develop our licensed IPs into mobile games targeting game players who constitute the fan base of the IPs. We believe that when we base our games on popular IPs, we are able to leverage the existing influence of these IPs and introduce new game players who are fans of the IPs, thus making our player acquisition process more cost effective, and increasing the likelihood that these games will be commercially successful.



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### Existing IP Reserve

As of the Latest Practicable Date, we held license over 31 IPs from their owners, from which we have the right to develop mobile games. The table below sets out certain information on our important licensed IPs that we planned to develop or had developed into games as of the Latest Practicable Date.

IP	Owner	Highlights	License Terms <sup>(Note 1)</sup>	License Territory	Game(s) Published/ in the Pipeline	Launch Status as of the Latest Practicable Date	Revenue			Six months ended June 30, 2019
							Year ended December 31,			
							2016	2017	2018	
(in RMB thousands)										
<i>One Piece</i> (航海王)	TOEI ANIMATION CO., LTD. (東映動畫株式會社), a celebrated Japanese animation producer	<ul style="list-style-type: none"><li>Top Japanese manga IP with large global fan base</li><li>Adapted into an original video animation</li><li>Set a Guinness World Record for “the most copies published for the same comic book series by a single author”</li></ul>	<ul style="list-style-type: none"><li>License for three years, renewable upon agreement between both parties</li><li><i>One Piece – the Road of the Strong</i> (航海王強者之路): Expiring in June 2021</li><li><i>One Piece: The Voyage</i> (航海王熱血航線): expiring in January 2021</li></ul>	China	<i>One Piece – the Road of the Strong</i> (航海王強者之路)  <i>One Piece: The Voyage</i> (航海王熱血航線)	Launched in January 2016  In the development stage, to be launched in 2020	292,399	190,569	201,040	72,208
							N/A	N/A	N/A	N/A
<i>Dragon Ball Z</i> (龍珠Z)	TOEI ANIMATION CO., LTD. (東映動畫株式會社), a celebrated Japanese animation producer	<ul style="list-style-type: none"><li>Top Japanese manga IP with large global fan base</li><li>Adapted into an original video animation</li></ul>	<ul style="list-style-type: none"><li>License for three years, renewable upon agreement between both parties</li><li>Expiring in June 2021</li></ul>	China	<i>Dragon Ball – Awakening</i> (龍珠覺醒)	Launched in February 2019	N/A	N/A	2,074 <sup>(Note 2)</sup>	91,375
<i>Fighter of Destiny</i> (擇天記)	Wuxi Man Huang Internet Technology Limited (無錫蠻荒網絡科技有限公司), a celebrated game developer and a subsidiary of Shiji Huatong	<ul style="list-style-type: none"><li>Popular fantasy-based internet novel IP</li><li>Adapted into a popular TV series</li></ul>	<ul style="list-style-type: none"><li>License for three years with automatic renewal for one year unless otherwise notified by either party</li><li>Expiring in September 2020</li></ul>	China	<i>Fighter of Destiny</i> (擇天記)	Launched in January 2018	N/A	N/A	49,608	4,771
<i>Naruto</i> (火影忍者)	GREE, Inc., an established social media in Japan	<ul style="list-style-type: none"><li>Top Japanese manga IP with large global fan base</li><li>Adapted into an original video animation</li></ul>	<ul style="list-style-type: none"><li>License for over two years</li><li>Expiring in September 2020</li></ul>	China	<i>Naruto – Ninja Master</i> (火影忍者 – 忍者大師)	Launched in April 2016	67,364	63,243	63,476	37,690
<i>SNK All Stars</i> (SNK全明星)	SNK Playmore H.K. Co., Limited, a celebrated Japanese game company	IP in relation to all characters in popular games including <i>King of Fighters</i> , <i>Samurai Shodown</i> , <i>Fatal Fury: King of Fighters</i> , <i>The Last Blade</i> and <i>Metal Slug</i>	<ul style="list-style-type: none"><li>License for over three years, renewable upon agreement between both parties</li><li>Expiring in March 2022</li></ul>	China, Hong Kong, Macau and Taiwan	<i>SNK All Stars</i> (SNK全明星)  <i>SNK Top Battle</i> (SNK巔峰對決)	In the development stage, to be launched in 2020  In the development stage, to be launched in November 2019	N/A	N/A	N/A	129 <sup>(Note 2)</sup>
							N/A	N/A	N/A	N/A
<i>Reborn!</i> (家庭教師)	D-rights Inc., a world-renowned animation publisher	<ul style="list-style-type: none"><li>Top Japanese manga IP with large global fan base</li><li>Adapted into an original video animation and several console games</li></ul>	<ul style="list-style-type: none"><li>License for three years</li><li>Expiring in December 2019</li></ul>	China, Hong Kong, Macau and Taiwan	<i>Reborn!</i> (家庭教師)	In the beta testing stage, to be launched in October 2019	N/A	N/A	N/A	33 <sup>(Note 2)</sup>
<i>Fairy Tail</i> (妖精的尾巴)	Kodansha Company, Limited (講談社株式會社), one of Japan’s major animation publishers	Top Japanese manga IP with large global fan base	<ul style="list-style-type: none"><li>License for over three years</li><li>Expiring in December 2019</li></ul>	China, Hong Kong, Macau and Taiwan	<i>Fairy Tail – the Strongest Guild</i> (妖精的尾巴 – 最強公會)	Launched in November 2017	N/A	53,883	38,893	1,697
<i>Chat Group of Truth Chasers</i> (修真聊天群)	Shanghai Xuantang Entertainment Information Technology Co., Ltd. (上海玄燐娛樂信息科技有限公司), an incubator of internet literature-based IPs	Popular novel IP	<ul style="list-style-type: none"><li>License for five years</li><li>Expiring in November 2023</li></ul>	Global	<i>Chat Group of Truth Chasers</i> (修真聊天群)	In the development stage, to be launched in 2020	N/A	N/A	N/A	N/A

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IP	Owner	Highlights	License Terms <sup>(Note 1)</sup>	License Territory	Game(s) Published/ in the Pipeline	Launch Status as of the Latest Practicable Date	Revenue			Six months ended June 30, 2019
							Year ended December 31,			
							2016	2017	2018	
(in RMB thousands)										
<i>Hua Jiang Hu: Bei Mo Ting</i> (畫江湖之杯莫停)	Beijing Rocen Digital Technology Co., Ltd. (北京若森數字科技有限公司), a digital entertainment company focusing on original IPs	Leading 3D animation IP in China	<ul style="list-style-type: none"><li>License for two years</li><li>Expiring in two years after official game launch</li></ul>	Global	<i>Hua Jiang Hu: Bei Mo Ting</i> (畫江湖之杯莫停)	In the beta testing stage, to be launched in October 2019	N/A	N/A	N/A	N/A
<i>Jue Zhan Sha Cheng</i> (決戰沙城)	Lansha Information Technology (Shanghai) Co., Ltd. (藍沙信息技術(上海)有限公司), an online game developer and operator	<ul style="list-style-type: none"><li>IP derived from the popular fantasy game <i>The Legend of Mir</i></li><li>Adapted into several client games, web games and mobile games</li></ul>	<ul style="list-style-type: none"><li>License for three years with automatic renewal for one year</li><li>Expiring in September 2020</li></ul>	China	<i>Jue Zhan Sha Cheng</i> (決戰沙城)  <i>Jue Zhan Sha Cheng Zhi Tu Long</i> (決戰沙城之屠龍) <sup>(Note 3)</sup>	Launched in September 2014  Launched in September 2016	34,602  12,200	18,715  136,040	1,587  15,336	535  962
<i>Flying Sword</i> (飛劍問道)	Huoerguosi Changfeng Qishi Internet Technology Co., Ltd. (霍爾果斯長風騎士網絡科技有限公司), an operator of internet literature-based IPs	Popular fantasy-based internet novel IP	<ul style="list-style-type: none"><li>License for five years</li><li>Expiring in December 2022</li></ul>	Global	<i>Flying Sword</i> (飛劍問道)	In the identification stage, to be launched in 2020	N/A	N/A	N/A	N/A
<i>Code Geass</i> (叛逆的魯路修)	Shanghai Tongshi Internet Technology Co., Ltd. (上海童石網絡科技股份有限公司), a mobile internet animation operator	Popular Japanese animation IP	<ul style="list-style-type: none"><li>License for seven years, renewable upon agreement between both parties</li><li>Expiring in October 2024</li></ul>	China, Hong Kong, Macau, Taiwan, Singapore and Malaysia	<i>Code Geass</i> (叛逆的魯路修)	In the identification stage, to be launched in 2020	N/A	N/A	N/A	N/A
<i>Dragon Raja</i> (龍族)	Minumin Co. Ltd, a Korean company engaged in game operation and overseas game licensing	Popular Korean fantasy novel IP	<ul style="list-style-type: none"><li>License for over three years</li><li>Expiring in March 2021</li></ul>	China, Hong Kong, Macau and Taiwan	N/A	N/A	N/A	N/A	N/A	N/A
<i>Zork</i> (魔域)	Fujian Tianqing Interactive Entertainment Co., Ltd. (福建省天晴互動娛樂有限公司), a game developer, operator and licensor	IP from a popular PC game	<ul style="list-style-type: none"><li>License for over three years</li><li>Expiring in 38 months after official launch</li></ul>	China	<i>Zork Reborn</i> (魔域重生)	In the beta testing stage, to be launched in November 2019	N/A	N/A	N/A	N/A
<i>The Four – The Grand Battles</i> (四大名捕大對決)	Hangzhou Huanwen Technology Co., Ltd. (杭州幻文科技有限公司), a leading digital publisher in China	<ul style="list-style-type: none"><li>IP based on popular wuxia novels</li><li>Adapted into several films and TV series</li></ul>	<ul style="list-style-type: none"><li>License for over six years, with automatic renewal for one year</li><li>Expiring in December 2020</li></ul>	Asia	N/A	N/A	N/A	N/A	N/A	N/A
<i>The World of Legend</i> (傳奇世界)	Shengqu Information Technology (Shanghai) Co., Ltd. (盛趣信息技術(上海)有限公司), an established online game operator in China	Popular game IP	<ul style="list-style-type: none"><li>License for over three years</li><li>Expiring in August 2020</li></ul>	China	<i>The World of Legend – Thunder Empire</i> (傳奇世界之雷霆霸業)	Launched in October 2018	N/A	N/A	83,237	771,765
<i>Dynasty Warriors</i> (真・三國無雙)	Huoerguosi Tianxi Huyu Internet Technology Co., Ltd. (霍爾果斯天戲互娛網絡科技有限公司), a game developer and operator	Popular game IP	<ul style="list-style-type: none"><li>License for over two years, renewable upon agreement between both parties</li><li>Expiring in December 2020</li></ul>	Global	<i>Dynasty Warriors</i> (真・三國無雙)	In the development stage, to be launched in 2020	N/A	N/A	N/A	N/A
<i>Soul Land</i> (斗羅大陸)	Shanghai Xuantiang Entertainment Information Technology Co., Ltd. (上海玄霆娛樂信息科技有限公司), a Chinese internet literature operator	Popular novel IP	<ul style="list-style-type: none"><li>License for three years</li><li>Expiring in August 2021</li></ul>	China	<i>Soul Land</i> (斗羅大陸)	In the development stage, to be launched in 2020	N/A	N/A	N/A	N/A

## Notes:

- Unless otherwise specified, no renewal options are included in the relevant IP licensing agreement. Unless otherwise specified, the relevant IP licensing agreement grants us non-exclusive rights to develop games only.
- Revenue generated from paid beta testing.
- Game developed based on IP held by game developer.

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In addition to our licensed IPs listed above, as a result of our acquisition of a 51% equity interest in Beijing Softstar, we currently own five series of well-established IPs comprising 68 video and PC game IPs in total. The following table sets forth certain information of our major proprietary IPs.

IP series	Highlights	Some of the game(s) published/in the pipeline	Launch Status as of the Latest Practicable Date	Revenue			
				Year ended December 31,			Six months ended June 30,
				2016	2017	2018	2019
(in RMB thousands)							
<i>Legend of Sword and Fairy</i> (仙劍奇俠傳)	• Popular game IP	<i>New Legend of Sword and Fairy</i> (新仙劍奇俠傳)	Launched in April 2015	123,969	54,762	24,905	11,838
	• Adapted into TV series, internet drama, TV shows, novels, manga and animation, amongst others	<i>Legend of Sword and Fairy Lodge II</i> (仙劍客棧2)	In the development stage, to be launched in 2020	N/A	N/A	N/A	N/A
		<i>New Legend of Sword and Fairy H5</i> (新仙劍奇俠傳H5)	Launched in September 2017	N/A	150	6,173	234
		<i>Legend of Sword and Fairy – the Magnificence</i> (仙劍:九野)	In the beta testing stage, to be launched in November 2019	N/A	N/A	N/A	N/A
		<i>Legend of Sword and Fairy 7</i> (仙劍奇俠傳7)	In the beta testing stage, to be launched in November 2019	N/A	N/A	N/A	N/A
<i>Xuan Yuan Sword</i> (軒轅劍)	• Popular game IP	<i>Xuan Yuan Sword – the Origin</i> (軒轅劍 – 劍之源)	In the development stage, to be launched in 2020	N/A	N/A	N/A	N/A
	• Adapted into several TV series	<i>Xuan Yuan Sword III Mobile</i> (軒轅劍三手遊版)	Launched in March 2017	275 <sup>(Note)</sup>	65,735	19,222	4,338
		<i>Xuan Yuan Sword – Cang Zhi Yao</i> (軒轅劍 – 蒼之曜)	In the beta testing stage, to be launched in November 2019	N/A	N/A	N/A	N/A
<i>Monopoly</i> (大富翁)	Popular game IP	<i>Monopoly 10</i> (大富翁10)	In the development stage, to be launched in 2020	N/A	N/A	N/A	N/A
		<i>Monopoly H5</i> (大富翁H5)	In the beta testing stage, to be launched in November 2019	N/A	N/A	N/A	N/A
<i>Stardom</i> (明星志願)	• Popular game IP	N/A	N/A	N/A	N/A	N/A	N/A
	• Adapted into an internet drama						
<i>Empire of Angels</i> (天使帝國)	• Popular game IP	N/A	N/A	N/A	N/A	N/A	N/A
	• Adapted into mobile games and manga series						

*Note:* Revenue generated from paid beta testing.

### *Our IP Licensing Process*

Our IP department is responsible for identifying IPs that we desire to license based on our expectations of future market trends. In selecting the IP to be licensed, we take into consideration factors including its popularity in China, the suitability of its storyline for game development and the commercial terms offered by its owner. Our IP licensing process is similar to our game licensing process, which involves our copyright centre identifying and assessing IPs that we consider licensing, and our chief executive officer and vice chairman making the final decision. For further details, see “– Our Business Model – Game Sourcing – Game Licensing” in this section.

Once suitable IPs are identified, we negotiate and enter into licensing agreements with IP owners. The following is a summary of the key terms of our IP licensing agreements.

- *Exclusivity.* The majority of our IP licensing agreements grant us the non-exclusive right to develop and publish mobile games in specified geographical markets.
- *Term and renewal.* Our IP licensing agreements generally have a term of three to five years, renewable for one to two years upon approval of the IP owner. During the Track Record Period, we were able to renew the relevant IP licensing agreements under the same or similar terms and conditions for each of the agreements we chose to do so. From the Latest Practicable Date and up to December 31, 2020, we will have 12 IP licensing agreement subject to renewal, which we may elect to renew taking into consideration the performance of our games. We are confident that we will be able to successfully renew all of the 12 IP licenses should we choose to do so.
- *Scope.* Under our IP licensing agreements, we are generally authorized to develop games for both iOS and Android systems based on the IPs.
- *Payment and gross billing sharing.* Some of our IP licensing agreements provide for our payment to the IP owner of both a pre-determined royalty and a certain percentage of the gross billings generated from any game that we publish under the IP licensing agreement, which generally ranges from 5% to 9%. In addition, upon signing of our IP licensing agreements, we pay to some IP owners a prescribed amount of minimum guarantee, whereby we only share our gross billings with the IP owner had the amount of gross billings of our game to be shared exceeded the amount of the minimum guarantee.

Upon receiving the right to exploit the IP, we work with experienced game developers to develop mobile games based upon the IP. Our game developer selection process for our IPs is similar to our game licensing process, with the final decision being made by our chief executive officer and vice chairman. For further details, see “– Our Business Model – Game Sourcing – Game Licensing” in this section.

Once we have identified a suitable game developer, we enter into a game development agreement with it. The following is a summary of the key terms of the game development agreements that we enter into with game developers for our IPs.

- *Ownership.* Our game development agreements generally stipulate that the games developed based on our IPs are co-owned between us and the game developer.
- *Term and renewal.* Our game development agreements generally have a term of three to five years, renewable upon agreement between both parties. During the Track Record Period, we were generally able to renew the relevant game development agreements under the same or similar terms and conditions if we chose to do so. From the Latest Practicable Date and up to December 31, 2020, we will have ten game development agreements subject to renewal. We are confident that we will be able to successfully renew the ten game development agreements should we choose to do so.
- *Game operations.* Our game development agreements authorize us to publish and carry out marketing activities in relation to the developed games. We are also responsible for the collection of player data, the provision of game servers and the monthly settlements to game developers, amongst others. Under the game development agreements, game developers are responsible for, among other things, the development, update and improvement of the game, pricing and delivery of the in-game virtual items, and ongoing technology maintenance.
- *Payment and gross billing sharing.* Under the game development agreements, game developers typically receive between 14% and 25% of the gross billings of the game.

We closely supervise the game development process to make sure that the game accurately reflects the storyline of the IP.

### ***Game Licensing***

We work closely with third-party game developers, substantially all of whom are based in China. We license from these developers the right to publish the game in an agreed-upon geographic area.

Our game licensing process involves a number of departments, including our products department, publishing department, IP department, decision-making committee which consists of our chief executive officer and vice chairman, and operations and management center.

Our products department is responsible for identifying and assessing mobile games that we will consider publishing. Within the products department, we have a team of strategy analysts and game assessors who are responsible for comparing and analyzing games available in the market, predicting future market trends and player preferences, and liaising with successful game developers to assess the games they have recently developed and their future game development plans.

We follow a set of standardized procedures in selecting the games to be licensed. We visit the game developer to understand its development capabilities, past game development experience, and the development of games in which we are interested. Afterwards, we undergo a thorough decision-making process into whether to license the game, which takes into account a number of factors, including:

- the game developer's previous track record;
- the originality of the game concept;
- market trends and player preferences;
- the quality of the game execution; and
- the game developer's proposed contractual terms, including gross billing sharing arrangement and exclusivity.

If we decide to license the game, we then begin negotiations with the game developer to finalize the contractual terms.

Our game licensing agreements with game developers are entered into on a game-by-game basis. As of the Latest Practicable Date, we had entered into effective game licensing agreements with 80 game developers. The following is a summary of the key terms of our game licensing agreements.

- *Exclusivity.* Our game licensing agreements generally grant us the exclusive right to publish games in specified geographical markets. As of the Latest Practicable Date, over half of our game licensing agreements granted us global licenses.
- *Term and renewal.* Our game licensing agreements generally have a term of three to five years, some with automatic renewal under certain circumstances, such as when the average monthly gross billings of the game during a certain period reaches a specified amount. During the Track Record Period, we were generally able to renew the relevant game licensing agreements under the same or similar terms and conditions if we chose to do so. From the Latest Practicable Date and up to December 31, 2020, we will have 26 game licensing agreements subject to renewal. We are confident that we will be able to successfully renew the 26 game licenses should we choose to do so.
- *Game operations.* Our game licensing agreements authorize us to publish and carry out marketing activities in relation to the licensed games. We are also responsible for the testing of game servers, the provision of player services, and the monthly settlements to game developers, amongst others. Under the game licensing agreements, game developers are responsible for, among other things, the development, update and improvement of the game, pricing and delivery of in-game virtual items, and ongoing technology maintenance.

- *Payment and gross billing sharing.* Under the game licensing agreements, game developers typically receive between 14% to 25% of the gross billings of the game. Some game licensing agreements also provide for royalty payments. In addition, some of our game licensing agreements also provide for our payment of a minimum guarantee, whereby we only share our gross billings with the game developer had the amount of gross billings of our game to be shared exceeded the amount of the minimum guarantee.
- *Termination.* Either party may terminate the game licensing agreement if the other party breaches any provision of the agreement and fails to remedy the breach within 30 days. In addition, either party may also terminate the game licensing agreement if the other party is or will be bankrupt, or enter into liquidation or other similar events that will affect its business. During the Track Record Period and up to the Latest Practicable Date, there was no material breach of our game licensing agreements that had resulted in any contractual termination or otherwise had a material adverse effect on our business.

We have developed close relationships with many successful game developers by strategically investing in them, which generally give us a right of first refusal to publish the games they develop. As of the Latest Practicable Date, we had invested in 12 game developers. For further details, see “– Our Investments” in this section.

Moreover, we launched our Fantastic Games (拿手好戲) program in January 2017, whereby we provide publishing service with more favorable gross billing sharing arrangements to innovative developers of games that we consider to have high monetization potential. Our arrangements with innovative game developers are similar to those with third-party game developers, barring the percentage of gross billing sharing, under which innovative game developers generally receive 30% to 70% of the gross billings. From January 2017 and up to the Latest Practicable Date, we licensed 23 games from innovative game developers that we identified from our Fantastic Games (拿手好戲) program.

### **Our Games**

We operate an extensive portfolio of profitable mobile games, which includes both IP-based and non IP-based games. The majority of our games are mid-core to hardcore games such as MMORPGs and CCGs, and therefore have higher ARPPU, higher paying user conversion rate and longer lifecycle compared to other genres of games. We devote our publishing efforts to social games, which are games that leverage interactions among large numbers of players using various mobile devices. Our social games promote interaction between players, who can leverage their existing social networks and create new virtual communities on our platform. While playing our games, players can compare their progress to those of their peers, share requests, send and receive virtual gifts, and converse with each other. These features enhance the socially engaging, viral and sticky nature of our games, which allows us to attract large numbers of players without increasing our direct marketing expenses. For further details, see “Industry Overview – China’s Mobile Game Market – Genres of China’s Mobile Games” in this prospectus.



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Our games incorporate many sophisticated technological features to enhance players' gaming experience, including:



- multiple levels of strengths and weaknesses across game characters with each character able to gain diverse experiences and unique virtual items;
- a virtual world that continuously evolves, even while the player is not playing the game;
- an engaging storyline and a player upgrade system that encourage players to achieve higher in-game attributes as they complete tasks, accrue experience or purchase virtual items; and
- an instant messaging system that allows players to communicate extensively with each other or form alliances to achieve objectives together.

We offer mobile games of a wide variety of genres, including CCG, RPG, MMORPG, SLG and indie games to meet the preference of various types of players. For further details, see “Glossary of Technical Terms” in this prospectus.









Most of our games are in mobile application form and free to download, and players can play with basic functions for free. We believe that our freemium model attracts a wider audience of players and increases the number of potential paying users. We generate revenue from the provision of game publishing services in exchange for a portion of gross billings paid by game players to purchase in-game virtual currency. For further details, see “– Our Business Model – Monetization and Pricing” in this section.

### *Existing Game Portfolio*

From the beginning of the Track Record Period and up to the Latest Practicable Date, we launched 97 mobile games, amongst which 64 were available for download on application stores and publishing platforms as of the Latest Practicable Date. Our game portfolio consisted of 23, 34, 63 and 66 games as of December 31, 2016, 2017 and 2018, and June 30, 2019, respectively. The table below sets forth details of the games that we deem most important as of the Latest Practicable Date:

Icon	Title	Genre	Official Launch Date	Source <sup>(Note)</sup>	Lifecycle Stage as of the Latest Practicable Date
	<i>New Legend of Sword and Fairy</i> (新仙劍奇俠傳)	CCG	April 2015	IP	Late Stage
	<i>One Piece – the Road of the Strong</i> (航海王強者之路)	CCG	January 2016	IP	Stable Stage

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Icon	Title	Genre	Official Launch Date	Source <sup>(Note)</sup>	Lifecycle Stage as of the Latest Practicable Date
	<i>Naruto – Ninja Master</i> (火影忍者-忍者大師)	CCG	April 2016	IP	Stable Stage
	<i>Dragon Ball – Awakening</i> (龍珠覺醒)	CCG	February 2019	IP	Stable Stage
	<i>Fighter of Destiny</i> (擇天記)	MMORPG	January 2018	IP	Late Stage
	<i>Candleman</i> (蠟燭人)	Indie Game	April 2018	Licensed	Late Stage
	<i>The Land of the Dawn</i> (曙光之境)	MMORPG	February 2018	Licensed	Stable Stage
	<i>The Story of the Flying Mortal</i> (凡人飛仙傳)	H5 ARPG	May 2018	Licensed	Stable Stage
	<i>The World of Legend – Thunder Empire</i> (傳奇世界之雷霆霸業)	MMORPG	October 2018	In-house development	Stable Stage
	<i>War Song – the Creation</i> (熱血戰歌之創世)	Web MMORPG	June 2019	In-house development	Growth Stage

*Note:* Licensed refers to games licensed from third-party game developers. IP refers to games developed by third-party game developers based on our licensed IPs.

Mobile games generally have three stages in their lifecycle, namely (1) growth stage, during which the number of players engaged and revenue generated increases significantly, (2) stable stage, during which the number of players engaged and revenue generated plateaus, and (3) late stage, during which the number of players engaged and revenue generated decreases. As of the Latest Practicable Date, the majority of our most popular games were in the stable stage. We seek to prolong the growth and stable stages of the lifecycle of our games by launching frequent updates with new features, levels and characters, offering in-game

discounts for virtual items, giving players in-game rewards, and better engaging players by maintaining frequent communication, such as organizing player events, amongst others, to enhance player experience, thereby increasing player retention rate and revenue generation. During the Track Record Period, the lifecycle of our games ranged from one to four years, which is longer than the average lifecycle of mobile games available in the market, which was six to twelve months according to Analysys, having calculated it based on market data collected since 2012 and up to the Latest Practicable Date. According to Analysys, our games have longer lifecycles primarily because they tend to be IP-based mid-core to hardcore games. Our ability to extend the lifecycle of our existing games enables us to continue growing despite the changing regulatory environment. For further details, see “Risk Factors – Risks Related to Our Business – The laws and regulations regulating mobile games in China continue to evolve and change, which may make it difficult for us to obtain or maintain all applicable permits and approvals” in this prospectus.

From the beginning of the Track Record Period and up to the Latest Practicable Date, we also published nine H5 games, including *New Legend of Sword and Fairy H5* (新仙劍奇俠傳 H5) and *The Story of the Flying Mortal H5* (凡人飛仙傳 H5), seven of which were active as of the Latest Practicable Date. According to Analysys, H5 games will soon achieve rapid popularization in China. For further details and the difference between mobile application games and H5 and mini program games, see “Industry Overview – Game Categories and Industry Participants – Game Categories” in this prospectus. As such, we began expanding our H5 game portfolio in the second half of 2018. For games in our pipeline, see “– Our Business Model – Our Games – Our Game Pipeline ” in this section.

Descriptions of some of our most popular games are set forth below:

*Fighter of Destiny* (擇天記)



*Fighter of Destiny* (擇天記) is a 3D MMORPG based on fantasy and mythic storylines adapted from our licensed IP of the novel of the same name. Players may choose from four roles, namely warrior, mage, assassin and attacker, and may purchase virtual currency to pay for around 1,000 in-game virtual items. *Fighter of Destiny* (擇天記) is published exclusively on Tencent and available for download in China on iOS and Android.

We hold the exclusive license for the development, publication and operation of *Fighter of Destiny* (擇天記) in the form of mobile game, which has a term expiring in September 2020. In the first week of launch, *Fighter of Destiny* (擇天記) achieved average daily gross billings of approximately RMB9 million. On its launch in January 2018, *Fighter of Destiny* (擇天記) ranked Top 10 in the Top Grossing Game List of Apple’s App Store.

*One Piece – the Road of the Strong* (航海王強者之路)



*One Piece – the Road of the Strong* (航海王強者之路) is a CCG adapted from our licensed IP of the Japanese manga series *One Piece* (航海王). Through collecting and evolving their game characters, players form their own pirate gangs, and solidify their gangs by going on adventures and battling with others. In this game, players may choose from five categories of cards, namely shield cards, attack cards, heal cards, control cards, and technique cards, and may purchase virtual currency to pay for game cards and over 300 virtual items. *One Piece – the Road of the Strong* (航海王強者之路) is available for download in China on iOS and Android.

We hold the license for the development, publication and operation of *One Piece – the Road of the Strong* (航海王強者之路) in the form of mobile game, which has a term expiring in June 2021. *One Piece – the Road of the Strong* (航海王強者之路) achieved gross billings of more than RMB60 million in its first month of launch. On its launch in January 2016, *One Piece – the Road of the Strong* (航海王強者之路) ranked Top 2 in the Free Game Category on Apple's App Store, and Top 14 in the Top Grossing List of Apple's App Store in April 2016.

*The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業)



*The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) is an MMORPG, in which players may engage in various combats and treasure hunts to develop their game characters. Players may purchase virtual currency to pay for 70 in-game virtual items to improve the combat skills of their game characters and enhance their playing experience. *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) is available for download in China on Android.

*The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) was developed in-house by our subsidiary Wenmai Hudong. Officially launched in October 2018, *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) achieved highest monthly gross billings of RMB200 million.

*Dragon Ball – Awakening* (龍珠覺醒)



*Dragon Ball – Awakening* (龍珠覺醒) is a CCG based on our licensed IP of the same-named Japanese manga. There are two categories of cards available in the game, namely close-combat cards and remote-combat cards. Players may purchase virtual currency to pay for over 200 in-game virtual items. *Dragon Ball – Awakening* (龍珠覺醒) is available for download in China on iOS and Android.

We hold the exclusive license for the development, publication and operation of *Dragon Ball – Awakening* (龍珠覺醒) in the form of mobile game, which has a term expiring in June 2021. *Dragon Ball – Awakening* (龍珠覺醒) ranked first in the Top Free Games List of Apple's App Store on the first day of its launch on February 26, 2019, and became a recommended game of the week on Apple's App Store in the first week of its launch.

*Naruto – Ninja Master* (火影忍者-忍者大師)



*Naruto – Ninja Master* (火影忍者-忍者大師) is a CCG based on our IP granted by GREE (日本聚逸株式會社) of the Japanese manga series *Naruto* (火影忍者). There are four categories of cards available in the game, namely Konoha cards, Akatsuki cards, flock cards and fashion cards. Players may purchase virtual currency to pay for approximately 300 virtual items and game cards. *Naruto – Ninja Master* (火影忍者-忍者大師) is available for download in China on iOS and Android.

We hold the exclusive license for the development, publication and operation of *Naruto – Ninja Master* (火影忍者-忍者大師) in the form of mobile game, which has a term expiring in September 2020. In April 2016, *Naruto – Ninja Master* (火影忍者-忍者大師) ranked Top 19 in the Top Grossing Game List of Apple's App Store. In March 2016, *Naruto – Ninja Master* (火影忍者-忍者大師) ranked first in the Top Paid List of Apple's App Store.

## BUSINESS

### *Our Game Pipeline*

As a result of our reputation within the industry, our close relationship with major game developers, and our extensive IP reserve, we have a strong pipeline of mobile games. As of the Latest Practicable Date, we had identified 29 games to potentially launch by the end of 2020 and may add more games to our pipeline as we identify suitable candidates. As of the Latest Practicable Date, 15 of the games identified in our pipeline by the end of 2020 had obtained pre-approvals from PRC regulators, and two will only be published overseas and therefore no pre-approvals are required. The following table sets forth certain information in relation to the games in our pipeline that we deem most important:

<b>Title</b> <i>(Note 1)</i>	<b>Game Formats and Genres</b>	<b>Development Stage as of the Latest Practicable Date</b> <i>(Note 2)</i>	<b>Source</b> <i>(Note 3)</i>	<b>License Territory</b>
<i>Territory Alert</i> (全境戒備)	Mobile application TPS	Beta testing	Licensed	Global
<i>Zork Reborn</i> (魔域重生)	Web MMORPG	Beta testing	IP and in-house development	China
<i>Hua Jiang Hu: Bei Mo Ting</i> (畫江湖之杯莫停)	Mobile application ARPG	Beta testing	IP	Global
<i>SNK Top Battle</i> (SNK巔峰對決)	Mobile application CCG	Development	IP	Greater China
<i>Chat Group of Truth Chasers</i> (修真聊天群)	Mobile application idle game	Development	IP	Global
<i>Xuan Yuan Sword – Cang Zhi Yao</i> (軒轅劍 – 蒼之曜)	Mobile application ARPG	Development	IP and in-house development	Global
<i>Dynasty Warriors</i> (真•三國無雙)	Mobile application ARPG	Development	IP	Global
<i>SNK All Stars</i> (SNK全明星)	H5 CCG	Development	IP	Greater China
<i>One Piece: The Voyage</i> (航海王熱血航線)	Mobile application ARPG	Development	IP	China
<i>Reborn!</i> (家庭教師)	Mobile application ARPG	Development	IP	China, Hong Kong, Macao and Taiwan
<i>Legend of Sword and Fairy – the Magnificence</i> (仙劍:九野)	Mobile application CCG	Identification	IP and in-house development	Global, excluding Hong Kong, Macao and Taiwan
<i>Monopoly 10</i> (大富翁10)	Single-player PC SLG	Development	IP and in-house development	Global

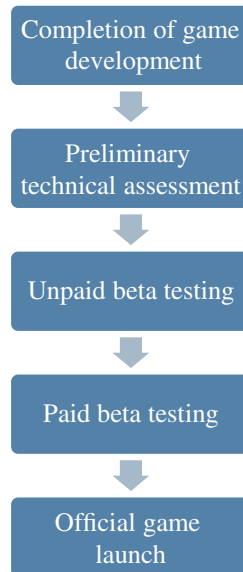
*Notes:*

- Game titles are subject to change.
- Our game pipeline is indicative as of the Latest Practicable Date. The games that we actually launch and the actual official launch time may differ from those presented.
- Licensed refers to game licensed from third-party game developers. IP refers to games developed by third-party game developers based on our licensed IPs. IP and in-house development refers to games developed by our in-house development teams based on our proprietary IPs.



### Game Optimization

Upon entry into the game licensing agreement and upon receipt of the developed game, we commence our game optimization process, the major steps of which are set out in the following diagram. We provide game optimization service to both games licensed from third-party game developers and games developed based on our licensed or proprietary IPs.



Preliminary technical assessments of a new game are conducted by the game developer, during which it eliminates errors and technical loopholes in the game. After the game has passed preliminary technical assessments, we will liaise with one or two publishing channels to randomly select a small number of players for unpaid beta testing. During these tests, we assess the game from various aspects including the coherence of its storylines, its playability and player retention rate. We will work with the game developer to further improve the game in accordance with the results from the testing, after which the improved version will be put into further unpaid beta testing. Paid beta testing takes place after we become satisfied with the results of the unpaid beta testing. During the paid beta testing, we collect player data and closely monitor and assess players' in-game behavior, including the game's paying user conversion rate. Based on our data analysis, we advise the game developer on various aspects of the game, including character design, storyline development and pricing of virtual items, among other things. After the game developer's optimization of the game pursuant to our recommendations, we will put the game through further paid beta testing. The game will only be launched after it has passed all three stages of testing, which generally lasts for about six months.

### Monetization and Pricing

Most of our games are available for download on a free-to-play basis, and we generate revenue from the provision of game publishing services in exchange for a portion of the gross billings paid by game players to purchase in-game virtual currency. Our games offer a wide variety of virtual items, including weapons, cards and privileges, which enhance the powers, abilities, attractiveness or social interaction of game characters.



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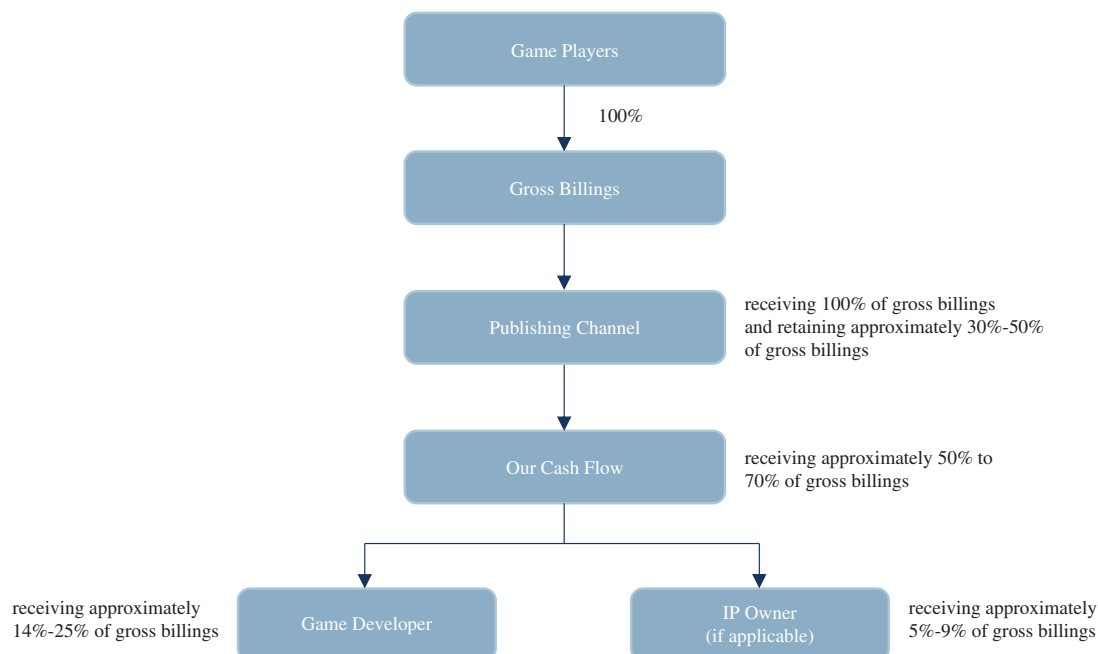
## BUSINESS

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We work closely with game developers in setting the price of virtual items. The prices are generally preliminarily determined by the game developers. We then give recommendations, taking into consideration various factors including the advantage that the virtual item brings to the player's character, the level of demand for the virtual item, the price of similar virtual items offered in other mobile games, and player feedback during the beta testing stages. After the launch of a game, we may also work with the game developer to adjust prices in accordance with the lifecycle stage in which the game is, thereby further improving player retention rate.

The majority of our games are published on third-party publishing channels which remit gross billings to us after retaining their portion. Where players purchase virtual currency through publishing channels, payment channels engaged by the publishing channels collect the payments and make settlements to the publishing channels, who in turn make monthly settlements to us after retaining their portion of the gross billings. We acquired our own publishing platform, namely VClub (勝利俱樂部), in September 2018. For our games published on VClub (勝利俱樂部), we collect gross billings directly from payment channels. We retain prescribed percentage of the gross billings collected from the publishing channels and payment channels as our publishing service fee, and remit the remaining amounts to our third-party game developer and IP owner (if applicable).

The diagram below sets out the typical fund flow of our game publishing business during the Track Record Period.



Our software development kit, or SDK, tracks the virtual currency and virtual items sold in our games. This allows us to estimate gross billings from our own records and then verify the gross billings records provided by publishing channels and payment channels that settle with us to ensure the accuracy of their payments.

### Game Marketing

We conduct sales and marketing activities for our games. We have a dedicated sales and marketing department, comprising 101 employees that work closely with our publishing and operations departments. We implement various marketing and promotional measures to promote our games generally while also taking into consideration the demographics and characteristics of individuals most likely to appreciate our games. The majority of our advertisements are online, including pop-up ads, banner ads and display ads. We engage online advertising placement agencies who employ sophisticated ad-placement technology to more efficiently advertise our games with potential players that are more likely to be interested in and become paying users of our games based on their prior browsing and other online activities. We also employ cross-promotion techniques where players are prompted after playing a particular game to consider playing another similar game.

In 2016, we began working with popular media and social networks, including Baidu, iQIYI (愛奇藝), UC Headlines (UC頭條), Weibo, Tencent News (騰訊新聞), Today's Headlines (今日頭條) and Tik Tok (抖音), where we place advertisements of our games to attract user traffic. By clicking on the advertisements, users of these media and social network applications are directed to a third-party application store or publishing platform that we have engaged to publish our games. We generally enter into a framework agreement with the media or social network for a term of one year, under which we are responsible for providing advertising materials including links to the application store or publishing platform, while the media or social network is responsible for displaying our advertising materials in area of their application as agreed between us. Such advertising services are generally charged on a cost-per-click basis.

In addition to online advertising, we also use traditional media to promote our games, such as through television commercials. We also promote our brand image by attending trade shows and hosting press conferences. For instance, we hosted a concert and press conference in February 2017 before officially launching our game *Xuan Yuan Sword III Mobile* (軒轅劍三手遊版). In addition, we attended the first China Game Festival in May 2018, and China Joy in each of the four years ended December 31, 2018.

We engage third-party agents and advertisers as part of our sales and marketing efforts to help design and produce sales and marketing materials, including pictures, videos and audio clips, and provide assistance to our internal sales and marketing department with designing and implementing marketing plans. We also cooperate with other brands including Mobike (摩拜), Didi (滴滴) and Dianping (點評). For instance, in June 2017, we co-organized an event with Mobike (摩拜), which attracted a large number of online users and significant media coverage.

We have developed a differentiated marketing strategy throughout the lifecycle of our games. For example, shortly before launching *Heaven Sword and Dragon Saber* (倚天屠龍記), we launched Yuqi Zhang's (張雨綺) celebrity endorsement and cooperated with Harper's Bazaar, which led to heated online discussions and attracted extensive media attention. To prolong the lifecycle of our games, we offer in-game discounts for virtual items as games' lifecycle progresses, thereby attracting more paying users. This strategy enables us to extend the lifecycle of our games by attracting new paying users and stimulating existing players' in-game purchase and activity, thereby prolonging players' play time at a time when in-game purchases and activity would otherwise be decreasing.

During our marketing campaigns, we frequently adjust our promotional measures pursuant to feedback obtained from publishing channels. We have also developed an appraisal system to assess and improve our marketing efforts through surveys and other data assessment tools.

### **Game Publishing**

We publish our games through a broad range of channels, including mobile application stores and publishing platforms. We also collaborate with popular media and social networks to purchase user traffic for our games. For further details, see “– Our Business Model – Game Marketing” in this section.

Before the launch of new games, we evaluate different publishing channels to determine which are most suitable in terms of user traffic, user base, marketing resources and capability and certain other factors in order to maximize the gross billings of our games.

We publish our games in China and internationally. We have one of the largest distribution networks for mobile games in China, according to Analysys. As of the Latest Practicable Date, our games were available on over 400 publishing channels, which cover substantially all of China's mobile game population.

We publish our games primarily on iOS and Android platforms. Our distribution network consists of publishing channels that can be broadly divided into three categories, namely application stores and third-party open platforms, application stores operated by mobile phone manufacturers, and social network platforms.

With application stores, including Apple's App Store and Google Play, we are subject to their standard terms and conditions. When publishing on application stores, we are responsible for the marketing, operation and management of our games. In addition, Google Play and Apple's App Store require us to use their proprietary payment methods to process in-game purchases.

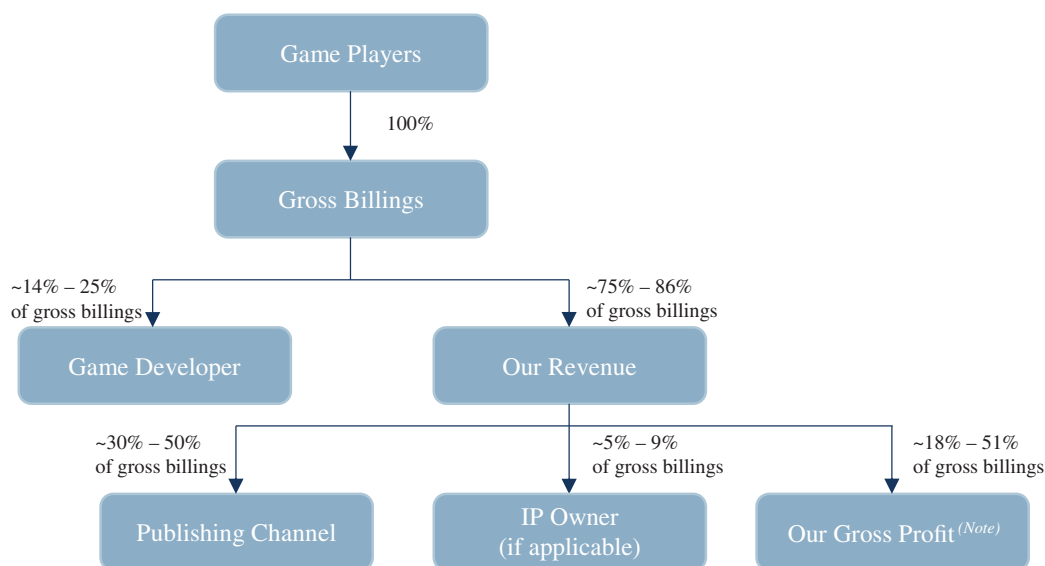
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With other publishing channels including third-party open platforms such as Tencent App Store (騰訊應用寶) and Qihoo 360 Mobile App Developer Center (奇虎360手機助手), application stores operated by mobile phone manufacturers such as Huawei AppGallery (華為應用市場), and social network platforms such as WeChat and Mobile QQ, we enter into publishing agreements on a game-by-game basis. These agreements authorize the publishing channel to publish our games non-exclusively for a term of one to two years. Under these agreements, we are responsible for the development, update, improvement and ongoing technology support and maintenance of our games. The publishing channels are responsible for providing marketing and billing services, as well as the management and maintenance of the billing system and the game publishing platform. In addition, we require third-party publishing channels to have the requisite licenses from the relevant governmental bodies, if any, for online publishing.

Third-party publishing channels deduct a portion of the gross billings they collect from game players before settling with us, which generally ranges between 30% and 50% of all gross billings. These publishing channels generally make payments to us on a monthly basis. The following diagram illustrates the typical gross billing sharing process through publishing on third-party publishing channels based on which we derive our revenue and gross profit during the Track Record Period.



*Note:* Not taking into consideration the amortization of game royalties, the amortization of IP royalties, and other costs that factor into our calculation of gross profit.

During the Track Record Period, we also published our games on VClub (勝利俱樂部), an online player community platform previously owned by Shenzhen Lanyue. With the aim of having our own publishing platform, we acquired the domain name of VClub (勝利俱樂部) from Shenzhen Lanyue in September 2018. For our games published on VClub (勝利俱樂部), we collect gross billings directly from payment channels.

### **Post-Launch Game Operation**

We provide post-launch game operation services for all the games that we launch.

### ***Ongoing Game Management***

Each of our games is managed by a designated game operation team that is responsible for the following:

- understanding the necessary costs associated with the game and assessing the game's potential, and producing detailed plans to operate the game in a way that maximizes the potential;
- coordinating internal resources and interacting with other departments to monitor and analyze game data, and improve our games accordingly;
- planning and executing the release of the game across various publishing channels, including the timing of the release. Upon the launch of our games, we start monitoring our games' performance on each publishing channel and adjust our marketing strategies accordingly; and
- assisting game developers to upload updates and expansion packs to the platforms on which our games are published.

### ***Player Service and Technical Support***

We assist our game developers to provide player service and technical support. Players can access our player service via self-help FAQs, social network apps, in-game correspondences, emails and phone calls 24 hours a day, seven days a week. Our player service representatives advise on a wide range of issues, including technical issues, online payments, virtual items and price discounts.

We also work with game developers on a variety of issues, including the allocation of virtual currency and virtual items. For example, upon receipt of player complaint that a virtual item was not or not correctly allocated, our player service representatives will liaise with the game developer to verify the complaint, and the game developer will investigate the complaint and allocate the correct virtual item to the player.

We have worked with our game developers to adopt a manual on complaint handling, which divides complaints by categories and stipulates the timing within which different categories of complaints must be handled. We have also implemented detailed performance measures to monitor our calls and other forms of communications with players to ensure that our players receive quality service.

In addition to handling complaints, our player service representatives also collect player feedback, which we use to formulate strategies to improve our games. We also have a designated content monitoring team and have adopted a game publishing review manual. We closely review the content of each of our games prior to and following launch, and have designated employees to handle player complaints about the content of our games. In addition, third-party publishing channels also review the content of our games prior to making them available on their platforms.

### Game Development

In May 2018, we acquired a 51% equity interest in Beijing Softstar, which possesses development capabilities and has successfully developed the PC game series of *Legend of Sword and Fairy* (仙劍奇俠傳) and *Monopoly* (大富翁), and its first mobile game *Legend of Sword and Fairy – Fantasy Mirror* (仙劍奇俠傳 – 幻璃鏡) in 2017. In May 2018, we acquired all of the equity interests in Wenmai Hudong, a game developer with strong development capabilities for web games and mobile application games, with many of its games having attained monthly gross billings of over RMB10 million. As a result of our acquisition of Wenmai Hudong and a 51% equity interest in Beijing Softstar, we now possess in-house development capabilities.

Our in-house game development process is similar to our game licensing process, and involves a number of departments, including our game development department, finance department and decision-making committee, which consists of our chief executive officer and vice chairman. In deciding whether to develop a game, we take into consideration factors including:

- the proposed game category, storyline and core gameplay methods;
- market trends and player preferences; and
- development and operational costs, and our revenue forecast.

Once we decide to develop the game, we begin the development process followed by the pricing of our in-game virtual items. We optimize our games developed internally through unpaid and paid beta testing to ensure the quality of our games, and adjust pricing based on our analysis of player in-game behavior. Upon launch, we continue to develop and make available for download updates and new versions to increase player retention rate.

For our games developed in-house, we may elect to license them to third-party game publishers or publish them ourselves. During the Track Record Period, we developed and licensed one mobile game, namely *The Legend of Battle Songs* (戰歌傳說), to a third party for publication, and our game portfolio also included six web games developed in-house and published by third parties. During the Track Record Period, we also developed and published one mobile game, namely *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業). We recorded game development revenue of RMB177.9 million and RMB218.4 million in the year ended December 31, 2018 and the six months ended June 30, 2019, respectively.

**IP Licensing**

We plan to license certain of our most popular proprietary IPs to third parties for the development of games and pan-entertainment products including motion picture, manga, animation, novel, derivatives and music, amongst others. As of the Latest Practicable Date, we held five series of popular proprietary IPs, including *Legend of Sword and Fairy* (仙劍奇俠傳), *Xuan Yuan Sword* (軒轅劍), *Monopoly* (大富翁), *Stardom* (明星志願) and *Empire of Angels* (天使帝國), comprising 68 video and PC game IPs in total.

During the Track Record Period, we licensed our IPs to third parties for the development and operation of mobile games and TV series. For example, in December 2018, we entered into an IP licensing agreement with Tencent, pursuant to which we granted a five-year exclusive license over our IP *Legend of Sword and Fairy III* (仙劍奇俠傳III) to Tencent for the development and operation of a TV series. We generated IP licensing revenue of RMB17.8 million and RMB3.6 million in the year ended December 31, 2018 and the six months ended June 30, 2019, respectively.

In addition, in March 2019, we entered into an IP cooperation agreement with Overseas Chinese Town, pursuant to which we licensed one of our proprietary IPs, namely *Legend of Sword and Fairy VI.0* (仙劍奇俠傳VI.0), to Overseas Chinese Town for their offline application in industries including hotels and theme parks, amongst others, in return for a prescribed percentage of the revenue generated.

**OUR GAME PLAYERS**

Our player base consists of all game players that download and play our games. We aim to first attract players to download our games through marketing efforts and by focusing on social games that will encourage current players to bring in new players. Second, we work with developers to develop games and features that will motivate players to make purchases within our games, and then finally to maximize the number of purchases made by our game players. The majority of our games are IP-based MMORPGs and CCGs, which according to Analysys, are mid-core to hardcore games that mainly attract players aged between 19 and 38.



## BUSINESS

The performance of our games is measured by four key indicators, namely (1) average MAUs, (2) average MPUs, (3) ARPPU, and (4) total new registered users. These indicators are largely affected by the number of games in operation in the relevant period and the popularity of these games. The following table sets forth the performance of games operated by us during the Track Record Period.

	Year ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
Average MAUs	13,115,117	7,076,510	11,058,128	8,585,213	13,990,023
Average MPUs	600,242	487,549	774,532	604,921	1,017,163
ARPPU (RMB)	138.0	170.3	171.7	170.1	250.6
Total new registered users	59,690,969	34,795,776	66,849,648	29,907,024	39,998,231

Our average MPUs decreased from 600,242 in 2016 to 487,549 in 2017, largely because in July 2016 we sold *National Gunfight* (全民槍戰) and *Dance Group* (炫舞團), which were two of our most popular games at the time we sold them. Without taking these two games into consideration, our key operation metrics during the Track Record Period were as follows:

	Year ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
Average MAUs	7,350,214	7,076,510	11,058,128	8,585,213	13,990,023
Average MPUs	444,705	487,549	774,532	604,921	1,017,163
ARPPU (RMB)	173.6	170.3	171.7	170.1	250.6
Total new registered users	34,581,748	34,795,776	66,849,648	29,907,024	39,998,231

## OUR INVESTMENTS

### Strategy

We make strategic minority investments primarily in game developers whose core team has a track record of successful game development and with whom we have a working history. We target these types of companies because we believe that our experience and expertise in the mobile game publishing business will be able to contribute to their development and increase the likelihood of their success and in some instances we benefit from our relationship with them by gaining access to the games that they develop. In addition, we invested in CPC Fund as a limited partner. CPC Fund primarily makes minority investments in IP owners and IP platforms through which we can gain access to popular IPs and more efficiently market our games. We aim to realize strategic synergies for our publishing business through our investments.

### **Investment Decision-making Procedures**

We have adopted a systematic set of investment decision-making procedures, with a designated investment team consisting of the Investment Decision Committee comprising our chief executive officer and vice chairman, the project coordinator, a legal officer, a finance officer and a business officer. The investment team is responsible for investment risk management, investment structure design and post-investment management of our portfolio companies.

After the Investment Decision Committee has negotiated with a potential portfolio company, the project coordinator liaises with the legal officer, finance officer and business officer to conduct analysis, upon which the Investment Decision Committee decides whether to make the investment. Upon agreeing on the investment approach with the potential portfolio company, we conduct further legal, financial and operational due diligence on the potential portfolio company. After reviewing the findings of these due diligence exercises, if the Investment Decision Committee decides that it is in the best interest of our Company to invest, we enter into an investment agreement with the portfolio company. Throughout our investment, our project coordinator closely monitors the operation of our portfolio company, and prepares monthly and quarterly reports to the Investment Decision Committee.

### **Post-Investment Management**

All our investments are minority investments, which do not give us the right to manage the day-to-day operations of our portfolio companies. However, our investment agreements generally grant us veto rights in relation to certain corporate actions such as entry into new business fields. Our investments also generally give us the right of first refusal in relation to the games produced by our portfolio companies. Furthermore, our investment agreements also generally provide for our dividends preference, pre-emption rights, tag-along rights, drag-along rights and anti-dilution rights, amongst others.

### **Investment Portfolio**

We started making investments in 2014, and recorded share of profits and losses of associates of a loss of RMB3.3 million, profits of RMB2.0 million, RMB17.9 million and RMB1.6 million, and a loss of RMB2.9 million during the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively. For further information on income from our investments, see “Financial Information – Description of Major Components of Our Results of Operations – Share of Profits and Losses of Associates from Continuing Operations” in this prospectus.

## BUSINESS

During the Track Record Period, we directly invested in 12 mobile game developing companies, many of which are highly regarded in their respective industries, including Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司) which developed *The Cube* (方塊玩). The list below sets forth certain information about our portfolio companies as of the Latest Practicable Date.

Name	Time of Initial Investment	Principal Business	Our Interest in the Portfolio Company as of the Latest Practicable Date	Holder of Interests	Our Relations with the Portfolio Company
Tianjin Fenzhi Huyu Technology Co., Ltd. (天津紛至互娛科技有限公司)	July 2016	Mobile game development	32.0%	Shenzhen Shengli Huyu	Development of <i>Jue Zhan Sha Cheng H5</i> (決戰沙城H5)
Guangzhou Heiqi Internet Technology Co., Ltd. (廣州黑旗網絡科技有限公司)	December 2016	Mobile game development	5.0%	Tibet Jichuang	Development of <i>Xuan Yuan Sword – the Origin</i> (軒轅劍 – 劍之源)
Zhuhai Tianlang Interactive Technology Co., Ltd. (珠海天朗互動科技有限公司)	June 2016	Mobile game development	12.5%	Shenzhen Zhongshouyou	Development of <i>Immortal Spell</i> (長生訣)
Shanghai Ada Internet Technology Co., Ltd. (上海啊噠網絡科技有限公司)	January 2017	Mobile game development	3.0%	Tibet Jichuang	Independent third party
Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司)	November 2016	Development of mobile application games and mini program games, and H5 game operation	43.47%	Shenzhen Zhongshouyou	Development of <i>Naruto – Ninja Master</i> (火影忍者 – 忍者大師)
Guangzhou Leiyu Information Technology Co., Ltd. (廣州市雷娛信息科技有限公司)	March 2017	Mobile game development	20.0%	Tibet Jichuang	Development of <i>Dr. Slump</i> (IQ博士)
Shanghai Kucheng Internet Technology Co., Ltd. (上海酷橙網絡科技有限公司)	November 2016	Mobile game development	3.9%	Tibet Jichuang	Independent third party
Shanghai Langkun Digital Technology Co., Ltd. (上海朗鵬數碼科技有限公司)	December 2017	Mobile game development	23.5%	Tibet Jichuang	Development of <i>Fighter of Destiny</i> (擇天記), <i>SNK All Star</i> (SNK全明星) and <i>One Piece: The Voyage</i> (航海王熱血航線)

## BUSINESS

Name	Time of Initial Investment	Principal Business	Our Interest in the Portfolio Company as of the Latest Practicable Date	Holder of Interests	Our Relations with the Portfolio Company
Chengdu Jumeng Tianxia Technology Co., Ltd. (成都聚夢天下科技有限公司)	March 2017	Mobile game development	15.0%	Tibet Jichuang	Development of <i>Magical Journey to the West</i> (有魔性西遊)
Shanghai X-idea Info Tech Co., Ltd. (上海交叉點信息科技有限公司)	December 2017	Mobile game development	16.5%	Shenzhen Zhongshouyou	Development of <i>SNH48 Love Story</i> (戀愛48天)
Shenzhen Haituo Shidai Technology Co., Ltd. (深圳海拓時代科技有限公司)	December 2017	Mobile game development	25.0%	Tibet Jichuang	Development of <i>The Story of the Flying Mortal</i> (凡人飛仙傳)
Beijing Qiwen Internet Technology Co., Ltd. (北京奇文網絡科技有限公司)	January 2018	IP licensing and mobile game development	32.5%	Shenzhen Shengli Huyu	Independent third party

During the Track Record Period, we made strategic investments in CPC Fund as a limited partner, and as of the Latest Practicable Date we held 25.7% of its limited partnership interests. CPC Fund's investment portfolio primarily focuses on the mobile internet and technology industries in the Greater China region, in particular the culture and entertainment industry, such as internet literature, dramas and movies, motion pictures, manga and animations, amongst others. Through cultivating these industry segments, CPC Fund has established relationships with high-quality IP-creating platforms. In addition, CPC Fund's investment portfolio also covers companies engaged in the development and operation of mobile social networks and the production of new energy vehicles. In determining whether to invest in a company, CPC Fund takes into consideration the target company's business model and core competitiveness in relation to its upstream, midstream and downstream industries, and the competitive barriers faced by the target company, amongst others. We invest in CPC Fund with a view to tapping into the fast developing mobile internet industry outside our principal business of game publishing and receiving investment returns. Investing through CPC Fund also allows us to establish relationships in its portfolio companies, including IP-incubating platforms and vertical platforms. IP-incubating platforms are websites on which independent content creators publish their art works. Through analyzing reader feedback of popular art works, IP-incubating platforms identify creative works with potential to turn into popular IPs, and further promote such works until IPs are established. Our relationships with IP-incubating platforms through CPC Fund allow us to license more up-and-coming IPs to further supplement our IP reserve. Vertical platforms are websites whose users share common features and interests. By publishing and promoting our games on vertical platforms, we can introduce our games to new online communities and achieve more accurate user acquisition.

We have also made investments in both Fontaine Fund and Shenzhen Zhichengqianli as a limited partner with limited partnership interests of 8.6% and 49.3%, respectively, with a view to earning investment returns. Fontaine Fund is focused on investing in the fast growing industries expected to play critical roles in the development of technology and grow meaningfully over the long term, and its general partner is Fontaine Capital GP, Ltd, which is an independent third party. Shenzhen Zhichengqianli is focused on mobile game related investment and its general partner is Shenzhen Zhicheng Capital Management Limited Partnership (深圳市志成資本管理企業(有限合夥)), which is an independent third party.

Our portfolio also includes equity interests in Hero Entertainment, a mobile game developer and operator listed on the NEEQ, which we obtained in July 2016 in exchange for the disposition of our subsidiaries. At the time of the disposition we received 48,780,480 shares in Hero Entertainment, which represented approximately 3.40% of Hero Entertainment's shareholding at the time, in addition to RMB130.0 million in cash. In 2017 and 2018, we sold 36,112,000 and 3,208,000 shares in Hero Entertainment in the NEEQ, and recorded gains on disposal of financial assets at fair value through profit or loss of RMB124.9 million and RMB2.3 million, respectively, which was the increase in value from the amount that we are deemed to have purchased the disposed of shares for and the amount we received for their disposition. As of June 30, 2019, we held 9,460,480 shares in Hero Entertainment, representing approximately 0.7% of its total shareholdings.

### **Investment by way of Convertible Loans**

As an IP-based game operator, we strategically invest in innovative game developing companies whose core team has a track record of successful game development. As part of such portfolio investments, we have provided financial assistance to a number of game developing companies by way of Convertible Loans in the ordinary course of our business. The reasons for and benefits of making investments by way of the Convertible Loans were to enable us to generate stable investment returns from the Convertible Loans, while maintaining relationships with game developing companies and having the flexibility to become their shareholders. According to the terms and conditions of the Convertible Loans, we are entitled to convert the Convertible Loans into equity capital of the relevant game developing companies at our own discretion before the maturity of the Convertible Loans.

The list below sets forth certain information of the game developing companies to which we had provided Convertible Loans as of the Latest Practicable Date (for which we would have held minority interest not exceeding 20% of the share capital of the respective companies should the Convertible Loans be fully converted as of the Latest Practicable Date):

Financial Information <i>(Note 2)</i>																
Name of Portfolio Company <i>(Note 3)</i>	Start Date of Investment into Convertible Loans	Maturity Date of the Convertible Loans	Principal Business	Convertible Loan Amount	Annual Interest Rate	Holder of Interests	Our Business Relations with Portfolio Company	Revenue		Profit for the Year/Period			Net Assets			
								For the year ended December 31,		For the six months ended June 30,		For the year ended December 31,		For the six months ended June 30,		
								2017	2018	2017	2018	2017	2018	2017	2018	
								(RMB)								
Chengdu Juneng Tianxia Technology Co., Ltd. (成都聚夢天下科技有限公司)	November 2017	December 2019 <i>(Note 3)</i>	Mobile game development	1,500	6.0%	Tibet Jichuang	Development of <i>Magical Journey to the West</i> (有魔性西遊)	356,575.6	1,093,381.9	2,118,182.4	(203,013.6)	(2,151,527.8)	3,126,984.4	3,126,984.4	(187,852.5)	
Shanghai X-idea Info Tech Co., Ltd (上海交又點信息科技有限公司)	May 2018	December 2019 <i>(Note 4)</i>	Mobile game development	3,000	10.0%	Shenzhen Zhongshouyou	Development of <i>SNH48 Love Story</i> (戀愛48天)	1,120,505.4	2,757,317.4	3,715,593.4	(3,246,057.6)	(2,846,903.0)	5,935,643.0	8,088,740.0	10,057,578.5	
Shenzhen Sparks Interactive Entertainment Co., Ltd. (深圳市火花幻境互動娛樂有限公司)	July 2018	N/A <i>(Note 5)</i>	Mobile game development	10,000	6.0%	Tibet Jichuang	Development of <i>Gunfire Lord</i> (槍火戰神)	543,106.8	1,441,136.9	6,216,345.3	(3,889,459.0)	(7,333,666.05)	(1,040,841.2)	2,618,830.1	(4,714,836.0)	(5,846,160.9)

*Notes:*

- (1) These three portfolio companies and their respective ultimate beneficial owners are all independent third parties (as defined in this prospectus).
- (2) Based on the management accounts of the respective companies.
- (3) Pursuant to a supplemental agreement in January 2019, this Convertible Loan was extended to December 2019.
- (4) Pursuant to a supplemental agreement in May 2019, this Convertible Loan was extended to December 2019.
- (5) Pursuant to the relevant convertible loan investment agreement, this Convertible Loan will mature one year after payment of the second tranche of our investment. As of the Latest Practicable Date, the payment had not been made.

As of the Latest Practicable Date, none of the Convertible Loans had been converted into equity capital of the relevant game developing companies.

### TECHNOLOGY AND INFRASTRUCTURE

Our network infrastructure is administered by our operations department, which handles hardware, system and network operations and maintenance. Our systems are designed for (i) scalability, (ii) seamless player synchronization, and (iii) reliability to support a quality player experience and growth in our player base.

#### Stable SDK

We have developed our own SDK module with accounts and payment management functions. Integrated with our SDK module, our games are equipped with various functions including player account registration, account log-in, linking and unlinking of mobile, email and game accounts, and retrieval of account passwords. They are also integrated with our SDK module which enables players to choose their preferred payment methods, including Apple Pay, WeChat Pay (微信支付), Alipay (支付寶), UnionPay (銀聯) and PayPal. In addition, our SDK module allows our operating teams to collect and analyze real-time game and player behavior data, enabling us to target different categories of players in our promotion strategies and activities, thereby enhancing players' activity level and increasing our game revenue.

#### Cloud Platforms

We started using cloud servers for our games since 2015, which significantly reduced our operations cost and enhanced our server efficiency. We have entered into cloud service agreements with each of Kingsoft Cloud (金山雲), Alibaba Cloud (阿里雲), Tencent Cloud (騰訊雲) and UCloud. As of the Latest Practicable Date, all our games were using cloud servers.

#### IT Maintenance Team

As of the Latest Practicable Date, we had an IT maintenance team of 41 employees dedicated to providing technical support and maintenance. They are responsible for the provision of IT support to our game developers, players and internal staff, the maintenance of servers and the internal system, and the development and maintenance of our SDK module and our big data system, which plays an important role in our data analysis process.

During the development stage of our games and prior to launch, our IT maintenance team estimates and assesses the average number of concurrent players of our game and advises game developers in relation to server requirements accordingly. Immediately prior to the launch of our games, our IT maintenance team conducts pre-launch evaluation of server carrying capacity to ensure the smooth operation of our games. After the launch of our games, our IT maintenance surveillance system monitors our game servers and timely reports any malfunctions to our IT maintenance team.



Our IT maintenance team also develops and maintains our SDK module, and analyze data obtained therefrom. Our IT maintenance team has successfully developed various versions of our SDK module, which is compatible with both iOS and Android systems, available for both mobile application games and H5 games, and in languages including simplified Chinese, traditional Chinese and English.

Our IT maintenance team is responsible for the development of our data analysis system to provide data analysis support for our operations teams. Our data analysis system collects and analyzes information such as player task completion time, first payment time, second payment time and activation frequency, amongst others. By analyzing such data, we aim to improve the performance of our games.

### OUR CUSTOMERS

In relation to our game publishing business, as we are responsible for optimizing, publishing and marketing mobile games, we consider ourselves to be the agent of game developers within the mobile game ecosystem in which we operate. Under our game licensing agreements during the Track Record Period, game developers (i) are responsible for developing and providing games, (ii) have the primary responsibility to provide game-related services, including hosting and maintaining mobile games, and determining the pricing of in-game virtual items, amongst others, and (iii) have the right to determine whether to accept our recommendations on the optimization of the games. On the other hand, our responsibilities include publishing, providing marketing services and post-launch operation services, amongst others. Therefore, we view game developers as our customers and consider ourselves as the agent of game developers within the mobile game ecosystem in which we operate. In relation to our game development business, as we are responsible for providing ongoing services to game players who purchase virtual currency, we consider these game players to be our customers.

Our largest customer accounted for approximately 29.2%, 18.8%, 24.6% and 7.5% of our revenue for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2019, respectively. Our top five customers accounted for approximately 77.1%, 63.4%, 56.2% and 27.8% of our revenue for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2019, respectively.

## BUSINESS

The following table sets forth certain information of our major customers during the Track Record Period.

Customer	Revenue RMB'000	Percentage of Revenue Attributable to Total Revenue (%)	Principal Business	Background	Years of Business Relationship
<i>Six months ended June 30, 2019</i>					
Customer A	115,046	7.5	Game development	A Chinese game developer	0.5
Customer B*	99,843	6.5	Game development	A Chinese game developer	4.8
Customer C	95,712	6.3	Game development	A Chinese game developer	2.8
Customer D	72,208	4.7	Game development	A Chinese game developer	4.8
Customer E	42,500	2.8	Game development	A Chinese game developer	0.3
Total	<u>425,309</u>	<u>27.8</u>			
<i>Year ended December 31, 2018</i>					
Customer F	392,823	24.6	Game development	A Chinese game developer	2.4
Customer D	201,040	12.6	Game development	A Chinese game developer	4.8
Customer B*	154,271	9.7	Game development	A Chinese game developer	1.6
Customer G	83,420	5.2	Game development	A Chinese game developer	0.9
Customer H*	64,695	4.1	Game development	A Chinese game developer	1.2
Total	<u>896,249</u>	<u>56.2</u>			
<i>Year ended December 31, 2017</i>					
Customer D	190,569	18.8	Game development	A Chinese game developer	4.8
Customer I	146,202	14.4	Game development	A Chinese game developer	4.9
Customer J	130,152	12.9	Game development	A Chinese game developer	3.0
Customer K	98,003	9.7	Game development	A Chinese game developer	2.3
Customer L	76,737	7.6	Game development	A Chinese game developer	3.3
Total	<u>641,663</u>	<u>63.4</u>			
<i>Year ended December 31, 2016</i>					
Customer D	292,399	29.2	Game development	A Chinese game developer	4.8
Customer L	235,324	23.5	Game development	A Chinese game developer	3.3
Customer M	132,709	13.3	Game development	A Chinese game developer	4.8
Customer N*	67,364	6.7	Game development	A Chinese game developer	3.7
Customer O	43,775	4.4	Game development	A Chinese game developer	2.3
Total	<u>771,571</u>	<u>77.1</u>			

\* Our investment portfolio companies.

## BUSINESS

During the Track Record Period, none of our Directors, their associates or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of our Company's issued share capital) had any interest in any of our top five customers. As of the Latest Practicable Date, certain of our top five customers are our portfolio companies, see "Business – Our Investments – Investment Portfolio" in this prospectus.

For terms of our game licensing agreements, see "– Our Business Model – Game Sourcing – Game Licensing" in this prospectus.

### OUR SUPPLIERS

As we receive publishing service and payment collection service from third-party publishing channels and payment channels, respectively, we consider them our suppliers. As we pay IP owners for the IPs that we license from them, we also view IP owners as our suppliers. During the Track Record Period, our top suppliers were primarily game publishing channels.

Our largest supplier accounted for approximately 20.0%, 10.9%, 10.4% and 11.2% of our cost of sales for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2019, respectively. Our top five suppliers accounted for approximately 37.5%, 33.3%, 33.3% and 34.3% of our cost of sales for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2019, respectively.

The following table sets forth certain information of our major suppliers during the Track Record Period.

<b>Supplier</b>	<b>Purchase</b>	<b>Percentage of Purchase Attributable to Total Purchase</b>	<b>Principal Business</b>	<b>Years of Business Relationship</b>
	<i>RMB'000</i>	<i>(%)</i>		
<i>Six months ended June 30, 2019</i>				
Supplier A	121,335	11.2	Game publication	0.6
Supplier B	81,105	7.5	Game publication	2.3
Supplier C	63,303	5.8	Game publication	0.8
Supplier D	61,793	5.7	Game publication	2.4
Supplier E	44,225	4.1	Game publication	1.7
Total	<u>371,761</u>	<u>34.3</u>		

## BUSINESS

Supplier	Purchase RMB'000	Percentage of Purchase Attributable to Total Purchase (%)	Principal Business	Years of Business Relationship
<i>Year ended December 31, 2018</i>				
Supplier D	119,251	10.4	Game publication	2.4
Supplier B	79,072	6.9	Game publication	2.3
Supplier F	74,116	6.5	Game publication	1.3
Supplier G	58,645	5.1	Game publication	5.3
Supplier H	50,088	4.4	Game publication	5.4
Total	<u>381,172</u>	<u>33.3</u>		
<i>Year ended December 31, 2017</i>				
Supplier I	91,918	10.9	Game publication	2.4
Supplier H	83,550	9.9	Game publication	5.4
Supplier G	40,765	4.8	Game publication	5.3
Supplier J	35,156	4.2	Game publication	4.9
Supplier K	29,658	3.5	Game publication	3.1
Total	<u>281,047</u>	<u>33.3</u>		
<i>Year ended December 31, 2016</i>				
Supplier H	170,097	20.0	Game publication	5.4
Supplier L	50,253	5.9	Game publication	5.8
Supplier M	36,956	4.3	Game publication	5.3
Supplier G	35,931	4.2	Game publication	5.3
Supplier J	26,387	3.1	Game publication	4.9
Total	<u>319,624</u>	<u>37.5</u>		

During the Track Record Period, apart from Mr. TANG Yanwen (唐彦文), who is one of the five directors of the parent company of one of our top five suppliers for the six months ended June 30, 2019, none of our Directors, their associates or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of our Company's issued share capital) had any interest in any of our top five suppliers.

For terms of our agreements with publishing channels, see “– Our Business Model – Game Publishing” in this section.

### COMPETITION

China's mobile game market is highly competitive and fragmented. We compete directly with mobile game publishers and operators in the PRC. We may face competition from application store operators and other providers of mobile applications and content, or from alliances between our existing and new competitors, mobile and online game developers and other content providers. Some of our existing and potential competitors have significantly greater financial, technological and marketing resources, stronger relationships with industry participants and a larger portfolio of mobile game offerings than we do. For further details of our competitors, see "Industry Overview" in this prospectus.

We compete primarily on the basis of player base, relationships with IP owners, mobile game developers and publishing channels, key technologies as well as research and development capabilities. For further details, see "Risk Factors – Risks Related to Our Business – We may face increasing competition, which could reduce our market share" in this prospectus.

### INTELLECTUAL PROPERTY RIGHTS

Intellectual property rights are essential to our business, and we are committed to the protection of our intellectual property rights. We have a dedicated team of eight employees that handles the registration of our intellectual properties. We have also adopted a comprehensive set of measures to combat intellectual property right infringements, including the following:

- we conduct periodic searches on application stores and publishing platforms to determine whether our games are under infringement;
- once we identify an infringing game, we collect and compile evidence and send them to the relevant application stores or publishing platforms, requesting them to remove the game from their portal;
- in the event that the application store or publishing platform fails to remove the infringing game within our time limit, we proceed to send them a lawyer's letter; and
- if all of the above fail, we commence legal proceedings against the infringing application store or publishing platform and the infringing game developer.

As of the Latest Practicable Date, we owned or had been granted licenses to use 87 registered domain names, 164 trademarks, and 524 copyrights. For the full list of our material intellectual properties, see "Statutory and General Information – C. Intellectual Property Rights of Our Group" in Appendix IV to this prospectus. For further details on our licensed and proprietary IP, see "– Our Business Model – Game Sourcing – IP Licensing and Ownership" in this section.

## BUSINESS

### AWARDS AND RECOGNITION

During the Track Record Period, we received various awards and recognitions for the quality and popularity of our games and services, including the following:

Award/Recognition	Award Date	Awarding Institution/ Authority
“Golden Diamond List” as Most Influential Enterprise of 2018 (金鑽榜2018最具影響力企業)	2019	Department of Culture and Tourism of Guangdong (廣東省文化和旅遊廳) and Association of Game Industry of Guangdong (廣東省遊戲產業協會)
“Golden Finger Award” as Outstanding Enterprise in the Chinese Game Industry of 2018 (金手指獎中國遊戲行業 2018 年度優秀企業)	2019	China Culture & Enterprise Industry Association (中國文化娛樂行業協會)
“Golden Plume Award” as Most Influential Mobile Game Publisher (金翎獎最具影響力移動遊戲發行商)	2016 to 2018	Hanwei Xinheng Exhibition Co., Ltd (漢威信恒展覽有限公司)
China Top 10 Game Award as Top 10 Game Publishing and Operating Company (中國遊戲十強獎-十大遊戲出版運營企業)	2018	China Audio-video and Digital Publishing Association (中國音像與數字出版協會)
Outstanding Independent Brand of Guangdong (廣東省優秀自主品牌)	2018	Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會)
Guangdong Top 500 Enterprise (廣東省企業五百強)	2018	Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會)
Top 100 Private Enterprise (廣東省民營企業一百強)	2018	Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會)
China Top 10 Game Award as Top 10 Branded Game Enterprise (中國遊戲十強獎十大品牌遊戲企業)	2017	China Audio-video and Digital Publishing Association (中國音像與數字出版協會)
China Game Awards as Top Ten Mobile Game Company (中國遊戲風雲榜-十大優秀手機遊戲公司)	2017	Tencent Game Channel (騰訊遊戲頻道)
Rising Star Award (飛躍新星獎)	2016	Tencent Global Partner Conference (騰訊全球合作夥伴大會)
“Tian Fu Award” as Best Mobile Game Publisher (天府獎-最佳移動遊戲發行商)	2016 to 2018	GMGC Global Mobile Game Association (GMGC全球移動遊戲聯盟)
China Top 10 Game Award as Top 10 Mobile Game Operation Platform of the Year (中國遊戲十強獎-2016年度中國十大移動遊戲運營平台)	2016	China Audio-video and Digital Publishing Association (中國音像與數字出版協會)
Best Cooperation Partner Award (最佳合作夥伴獎)	2017	Tencent Global Partner Conference (騰訊全球合作夥伴大會)
Global Top 50 Publisher (蘋果全球50大最佳發行商)	2017	Apple Inc.

Furthermore, our games *Heaven Sword and Dragon Saber* (倚天屠龍記) and *Eternal Myth* (神話永恆) were awarded the Most Popular Mobile Game of 2016 and 2017, respectively, by Hanwei Xinheng Exhibition Co., Ltd. (漢威信恒展覽有限公司). Our games *One Piece – the Road of the Strong* (航海王強者之路), *Heaven Sword and Dragon Saber* (倚天屠龍記) and *Eternal Myth* (神話永恆) were awarded the Most Popular Mobile Games by the Mobile Hardcore Alliance in 2016 and 2017. Our games *Dragon Ball – Awakening* (龍珠覺醒) and *Candleman* (蠟燭人) were rated the 2018 Most Anticipated Mobile Games by Hanwei Xinheng

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Exhibition Co., Ltd. (漢威信恒展覽有限公司) and China Audio-video and Digital Publishing Association (中國音像與數字出版協會), respectively. In addition, our game *Legend of Sword and Fairy – the Magnificence* (仙劍奇俠傳:九野) was named the 2019 Most Anticipated Online Game by Xinhua News (新華網).

### EMPLOYEES

As of the Latest Practicable Date, we had 765 full-time employees, the majority of whom were based in Shenzhen and Beijing. The following table sets forth the number of our employees by function as of the Latest Practicable Date:

Function	As of the Latest Practicable Date	
	Number of Employees	% of Total
Research and development	415	54.2
Operations	150	19.6
General administration	99	12.9
Sales and marketing	101	13.2
<b>Total</b>	<b>765</b>	<b>100.0</b>

As of the Latest Practicable Date, our Group had 415 employees responsible for research and development activities, the majority of whom were responsible for game development, and the remaining were primarily responsible for the development and update of our SDK module. During the Track Record Period, our research and development activities primarily included the development and update of our SDK module, which was integrated into substantially all of our games published and in operation during the Track Record Period. The following table sets forth a breakdown of the components of our research and development expenses during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
(in RMB thousands)					
(Unaudited)					
Office costs	3,751	4,519	9,663	3,275	6,068
Salaries and welfare	4,817	4,601	38,292	5,178	45,436
Design fees	1,945	2,141	9,876	725	13,024
Others	398	425	1,888	675	1,736
<b>Total</b>	<b>10,911</b>	<b>11,686</b>	<b>59,719</b>	<b>9,853</b>	<b>66,264</b>



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## BUSINESS

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Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive salaries, performance-based promotion system and other incentives. As a result, we have successfully attracted and retained our core employees since our inception.

We primarily recruit our employees in China through recruitment agencies, on-campus job fairs and online channels including our corporate website and social networking platforms. We provide frequent and systematic training to our employees to better develop their professional skills and believe our lean structure and corporate culture have contributed to our ability to recruit and retain qualified employees.

As required under PRC laws and regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including housing, pension, medical, unemployment, work-related injury and maternity benefit plans. We are required under PRC law to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. Bonuses are generally discretionary and based on the overall performance of our business.

We believe that we maintain a good working relationship with our employees and we had not experienced any material labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period and up to the Latest Practicable Date.

### INSURANCE

We do not maintain any property insurance policies covering equipment and facilities for losses due to fire, earthquake, flood or any other disaster. We shall maintain director and officer liability insurance for our Directors and executive officers upon Listing. Consistent with customary industry practice in the PRC, we do not maintain business interruption insurance or key employee insurance for our executive officers.

### PROPERTIES

Our principal executive offices are located at Floor 10, Building 4, Phase 1, Excellence City, Zhong Kang North Road, Futian District, Shenzhen, the PRC. As of the Latest Practicable Date, we operated our businesses through 21 leased properties in Shenzhen, Beijing, Chengdu, Yili, Tianjin, Shanghai, Hong Kong and Taipei which serve as our offices.

As of the Latest Practicable Date, we leased a total of 21 properties with an aggregate gross floor area (“GFA”) of approximately 7,345.21 square meters, and with lease expiry dates ranging from October 2019 to December 2020. As of the Latest Practicable Date, we did not own any property.

We believe that our leased properties are adequate to meet our needs for the foreseeable future, and that we will be able to obtain adequate properties, principally through leasing of additional properties, to accommodate our future expansions.

To the best of our knowledge, all of the landlords are independent third parties. Among our leased properties, for four properties with an aggregate GFA of approximately 1,996 square meters in the PRC, the lessors had not provided the relevant ownership certificates. As advised by our PRC Legal Adviser, if any third party raises claims against the ownership or leasing rights of such properties, our leases in respect of such properties may be affected. In the event that we are not able to continue to use such properties due to the defective titles of such properties, we believe that we will be able to find comparable properties as alternatives at relatively comparable costs within one month at an estimated total relocation cost of RMB2.0 million, and such relocation will not have material adverse effect on our financial condition or our results of operations.

In order to ensure on-going compliance with the PRC law and regulations relating to the registration of executed lease agreements, where we are the tenant to an executed lease agreement, we will continue to seek cooperation from the landlords of the leased properties to register executed lease agreements with the relevant PRC government authorities and will adopt a variety of risk control measures to mitigate such regulatory risk in the future. We have established a checklist of our leased properties with detailed information, including the status of the lease registration of office premises, to continue to liaise with the landlords with the aim of pursuing registration of our leased properties.

## **OCCUPATIONAL HEALTH, WORK SAFETY AND ENVIRONMENTAL PROTECTION**

Due to the nature of our business, we are not subject to significant health, safety or environmental risks. To ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary and after consultation with our legal adviser, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with health, safety or environmental regulations.

## **LEGAL PROCEEDINGS AND COMPLIANCE**

### **Legal Proceedings**

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any actual or pending legal, arbitration or administrative proceedings (including any bankruptcy or receivership proceedings) that we believe is likely to have a material adverse effect on our business, results of operations, financial condition or reputation. However, we are from time to time party to various legal, arbitration or administrative proceedings arising in the ordinary course of our business as a game publisher, operator and developer, including the two complaints described below. For details of the relevant risks, please refer to the section headed “Risk Factors – Risks Related to Our Business – Third parties may claim that we infringe their proprietary rights, which could cause us to incur significant legal expenses and prevent us from promoting our products and services” in this prospectus.

In April 2019, two claimants filed a civil complaint before the Intermediate People's Court of Wuhan City, alleging that we had infringed their copyright and engaged in unfair competition by marketing our game *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), which they claim to be similar to a game titled *The Legend of Mir II* (熱血傳奇) that is co-owned by one of the claimants and an associate of Shengqu Information Technology (Shanghai) Co., Ltd. (“**Shengqu**”) (the “**First Litigation**”). Our game *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) accounted for nil, nil, 5.2% and 50.5% of our total revenue for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2019, respectively. Based on the demands of the two claimants and as advised by our PRC legal adviser for the First Litigation, our maximum exposures in respect of the First Litigation is that we may be compelled to take the game offline and pay damages in the maximum sum of RMB10 million. Our game was developed by us within the scope of the copyright of *The World of Legend* (傳奇世界) pursuant to our licensing agreement with Shengqu. We have been advised by our PRC legal adviser for the First Litigation that our game did not infringe upon the copyright of *The Legend of Mir II* (熱血傳奇) as (i) our game was developed based on the copyright of *The World of Legend* (傳奇世界), which is owned by Shengqu, and (ii) *The World of Legend* (傳奇世界) is not connected to the copyright of *The Legend of Mir II* (熱血傳奇), which has been acknowledged and confirmed by the claimants pursuant to a court mediation order in February 2007. On this basis, our Directors believe that we have sufficient and valid legal grounds to defend these allegations, and that the likelihood of an unfavorable court ruling is low. As of the Latest Practicable Date, the First Litigation had not yet proceeded to trial. Because our licensing agreement with Shengqu gives us the right to develop our game, and entitles us to seek remedies from Shengqu for any loss associated with the relevant copyright, our Directors believe that our business, results of operations, financial conditions and reputation will not be materially and adversely affected by the First Litigation. As of the Latest Practicable Date, our game *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) remains available for download on Android and we continue to receive our portion of the gross billings that it generates.

In March 2019, two claimants filed a civil complaint before the Shanghai Intellectual Property Court, alleging that our game, *The Attack – Advanced Version* (攻沙加強版), infringed upon their copyright and that by marketing the game, two game publishers (both independent third parties) and Wenmai Hudong (our subsidiary and the developer of the game) had engaged in unfair competition (the “**Second Litigation**”). This game accounted for nil, nil, 8.1% and 3.4% of our total revenue for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2019, respectively. The claimants demand damages of RMB10 million and that we take the game offline. The game had been developed by Wenmai Hudong before we acquired Wenmai Hudong from its shareholders (the “**Vendors**”) pursuant to an equity transfer agreement dated May 31, 2018, as supplemented on March 7, 2019 (the “**Wenmai ETA**”) for RMB800 million. Pursuant to the Wenmai ETA, (i) one of the Vendors, as the indemnifier, has agreed to indemnify us for any liabilities and losses associated with facts or events that were in existence before our acquisition of Wenmai Hudong, and (ii) we had paid RMB299.9 million as of the Latest Practicable Date, with the remaining consideration of RMB500.0 million payable to the indemnifier by installments subject to a price adjustment mechanism with reference to the profits generated by Wenmai Hudong. As advised by our PRC Legal Adviser, we are entitled to claim indemnity from the indemnifier pursuant to the Wenmai ETA if Wenmai Hudong incurs any loss associated with the Second Litigation, and to adjust the

consideration payable to the indemnifier if Wenmai Hudong fails to meet the target profit guaranteed by the indemnifier under the Wenmai ETA as a result of any loss incurred in connection with the Second Litigation. As of the Latest Practicable Date, the Second Litigation had not yet proceeded to trial. Based on the above, our Directors believe that our business, results of operations, financial conditions and reputation will not be materially and adversely affected by the Second Litigation.

### **Non-compliance Incidents**

During the Track Record Period, due to our unfamiliarity with the local regulations and practices, we failed to make adequate social insurance and housing provident fund contributions for all of our employees. The shortfall amounts during the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2019 were RMB501,066, RMB458,994, RMB136,337 and nil, respectively, with respect to social insurance contributions, and RMB214,743, RMB196,712, RMB58,430 and nil, respectively, with respect to housing provident fund contributions. We believe that neither the outstanding social insurance contribution nor housing provident fund contributions will have a material adverse impact on our Group's business and operations, and no provisions have been made regarding these shortfalls during the Track Record Period.

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), in the case of a failure to pay social insurance contributions in compliance with the law, we may be demanded to pay all outstanding social insurance contributions within a prescribed time limit, plus a late fee at a daily rate of 0.05% of the outstanding amount, accruing from the date when the social insurance contributions are due. If we fail to make such payment within the prescribed time limit, we may be subject to an additional fine ranging from one to three times of the total outstanding balance. According to the Regulations Concerning the Administration of Housing Provident Fund (住房公積金管理條例), in the event of a failure to pay housing provident fund contributions in compliance with the law, we may be ordered to pay the outstanding balance within a prescribed time limit, and if we fail to act accordingly, an application of compulsory enforcement may be made to the People's Court of the PRC.

As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance or housing provident fund contributions. Furthermore, as of the Latest Practicable Date, we had not been subject to any employee disputes, or any litigation or arbitration in relation to our failure to make sufficient payment of social insurance and housing provident fund contributions. We have obtained written confirmations from competent local authorities of cities where certain of our key subsidiaries and PRC Operating Entities are located and operate business. These confirmations state, in respect of the relevant periods stated therein, no administrative penalties had been imposed and/or non-compliance has not been identified and/or the number of employees who participated in the housing provident fund scheme. Since July 2018, we have made social insurance contributions and housing provident fund contribution in compliance with the relevant laws and regulations. We have appointed a designated senior management member supervising our future compliance in relation to social insurance and housing provident fund contribution.

**RISK MANAGEMENT AND INTERNAL CONTROL**

We have engaged an internal control consultant (the “**Internal Control Consultant**”) to perform certain agreed-upon procedures in connection with the internal control of our Company and major operating subsidiaries and to report factual findings on the internal control of corporate governance, sales and accounts receivable process, fixed assets management process, human resources and remuneration management process, finance and cash management process, taxation management process, connected transaction management process, customer service management process, and IT system risk management process of these companies. The work performed by the Internal Control Consultant, which did not involve an assurance engagement in relation to the Company’s internal control, was conducted in January 2018, and resulted in a number of findings and recommendations. According to the report prepared by the Internal Control Consultant, we did not have material internal control deficiencies. The following table summarizes some material findings and recommendations made by the Internal Control Consultant.

<b>Order</b>	<b>Material Findings</b>	<b>Recommendations</b>
1.	Our Group had not changed its corporate governance structure in accordance with the Listing Rules.	Our Group should (i) have in place a corporate governance restructuring plan, (ii) adopt terms of reference for each Board committee, and (iii) implement an internal control mechanism.
2.	Our Group did not conduct regular inspection of its internet activities, and inspection records were maintained for seven days only.	Our Group should (i) conduct regular inspections of its internet firewall and keep records of relevant findings, (ii) set up email alerts to enable timely handling of system breaches, and (iii) prolong the record keeping period.

We have taken corrective actions in response to the Internal Control Consultant’s findings and recommendations. The Internal Control Consultant performed follow-up procedures on the Company’s system of internal control with regard to those actions taken by the Company and reported further commentary in May 2018. The results of the follow-up review by the Internal Control Consultant indicated that we have satisfactorily implemented substantially all the recommended measures. We have adopted internal procedures to ensure regulatory compliance in our business operations. Under these procedures, our management staff work closely with our external legal counsel to monitor the regulatory environment and developments in PRC laws and regulations to support our business operation and expansion.

### **Risk Management**

We are dedicated to the establishment and maintenance of a robust internal control system. We have adopted and implemented risk management policies and corporate governance measures in various aspects of our business operations such as financial reporting, information risk management, legal compliance and intellectual property rights management and human resources management.

### **Financial Reporting Risk Management**

We have adopted comprehensive accounting policies in connection with our financial reporting risk management. We provide ongoing trainings to our finance staff to ensure that these policies are well-observed and effectively implemented.

### **Information Risk Management**

We consider sufficient maintenance, storage and protection of player data and other related information is critical to our success. We have implemented relevant internal procedures and controls to ensure that player data is protected and that leakage and loss of such data is avoided. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of player data.

Our player data protection policy is set forth in our backup and disaster recovery plan. We collect, use and store our player data in a centralized data center, and back-up such data on a daily basis in separate and various secured data back-up systems to minimize the risk of player data loss or leakage. We also frequently review our data center and back-up systems to ensure that they function properly and are well-maintained. In addition, we implement a set of procedures such as regular system check, password policy, access control system and data back-up, as well as data recovery test, to safeguard our information assets and ensure the proper management of our operational data.

We believe that we have implemented adequate measures in player data protection. Our IT team is responsible for ensuring that collection, storage and use of player data complies with our internal policies and applicable laws and regulations. It also supervises the protection of data privacy. The key supervisors of our IT team have extensive experience in cyber security protection and internet information management, and all of our database administrators have internet or computer science academic background. We also provide ongoing trainings to our information technology staff to enhance their technical skills and conduct regular reviews of their performance.

We have also adopted measures to prevent and respond to cyber-attacks, including:

1. installing cyber-security protection software such as the Web Application Firewall to protect and prevent our systems from cyber-attacks;
2. conducting regular system inspections and maintenance to detect and prevent cyber-attacks, as well as to ensure effective emergency response to distributed denial-of-service attacks and network intrusions;
3. collecting and keeping records of relevant data for investigation; and
4. adopting a cyber-security contingency plan and conducting regular drills to ensure effective system recovery.

### **Operational Risk Management**

Compliance with PRC laws and regulations, especially laws and regulations governing the Internet e-commerce industry as well as trade matters, and protection of our intellectual property rights are major focus areas of our operational risk management. We have a dedicated legal team that is responsible for monitoring any changes in PRC laws and regulations and ensuring the ongoing compliance of our operations with PRC laws and regulations. Our legal team also works with our outside legal counsel to ensure that we have obtained all the necessary permits and licenses required for our operations for launching new products or entering into new business segments.

We have adopted the following internal control measures over intellectual property infringement risks:

1. we have established the copyright centre designated to monitor our intellectual property infringement risks. Before we enter into an IP licensing agreement, our copyright centre conducts independent background checks on the identity of the legal owner of the IP. For games developed based on IPs licensed by game developers, our copyright centre also requires the game developer to provide us with a power of attorney issued by the IP owner;
2. our copyright centre requires the game developer to provide its Computer Software Copyright Registration Certificate (軟件著作權登記證書) before we enter into a game licensing agreement, which also contains undertakings by the game developer to be the rightful owner of the game copyright; and
3. our legal team maintains a register which records details of our licensed IPs and games including their copyright registration numbers, amongst others.

For details on our measures adopted to combat intellectual property right infringements by third parties, see “- Intellectual Property Rights” in this section.



### **Human Resource Risk Management**

We have established internal control policies covering various aspects of human resource management such as recruitment, work ethics and legal compliance. We adopt high standards in recruitment with strict procedures to ensure the quality of new hires. We provide specialized trainings tailored to the needs of our employees in different positions. Our employee handbook contains work ethics and prevention of fraud, negligence and corruption. Our employees are required to provide a written confirmation that he or she understands and is committed to observing the requirements set forth in our employee handbook. We have also made available an anonymous reporting channel through which potential violations of our internal policies or illegal acts at all levels of the Company can be timely reported to management and appropriate measures can be taken to minimize damage.

### **Corporate Governance Measures**

We have established an audit committee on our Board, the primary duties of which are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and provide advice and comments to the board of Directors. The audit committee consists of two independent non-executive Directors and one non-executive Director and its chairman has appropriate professional qualifications.

To ensure our effective control of our PRC Operating Entities we have implemented the following measures: (i) under the Exclusive Option Agreements entered into among each of our PRC Operating Entities, Shenzhen Lanyue and Shengyue Software, Shenzhen Lanyue granted Shengyue Software an irrevocable and exclusive right to purchase, or designate one or more persons to purchase the equity interests in the PRC Operating Entities; (ii) under the Power of Attorney entered into among our PRC Operating Entities, Shenzhen Lanyue and Shengyue Software, Shenzhen Lanyue irrevocably nominated and appointed Shengyue Software or any natural person designated by Shengyue Software as their attorney-in-fact to exercise on their behalf, and agreed and undertook not to exercise without consensus with such attorney-in-fact, any and all shareholder's rights that they have in among our PRC Operating Entities; and (iii) under the equity pledge agreements under which Shenzhen Lanyue agreed to pledge all of its equity interests in the PRC Operating Entities to Shengyue Software as security interest to secure performance of all their obligations and the obligations of the PRC Operating Entities under the Exclusive Business Cooperation Agreements and the Exclusive Option Agreements underlying the Contractual Arrangements. For further details, see "Contractual Arrangements" in this prospectus.

### **Ongoing Measures to Monitor the Implementation of Risk Management Policies**

Our Audit Committee and senior management monitor the implementation of our risk management policies across the Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our operations.

## BUSINESS

### LICENSES AND PERMITS

Our PRC Legal Adviser advised us that we had obtained all requisite licenses, approvals and permits from the relevant government authorities that are material for our business operations in China and such licenses, approvals and permits remained in full effect as of the Latest Practicable Date, and no circumstances existed that would render their revocation or cancellation. Our PRC Legal Adviser also advised us that there was no material legal impediment to renew such licenses, approvals and permits as of the Latest Practicable Date. The following table sets forth details of our material licenses and permits:

License/Permit	Holder	Granting Authority	Grant Date	Expiry Date
ICP License	Chengdu Zhuoxing	Sichuan Communications Administration (四川省通信管理局)	March 7, 2019	March 7, 2024
	Shenzhen Zhongshouyou	Guangdong Communications Administration (廣東省通信管理局)	September 23, 2016	October 30, 2020
	Shenzhen Douyue	Guangdong Communications Administration (廣東省通信管理局)	November 30, 2015	November 30, 2020
Online Culture Operation License	Chengdu Zhuoxing	Department of Culture of Sichuan Province (四川省文化廳)	May 1, 2017	April 30, 2020
	Shenzhen Zhongshouyou	Department of Culture of Guangdong Province (廣東省文化廳)	November 2, 2018	November 1, 2021
	Shenzhen Douyue	Department of Culture of Guangdong Province (廣東省文化廳)	September 2, 2018	September 1, 2021
Online Publication License	Shenzhen Zhongshouyou	SAPPRFT	June 28, 2016	June 27, 2021

### DATA PRIVACY MATTERS

We collect certain personal data from our players in the PRC in connection with our business and operations. The PRC has strict regulations in place governing the collection and usage of personal data. In particular, PRC data privacy laws require the data owner to consent to the data collection and agree to its usage. When a player registers an account on our platform, he is required to confirm that he has read and agreed to the terms and conditions of being a player of our platform, including the terms set out in our data privacy statement. Our

data privacy statement states that in providing gaming services, we may collect, store, utilize or share with third parties player information including hobbies, mobile device, IP address and other information generated in using our services. Our data privacy statement also clearly states that the personal data being collected can be used for purposes of data analysis and supporting us to develop and to improve our services and products.

Player data protection is one of our fundamental policies. We ensure that no player information shall be shared with third parties except when (1) we acquire prior express consent from the relevant player; (2) it is required under applicable laws and regulations; (3) it is required pursuant to the relevant governing bodies; (4) it is necessary to protect social interests; and (5) it is necessary to protect our lawful interests.

We have adopted four data protection principles in handling issues arising from player data, namely (1) our player data collected are only used to provide products and services to our players; (2) we only develop products in compliance with privacy standards and customs; (3) our data collection is transparent and under close supervision; and (4) we try our best to protect the data collected.

### RECENT CHANGES IN THE REGULATORY ENVIRONMENT

#### Regulatory Background

##### *Online Game Pre-approvals*

Pursuant to the PRC regulations on online game publishing and operation, (i) prior to the launch of an online game, such game must first be pre-approved by the local Publication Administrative Department and the NPPA; and (ii) within 30 days after the commencement of operation of a domestically developed online game, filings should be made with the MCT. From April to December 2018, PRC regulators ceased granting pre-approvals to new domestically developed online games (the “**Suspension**”). This change followed the issuance of the Plan for Deepening the Institutional Reform of the Party and the State (深化黨和國家機構改革方案) and the Institutional Reform Plan of the State Council (國務院機構改革方案) in March 2018. The Suspension was lifted in December 2018. For further details, please refer to “Regulatory Overview – Online Publishing Services” in this prospectus.

##### *Restriction on Play-time of Online Games by Minors*

On August 30, 2018, the Ministry of Education (教育部) and seven other governmental departments of the PRC published the Notice of Issuance of the “Integrated Prevention and Control Program for Myopia among Children and Teenagers (綜合防控兒童青少年近視實施方案)” (the “**Notice**”). According to the Notice, the NPPA shall implement regulations on the total number of online games, control the number of new online games, explore the age-appropriate reminder system, and take measures to discourage the play-time of minors. The Notice is a policy statement, and as of the Latest Practicable Date, no government authorities, including the NPPA and the MCT, have issued or promulgated any laws, regulations or implementation rules to give effect to the Notice. For further details, please refer to “Regulatory Overview – Online Publishing Services” in this prospectus.

**Risks Associated with the Recent Regulatory Changes*****Online Game Pre-approvals***

According to the regulations on online publication, prior to the launch of an online game, such game must first be pre-approved by the local Publication Administrative Department and the NPPA, and the failure to do so could lead to the game operator being closed and subject to fines and other liabilities, and all of the relevant online materials deleted. Since the Suspension was lifted, we have obtained pre-approval for five of the 11 games that we submitted for pre-approval. The majority of the remaining six games had only been recently submitted for pre-approval and as a result, they were still under assessment by the PRC regulators as of the Latest Practicable Date. For further details, see “Risk Factors – Risks Related to Our Business – The laws and regulations regulating mobile games in China continue to evolve and change, which may make it difficult for us to obtain or maintain all applicable permits and approvals” in this prospectus.

***Restriction on Play-time of Online Games by Minors***

Although as of the Latest Practicable Date it is unclear if, when and how the Notice will be enforced, the enforcement of the Notice could impact our ability to launch and publish new games going forward, and require us to spend more time and costs in preparing and receiving the approvals necessary to launch our games. For further details, see “Risk Factors – Risks Related to Our Business – The laws and regulations regulating mobile games in China continue to evolve and change, which may make it difficult for us to obtain or maintain all applicable permits and approvals” in this prospectus.

**Impacts of the Recent Regulatory Changes on Our Business*****Online Game Pre-approvals***

Despite the recent regulatory changes which affect the commercial launch of new domestically developed mobile games, our Group and our Directors are of the view that our financial performance and operations will not be materially and adversely affected for the following reasons:

1. *Sustainable revenue generation from existing game portfolio.* Despite the Suspension, our revenue and gross billings continued to grow. According to our unaudited management accounts and internal records, the revenue and gross billings generated by our games during the period from April 1, 2018 to June 30, 2019 was approximately RMB2.9 billion and RMB3.6 billion, respectively, representing increases of 101.8% and 63.2% year-on-year, respectively.
2. *Length of lifecycle of our games.* Each game has its own lifecycle, and as of the Latest Practicable Date, the majority of our popular games were in the stable stage of their respective lifecycles. We seek to prolong the growth and length of the stable stage of the lifecycle of our games by launching frequent updates with new features,

levels and characters, offering discounts for in-game virtual items, giving players in-game rewards, and better engaging players by maintaining frequent communication, such as organizing player events, amongst others, to enhance player experience, thereby increasing player retention rate and revenue generation. For example, our popular games *One Piece – the Road of the Strong* (航海王強者之路) and *Naruto – Ninja Master* (火影忍者 – 忍者大師) are still generating high MAUs and significant revenue over three years after their launch. During the Track Record Period, the lifecycle of our games ranged from one to four years, which is longer than industry average, according to Analysys.

3. *Company's ability to launch new games.* Amongst the 29 games identified for potential launch by the end of 2020, (i) 15 had obtained pre-approvals as of the Latest Practicable Date, and (ii) two will only be published in overseas countries and regions and hence no pre-approvals are required. Therefore, we are in a position to launch a sufficient number of new games to maintain and grow our business despite the Suspension. Furthermore, we plan to continue to, from time to time, license from third-party game developers games that have already obtained pre-approvals. For example, *Territory Alert* (全境戒備), a game to be launched by the end of 2019, was licensed by us after the developer of that game had obtained its pre-approval. With the lifting of the Suspension, we believe that there will be an increasing number of unpublished mobile games that have received pre-approvals, which we could potentially license and launch whilst waiting for the pre-approvals of our games. In addition, we have been strategically publishing games overseas by leveraging our extensive local market knowledge. We selectively source suitable games and assist with localization based on specific preferences and trends in overseas markets. We have secured two games to be launched overseas only by the end of 2020, and may add more as we consider appropriate.
4. *Working capital sufficiency.* Having taken into account the financial resources available to our Company, our Directors are of the view that our Company has enough working capital for its present requirements (i.e. for the twelve months after listing). We believe we are able to maintain sustainable revenue generation from our existing game portfolio for a significant period. Having taken into account our increasing overseas publishing capabilities as well as the fact that 15 of the 29 games identified in our pipeline for potential launch by the end of 2020 had obtained pre-approvals as of the Latest Practicable Date, the risk of our Group's financial performance and operations being materially and adversely affected by the Suspension is expected to be remote.

***Restriction on Play-time of Online Games by Minors***

The Notice indicates that measures to discourage the play-time of minors may be adopted in the future. According to our PRC Legal Adviser, although the current regulations require online games to include anti-fatigue systems, this requirement does not apply to mobile games in practice. Although in the future the NPPA may issue regulations that require mobile games to be equipped with anti-fatigue systems so as to discourage the excessive play-time of mobile games by minors, such requirements would not have a material adverse impact on our Group's operational and financial conditions considering that the majority of our games are IP-based MMORPGs and CCGs, which according to Analysys, are mid-core to hardcore games that mainly attract players aged between 19 and 38, which do not fall within the targeted demographics of the Notice, i.e. minors. Having consulted with our PRC Legal Adviser, in the PRC minors refer to persons under the age of 18. We have adopted and implemented measures to discourage game players from spending too much time playing our games, including displaying messages to such effect every time players start our games.

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## CONTRACTUAL ARRANGEMENTS

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### INTRODUCTION

Foreign investment activities in the PRC are mainly governed by the Guidance Catalog of Industries for Foreign Investment (the “**Catalog**”) and Special Administrative Measures (Negative List) for Foreign Investment Access (the “**Negative List**”) which were promulgated and are amended from time to time jointly by the MOFCOM and the NDRC. We currently conduct our businesses and operations mainly through our three PRC Operating Entities, namely Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou. As advised by our PRC Legal Adviser, the primary business operations of our PRC Operating Entities are either restricted or prohibited for foreign investment in accordance with the Negative List, details of which are set forth below (the “**Principal Business**”):

Category	Nature	Our operation
Prohibited	Online publication business	<p>The principal business of Shenzhen Zhongshouyou involves online publication of games, and Shenzhen Zhongshouyou held a valid Online Publication License as of the Latest Practicable Date.</p> <p>According to the Negative List, foreign investors are prohibited from holding any equity interest in any enterprise engaging in an online publication business.</p>
	Online game operation business	<p>The principal business of each of Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou involves operation of online games on mobile telecommunications network, which falls within the scope of “online games” under the Interim Measures on Administration of Online Games (網絡遊戲管理暫行辦法) (which were abolished in July 2019). Each of Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou held a valid Online Culture Operation License (網絡文化經營許可證) as of the Latest Practicable Date (which remain valid after the abolishment of the aforesaid measures until expiration).</p> <p>According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in an online game operation.</p>



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Category	Nature	Our operation
Restricted	Value-added telecommunications business	<p>The principal business of each of Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou involves the operation of online games on mobile telecommunications network, which falls within the scope of “value-added telecommunications service” under the Telecommunications Regulations (《電信條例》). Each of Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou held valid ICP Licenses as of the Latest Practicable Date.</p> <p>According to the Negative List, foreign investors are restricted from holding more than 50% of the equity interests in any enterprise engaging in a value-added telecommunications business as an Internet content provider.</p>

Pursuant to applicable PRC laws and regulations, foreign investors are prohibited from holding equity interests in an entity engaging in online publication and online game activities and are restricted from conducting value-added telecommunications services. Accordingly, we cannot acquire equity interests in the PRC Operating Entities, which conduct the Principal Business and the mobile game publishing business which operates through, and holds the assets and certain licenses, approvals and permits required for the operation of the Principal Business. For further details of the limitations on foreign ownership in PRC companies and the licensing and approval requirements applicable to the Principal Business under PRC laws and regulations, see “Regulatory Overview” in this prospectus.

As a result of the foregoing restrictions and to comply with the PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over the PRC Operating Entities, we underwent the following reorganization steps with a view to consolidating our interests in the PRC Operating Entities:

- (i) on April 9, 2018, Tianhu Software, a WFOE ultimately owned by CMGE Group, entered into a series of contractual arrangements with the PRC Operating Entities and Shenzhen Lanyue (the “**Old Contractual Arrangements**”), the effect of which was for CMGE Group to gain an effective control over the PRC Operating Entities through Tianhu Software at the material time;
- (ii) on May 28, 2018, Rocket Parade, a wholly-owned subsidiary of our Company, acquired all the issued shares in CMGE International BVI from CMGE Group;

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## CONTRACTUAL ARRANGEMENTS

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- (iii) on May 30, 2018, Shengyue Software, a WFOE ultimately owned by our Company, entered into a series of contractual arrangements with the PRC Operating Entities and Shenzhen Lanyue (the “**Contractual Arrangements**”), which replaced the Old Contractual Arrangements. Under the Contractual Arrangements, our Company, through our wholly-owned subsidiary, Shengyue Software, asserts management control over the operations of the Principal Business conducted through the PRC Operating Entities and enjoys all the economic benefits of the PRC Operating Entities.

The agreements underlying the Contractual Arrangements with the PRC Operating Entities and Shenzhen Lanyue are: (i) the Exclusive Business Operation Agreements (as defined below), (ii) the Exclusive Option Agreements (as defined below), and (iii) Equity Pledge Agreements (as defined below) (the “**Contractual Arrangements**”). Moreover, Shenzhen Lanyue also executed an irrevocable power of attorney appointing Shengyue Software as its proxy to exercise on its behalf all shareholder rights in the PRC Operating Entities.

Pursuant to the Contractual Arrangements, all substantial and material business decisions of the PRC Operating Entities will be instructed and supervised by our Group through Shengyue Software. Accordingly, our Directors consider that it is fair and reasonable for Shengyue Software to be entitled to all economic benefits generated by the business operated by the PRC Operating Entities through the Contractual Arrangements as a whole. In addition, our Directors are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group’s legal structure and business operations and would allow and ensure sound and effective operation of our Company and the Principal Business in compliance with applicable PRC laws and regulations. Accordingly, our Directors consider that such transactions, which have been and shall be entered into on normal commercial terms, are fair and reasonable, or advantageous, so far as our Group is concerned and are in the best interest of our Company and Shareholders as a whole. Our Directors also believe that our Group’s structure whereby the financial results of the PRC Operating Entities are consolidated into our Group’s financial statements as subsidiaries, and the flow of economic benefits of their business to our Group pursuant to the Contractual Arrangements, are also in the best interests of our Company. During the Track Record Period, substantially all of the operating assets were held by the PRC Operating Entities and all operating staff and employees, including staff in our business development and operational department, were employed by the PRC Operating Entities. In addition, during the Track Record Period, the revenue generated by the PRC Operating Entities represented a substantial portion of the consolidated revenue of our Group.

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## CONTRACTUAL ARRANGEMENTS

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We believe that the Contractual Arrangements are narrowly tailored for the following reasons:

- (i) as of the Latest Practicable Date, each of the PRC Operating Entities held a valid ICP License and an Online Culture Operation License, and Shenzhen Zhongshouyou held a valid Online Publication License. As confirmed by our PRC Legal Adviser, the PRC Operating Entities are subject to foreign ownership restrictions or prohibitions; and
- (ii) companies which are not subject to any foreign investment restrictions or prohibitions are all held by our Company pursuant to the Reorganization such that the Contractual Arrangements are, and will continue to remain, narrowly tailored.

### Qualification Requirements for our ICP Licenses

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the “**FITE Regulations**”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including Internet content provider services. In addition, a foreign investor which invests in a value-added telecommunications business in China must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the “**Qualification Requirements**”). Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT has issued the latest guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC on March 1, 2017. According to this guidance memorandum, an applicant is required to provide, among other things, the foreign investor’s satisfactory proof of the Qualification Requirements and the project proposal plan of the applicant. The guidance memorandum does not provide any further guidance on the proof, record or document required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement.

As advised by our PRC Legal Adviser, (i) no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements, and (ii) foreign investor’s fulfillment of the Qualification Requirements remains ultimately subject to substantive examination of the MIIT. Given that the (i) foreign investment in online game publishing business is prohibited under current PRC laws and regulations, (ii) the Online Culture Operation License will not be granted to any foreign invested enterprise, it is not viable for our Company to hold the PRC Operating Entities directly or indirectly through equity ownership.

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Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have taken and plan to continue to take specific steps to comply with the Qualification Requirements, including:

1. as of the Latest Practicable Date, we published and operated 22 games in overseas jurisdictions, including Singapore and Malaysia, on mainstream publishing channels such as Apple's App Store and Google Play. Seven of our games, including *Uri: The Sprout of Lotus Creek* (Uri: 蓮花溪之苗), *Candleman* (蠟燭人), *Adventures in Dreamland* (夢旅人) and *3DTD: Chicka Invasion* (攻堡雞兵), were recommended on the front page of Apple's App Store globally. We plan to further explore overseas markets such as the United States, South Korea and Southeast Asia, thereby expanding our overseas business and making it an important source of our revenue and profit;
2. as of the Latest Practicable Date, we entered into effective game licensing agreements with 80 game developers, over half of which granted us global licenses. We plan to obtain more global licenses in the future to expand our overseas game portfolio; and
3. as of the Latest Practicable Date, we had registered seven trademarks and two domain names in Hong Kong.

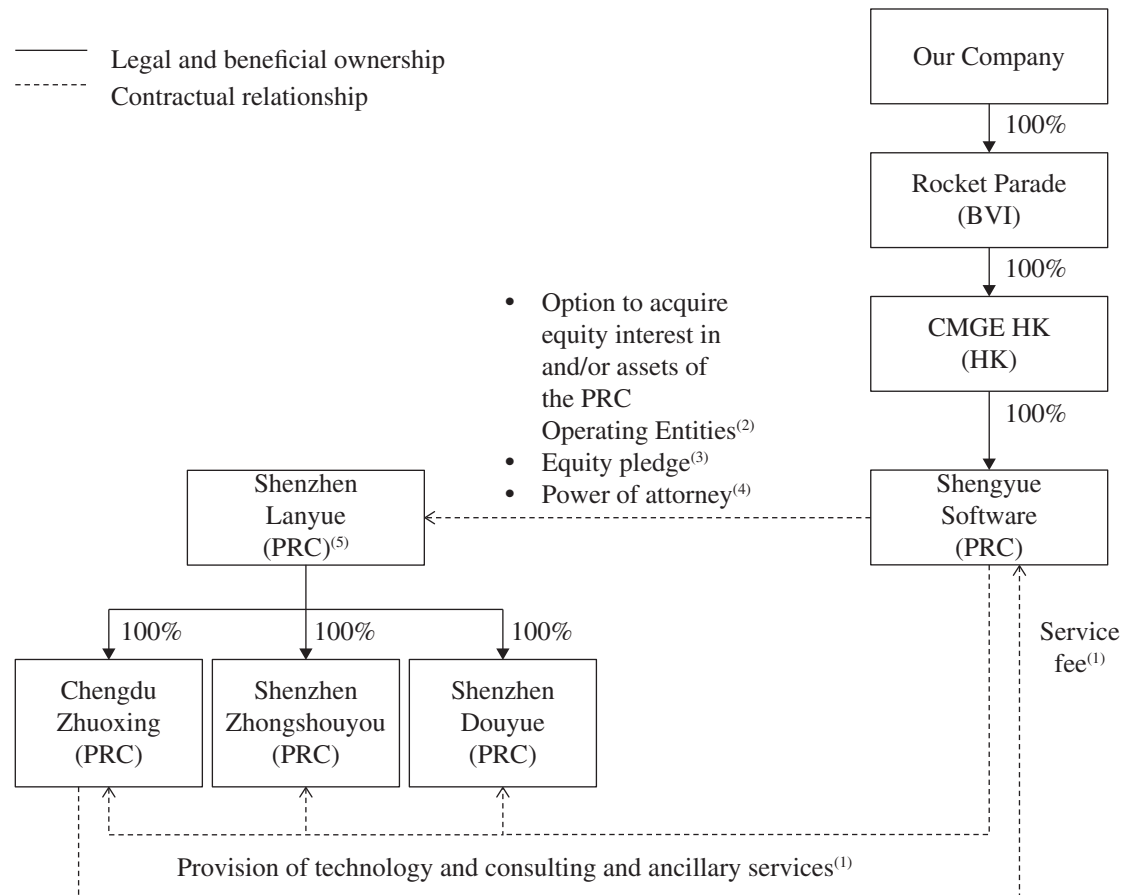
Based on the foregoing, our PRC Legal Adviser is of the view that, subject to the discretion of the competent authority in determining whether our Group has fulfilled the Qualification Requirements, the above steps taken by us are reasonable, appropriate and sufficient in relation to the Qualification Requirements. We will maintain close contact with the relevant PRC regulatory authorities and seek specific guidance as to the Qualification Requirements.

In line with common practice in the game publishing and operating industry in the PRC subject to foreign investment restrictions, the Company could gain effective control over, and receive all the economic benefits generated by the business currently operated by the PRC Operating Entities through the Contractual Arrangements between Shengyue Software, our Company's wholly-owned subsidiary, on the one hand and the PRC Operating Entities and Shenzhen Lanyue on the other hand. The Contractual Arrangements allow consolidation of the PRC Operating Entities' financials and results of operations into our financials and results of operations under HKFRS as if they were wholly-owned subsidiaries of our Group.

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### Diagram of the Contractual Arrangements

The following simplified diagram illustrates the flow of economic benefits from the PRC Operating Entities to our Group stipulated under the Contractual Arrangements:



#### Notes:

1. For further details, see “– Exclusive Business Cooperation Agreements” in this section.
2. For further details, see “– Exclusive Option Agreements” in this section.
3. For further details, see “– Equity Pledge Agreements” in this section.
4. For further details, see “– Power of Attorney” in this section.
5. For details of the shareholders of Shenzhen Lanyue as of the Latest Practicable Date, see “History, Reorganization and Corporate Structure – Corporate structure immediately before the completion of the Global Offering” in this prospectus.

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As illustrated in the above diagram, we do not have direct equity interests in the PRC Operating Entities. The PRC Operating Entities are wholly-owned by Shenzhen Lanyue, which in turn is wholly-owned by CMGE Mobile Tech. For details of the relevant risks, please refer to the section headed “Risk Factors – Risks Related to Our Contractual Arrangements – The registered shareholder of our PRC Operating Entities, Shenzhen Lanyue, is indirectly controlled as to 44.67% by Wuhan Husheng, which is the general partner of Changpei Shanghai appointed by the Changpei Shanghai LPs and is an independent third party. Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. Our PRC Operating Entities or their shareholders, Shenzhen Lanyue, may fail to perform their obligations under our Contractual Arrangements.”

*Arrangements to protect our Group’s interests in the event of death, bankruptcy or divorce of the beneficial shareholders of Shenzhen Lanyue*

Shenzhen Lanyue is owned by CMGE Mobile Tech, which in turn is owned as to 44.67% by Changpei Shanghai, 22.33% by Beijing Orient L.P., 18.9% by Shanghai Pegasus, 4.9% by Yichong Investment and 9.2% by Zhongshouyou Brothers PRC. Since (i) Beijing Orient L.P. is controlled by its managing partner ultimately controlled by Mr. Ma, and (ii) Shanghai Pegasus and Yichong Investment are ultimately controlled by a PRC trust company, namely Zhongrong Trust, our Directors are of the view that the death, bankruptcy or divorce of any individual beneficial shareholder of Beijing Orient L.P., Shanghai Pegasus and Yichong Investment would not adversely affect the enforcement of the Contractual Arrangements. Zhongshouyou Brothers PRC is ultimately controlled by Mr. Xiao and Mr. Sin, who are our Controlling Shareholders.

Each of the ultimately individual shareholders of Changpei Shanghai, namely (i) Yu Jianying and Hu Luping, who are the owners of Wuhan Husheng which in turn holds 0.004% partnership interests in Changpei Shanghai, and (ii) the Shanghai Changpei LPs, holding 99.996% partnership interest in Changpei Shanghai, as well as the beneficial owners of Zhongshouyou Brothers PRC, namely Mr. Sin and Mr. Xiao (the “**Relevant Individual Shareholders**”) has confirmed and undertaken to the effect that (i) he/she will take all acts and measures as may be necessary or desirable to support and safeguard the due performance of Shenzhen Lanyue and the PRC Operating Entities in respect of their obligations and responsibilities under the Contractual Arrangements at all times; (ii) his/her spouse does not have the right to claim any interests in Wuhan Husheng or Changpei Shanghai, or exert influence on the day-to-day management of Wuhan Husheng; and (iii) he/she will take necessary measures to ensure that, in the event of his/her death, incapacity, divorce or any other event which causes his/her inability to exercise his/her rights as a shareholder of Wuhan Husheng or as a limited partner of Changpei Shanghai to perform the foregoing undertaking, his/her successors (including his/her spouse) will be bound by the undertaking to support and safeguard the Contractual Arrangements.

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The spouse of each of the Relevant Individual Shareholders, where applicable, has also signed an undertaking (the “**Spouse Undertakings**”) to the effect that (i) the respective Relevant Individual Shareholder’s interests in Wuhan Husheng, Zhongshouyou Brothers PRC or Changpei Shanghai as applicable do not fall within the scope of communal properties, and (ii) he/she does not have the right to claim any interests in Wuhan Husheng, Zhongshouyou Brothers PRC or Changpei Shanghai, or exert influence on the day-to-day management of Wuhan Husheng or Zhongshouyou Brothers PRC, as applicable.

Based on the foregoing, the Contractual Arrangements provide protection to our Group even in the event of death or divorce of any Relevant Individual Shareholders to avoid any practical difficulties in enforcing the Contractual Arrangements.

### **Exclusive Business Cooperation Agreements**

Each of the PRC Operating Entities and Shengyue Software entered into the exclusive business cooperation agreements on May 30, 2018 (the “**Exclusive Business Cooperation Agreements**”), pursuant to which the PRC Operating Entities agreed to engage Shengyue Software as its exclusive consultant and service provider. Accordingly, Shengyue Software shall provide advice and recommendations to the PRC Operating Entities in respect of (i) comprehensive solution for information technology systems, (ii) daily management, maintenance and upgrade of hardware equipment and database of the PRC Operating Entities, (iii) development, maintenance and upgrade of relevant application software necessary for the business operations of the PRC Operating Entities, (iv) allow the PRC Operating Entities to use the software and other intellectual property owned by Shengyue Software, (v) web design of the PRC Operating Entities’ websites, (vi) provide consulting service in procurement of equipment and hardware and software systems necessary for the PRC Operating Entities’ business operation, (vii) technical training and support for the personnel of the PRC Operating Entities, (viii) provide assistance in collection and research of technology and market information (excluding market research business that wholly foreign owned enterprise are prohibited from conducting under PRC laws), (ix) brand strategy, sales strategy and marketing planning services, (x) media relations establishment and promotion service, (xi) consulting services in respect of the management and operations of the PRC Operating Entities, and (xii) other business support and services that are necessary for the operations of the PRC Operating Entities and Shengyue Software decides to provide. In addition, without the prior written consent of Shengyue Software, during the term of the Exclusive Business Cooperation Agreements, with respect to the services subject to the Exclusive Business Cooperation Agreements and other matters, the PRC Operating Entities shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish cooperation relationships similar to that formed by the Exclusive Business Cooperation Agreements with any third party. Shengyue Software may appoint other parties, who may enter into certain agreements with the PRC Operating Entities, to provide the PRC Operating Entities with the services under the Exclusive Business Cooperation Agreements.

The Exclusive Business Cooperation Agreements also provide that Shengyue Software has the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the PRC Operating Entities during the performance of the Exclusive Business Cooperation Agreements.



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Pursuant to the Exclusive Business Cooperation Agreements, the PRC Operating Entities shall pay to Shengyue Software a service fee that equals to the profit of the PRC Operating Entities, after off-setting the prior-year loss (if any), actual operating cost, working capital requirements confirmed by Shengyue Software, and tax of the PRC Operating Entities in any given year, and Shengyue Software shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating conditions and expansion needs of the PRC Operating Entities. Each of the PRC Operating Entities has agreed to pay the service fee within ten (10) days after each quarter end for the services provided in the preceding quarter.

Our Directors consider that the above arrangement will ensure the economic benefits generated from the operations of the PRC Operating Entities to flow to Shengyue Software and hence, our Group as a whole. As of the Latest Practicable Date, Shengyue Software has deployed appropriate facilities and personnel to oversee the operation and management of the PRC Operating Entities, drive the key business decision-making processes and provide overall business advices and consulting services as required to be provided to the PRC Operating Entities pursuant to the Exclusive Business Operation Agreements, whilst the PRC Operating Entities are mainly responsible for the operations of the mobile game publishing business and to hold all operating assets for the purpose of operating the Principal Business to ensure compliance with relevant PRC laws and regulations with respect to the restriction on foreign investment in entity operating mobile game publishing business and the conditions of the relevant ICP Licenses, the Online Culture Operation License, the Online Publication License and other operating licenses granted to the PRC Operating Entities. Our Company believes that such allocation of resources would allow a proper discharge of the respective responsibilities of Shengyue Software and the PRC Operating Entities under the Contractual Arrangements and also ensure sound and effective operation of our Group in compliance with the Contractual Arrangements and applicable laws and regulations.

The Exclusive Business Cooperation Agreements shall remain effective unless terminated in accordance with the provisions of the Exclusive Business Cooperation Agreements. The Exclusive Business Cooperation Agreements may be terminated by Shengyue Software by giving the PRC Operating Entities a 30 days' prior written notice of termination and shall be terminated upon the transfer of the entire equity interests in the PRC Operating Entities to Shengyue Software or its designated person pursuant to the Exclusive Option Agreements.

### **Exclusive Option Agreements**

Each of the PRC Operating Entities, Shengyue Software and Shenzhen Lanyue entered into the exclusive option agreements on May 30, 2018 (the “**Exclusive Option Agreements**”), pursuant to which Shenzhen Lanyue jointly and severally granted to Shengyue Software or a third party designated by Shengyue Software irrevocable options to purchase, to the extent permitted by PRC laws and regulations, its equity interests in the PRC Operating Entities, entirely or partially, at RMB1 or a minimum purchase price permitted under PRC laws and regulations. Shengyue Software or the designated party may exercise such options at any time until it has acquired all equity interests of the PRC Operating Entities, subject to applicable

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PRC laws and regulations. It is also agreed that when the relevant PRC law permits the equity interests of the PRC Operating Entities to be directly held by Shengyue Software while it continues to operate its mobile games publishing business, the parties will carry out all necessary actions to implement the transfer of all the shares of the PRC Operating Entities to Shengyue Software upon the exercise of the option granted under the Exclusive Option Agreements.

Pursuant to the Exclusive Option Agreements, each of the PRC Operating Entities and Shenzhen Lanyue has undertaken to perform certain acts or refrain from performing certain other acts unless it has obtained prior approval in writing from Shengyue Software, including but not limited to the following matters:

- (i) the PRC Operating Entities shall not alter their constitutional documents or their registered capital;
- (ii) the PRC Operating Entities shall prudently and effectively operate their business and transactions in accordance with the good financial and business standards;
- (iii) the PRC Operating Entities shall not sell, transfer, create encumbrances or otherwise dispose of any assets, business, legal or beneficial interest of its income of over RMB1 million or allow any guarantee or security to be created on their assets;
- (iv) the PRC Operating Entities shall not incur, take up, guarantee or allow any indebtedness other than those in the ordinary course of business and having been disclosed to and consented by Shengyue Software in writing;
- (v) the PRC Operating Entities shall not enter into any material contracts with an amount of over RMB1 million other than in the ordinary course of business;
- (vi) the PRC Operating Entities shall operate their business in order to maintain its asset value or not allow any acts or omission which adversely affects their business or assets value;
- (vii) the PRC Operating Entities shall not engage in any mergers or acquisitions or reorganization in any entities;
- (viii) the PRC Operating Entities shall immediately inform Shengyue Software if their assets or business become involved in any disputes, litigations, arbitrations or administrative proceedings; and
- (ix) the PRC Operating Entities shall not distribute any dividend to Shenzhen Lanyue.

The Exclusive Option Agreements shall remain effective until they are terminated (i) by Shengyue Software by giving the PRC Operating Entities a 30 days' prior written notice of termination, or (ii) upon the transfer of the entire equity interests held by Shenzhen Lanyue in the PRC Operating Entities to Shengyue Software or its designee.

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To ensure that Shenzhen Lanyue duly discharges its obligations under the Contractual Arrangements, pursuant to the Exclusive Option Agreements, Shenzhen Lanyue, as the registered shareholder of the PRC Operating Entities, has already executed in blank the equity transfer agreements with respect to its shareholding in the PRC Operating Entities, which are under the custody of the Company and can be effected and enforced by Shengyue Software or its designee in the event that Shenzhen Lanyue fails to discharge its obligations under the Contractual Arrangements.

In addition, Shenzhen Lanyue has undertaken under the Exclusive Option Agreements that it will return to Shengyue Software or its designee any proceeds it will receive upon the exercise of the aforesaid irrevocable option.

### **Power of Attorney**

On May 30, 2018, Shenzhen Lanyue, Shengyue Software and the PRC Operating Entities executed a power of attorney. Pursuant to the power of attorney, Shenzhen Lanyue irrevocably appointed Shengyue Software and its designee (including but not limited to the directors of Shengyue Software, Directors and their successors and liquidators replacing the Directors or the directors of Shengyue Software but excluding those non-independent or who may give rise to conflict of interests) as their attorneys-in-fact to exercise on their behalf, any and all right that they have in respect of their equity interests in the PRC Operating Entities, including without limitation, the rights to (i) attend shareholders' meetings, (ii) exercise voting rights in shareholders' meetings to appoint directors, supervisors and senior management, (iii) decide on any acquisition or disposal of the equity interest of Shenzhen Lanyue in the PRC Operating Entities or the winding-up or dissolution of the PRC Operating Entities, (iv) file documents with relevant governmental authorities or regulatory bodies, and (v) exercise such other shareholders' rights as stipulated under applicable PRC laws, rules and regulations and the articles of association of the PRC Operating Entities.

Shenzhen Lanyue, as the registered shareholder of the PRC Operating Entities, has undertaken that it will not directly or indirectly participate in, engage in, involve in, or own any business which potentially competes with Shengyue Software and the PRC Operating Entities.

Further, the power of attorney shall remain effective for so long as Shenzhen Lanyue holds equity interest in the PRC Operating Entities, unless Shengyue Software has given written instructions to the contrary.

### **Equity Pledge Agreements**

Each of the PRC Operating Entities, Shengyue Software and Shenzhen Lanyue entered into the equity pledge agreements on May 30, 2018 (the “**Equity Pledge Agreements**”), pursuant to which Shenzhen Lanyue agreed to pledge all of its equity interests in the PRC Operating Entities to Shengyue Software as security interest to secure performance of all its obligations and the obligations of the PRC Operating Entities under the Exclusive Business Cooperation Agreements and the Exclusive Option Agreements underlying the Contractual Arrangements.

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## CONTRACTUAL ARRANGEMENTS

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Under the Equity Pledge Agreements, if any of the PRC Operating Entities declares any dividend during the term of the pledge, Shengyue Software is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests, if any. If Shenzhen Lanyue breaches or fails to fulfill the obligations under any of the aforementioned agreements, Shengyue Software, as the pledgee, will be entitled to dispose of the pledged equity interests. In addition, pursuant to the Equity Pledge Agreements, Shenzhen Lanyue has undertaken to Shengyue Software, among other things, not to transfer the interest in its equity interests in the PRC Operating Entities and not to create or allow any pledge thereon that may affect the rights and interest of Shengyue Software without its prior written consent.

The Equity Pledge Agreements shall remain effective until all the agreements (other than this Equity Pledge Agreements) underlying the Contractual Arrangements have been terminated.

As advised by our PRC Legal Adviser, the equity pledges contemplated under the Equity Pledge Agreements have been registered with the relevant PRC legal authority pursuant to the relevant PRC laws and regulations.

### CLAUSES UNDER THE CONTRACTUAL ARRANGEMENTS

#### **Dispute resolution under the contractual arrangements**

Each of the agreements underlying the Contractual Arrangements stipulates that in the event of any dispute arising out of or in relation to the agreements underlying the Contractual Arrangements, the parties shall first negotiate in good faith to resolve such dispute. If the parties fail to reach an agreement on the resolution of such dispute within 20 days, any party may submit such dispute to the Shenzhen Court of International Arbitration for arbitration in accordance with the then effective arbitration rules. The arbitration shall be conducted in Shenzhen, the language of arbitration shall be Chinese, and the results of the arbitration shall be final and binding on all relevant parties.

In addition, pursuant to the dispute resolution clause, the arbitral tribunal may award remedies over the equity interests or assets of the PRC Operating Entities, including restrictions over the conduct of business, restrictions or prohibitions over transfer or disposal of the equity interests or assets or order the winding up of the PRC Operating Entities, and the courts of the PRC (being the place of incorporation of the PRC Operating Entities and the place where our Company's and the PRC Operating Entities' principal assets are located), Hong Kong and the Cayman Islands (being the place of incorporation of our Company) shall have jurisdiction to grant and/or enforce the arbitral award and to grant interim remedies over the equity interests or assets of the PRC Operating Entities.

Our PRC Legal Adviser confirmed that the aforementioned dispute resolution provisions set forth in the agreements underlying the Contractual Arrangements are legally valid and binding on the relevant signatories. However, our PRC Legal Adviser is also of the opinion that the aforementioned provisions may not be enforceable under the PRC laws. For instance,

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## CONTRACTUAL ARRANGEMENTS

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Shenzhen Court of International Arbitration has no power to grant such injunctive relief, nor will it be able to order the winding up of the PRC Operating Entities under the current PRC laws. In addition, interim remedies or enforcement orders granted by courts in an overseas jurisdiction, such as Hong Kong and the Cayman Islands, may not be recognized or enforceable in China, and Shengyue Software may only seek interim remedies or enforcement from competent PRC courts. As a result, in the event that the PRC Operating Entities or Shenzhen Lanyue breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over the PRC Operating Entities and conduct our business, as well as our financial conditions and results of operations, could be materially and adversely affected. For further details, see “Risk Factors – Risks Related to Our Contractual Arrangements – We conduct our business operations in China through the PRC Operating Entities by way of the Contractual Arrangements. However, certain terms of the Contractual Arrangements may not be enforceable under PRC laws” in this prospectus.

### **Loss Sharing**

Under the relevant PRC laws and regulations, none of the agreements comprising the Contractual Arrangements provides that the Company or its wholly-owned PRC subsidiary, Shengyue Software, is obligated to share the losses of the PRC Operating Entities. Further, the PRC Operating Entities are limited liability companies and shall be solely liable for their own debts and losses. Under PRC laws and regulations, the Company or Shengyue Software is not expressly required to share the losses of the PRC Operating Entities or provide financial support to the PRC Operating Entities. Despite the foregoing, given that the Group conducts a substantial portion of its business operations in the PRC through the PRC Operating Entities, which holds the requisite PRC licenses and approvals, and that the PRC Operating Entities’ results of operations and assets and liabilities are consolidated into that of the Group under the applicable accounting principles, the Company’s business, financial condition and results of operations would be adversely affected if the PRC Operating Entities suffered losses.

However, as provided in the Exclusive Option Agreements, without the prior written consent of Shengyue Software, the PRC Operating Entities shall not, among others, (i) sell, transfer, mortgage or otherwise dispose of any of its assets with a value above RMB1,000,000 (except in the ordinary course of business); (ii) increase or reduce its registered capital or revise the articles of association in any way; (iii) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business; (iv) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party; or (v) close, liquidate or dissolve itself.

Therefore, due to the relevant restrictive provisions in the agreements comprising the Contractual Arrangements, the potential adverse effect on Shengyue Software and our Company in the event of any loss suffered from the PRC Operating Entities can be limited to a certain extent.

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## CONTRACTUAL ARRANGEMENTS

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### OPERATIONS IN COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group will adopt the following measures to ensure legal and regulatory compliance and to ensure the sound and effective operation of our Group (including the PRC Operating Entities) and the implementation of the Contractual Arrangements upon Listing:

- (i) as part of the internal control measures, major issues arising from implementation of the Contractual Arrangements will be regularly reviewed, at least on a quarterly basis, by our Board after Listing;
- (ii) matters relating to compliance and regulatory enquiries from government authorities (if any) will be discussed at these regular meetings;
- (iii) the relevant business units and operation divisions of our Group will report regularly, and no less frequently than on a monthly basis, to the senior management of our Company in relation to compliance and performance conditions under the Contractual Arrangements and other related matters;
- (iv) the company seals, financial seals, contract seals and crucial corporate certificates of the PRC Operating Entities are kept by our Group's finance department. Any employee of our Group who wishes to use the seals will have to obtain internal approval from the business, legal and/or finance department(s) (as the case may be) of our Group, as well as approval from relevant department heads and vice presidents and the chief executive officer of our Company, depending on the importance or transaction value of the document to which the seal/seals will be affixed. The business, legal and/or finance departments constitute our Group's central management system and the persons in charge of these departments as well as the department members responsible for the custody and handling of the seals and crucial corporate certificates are employees of Shengyue Software or our Company;
- (v) because the Contractual Arrangements will constitute continuing connected transactions of our Group upon Listing, our Company has applied to the Stock Exchange, and the Stock Exchange has granted a waiver, in relation to these continuing connected transactions, details of which are set out in the section headed "Connected Transactions" in this prospectus. Our Company will comply with the conditions prescribed by the Stock Exchange under the waiver given;
- (vi) if necessary, legal advisers and/or other professionals will be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements and to ensure that the operation and implementation of the Contractual Arrangements as a whole will comply with applicable laws and regulations;
- (vii) our independent non-executive Directors will review the compliance of the Contractual Arrangements on an annual basis and their confirmation will be disclosed in our annual report;



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## CONTRACTUAL ARRANGEMENTS

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- (viii) to avoid potential conflicts of interest, our Board (including the independent non-executive Directors) will ensure that any designee or person or entity designated by Shengyue Software and Shenzhen Lanyue for the purpose of exercising any of the rights originally granted to Shengyue Software and/or such designee under the Contractual Arrangements shall be restricted to a legally-held subsidiary of our Company (and which will be under the management control of our Company) or an authorized director of our Company or a legally-held subsidiary (whom shall own fiduciary duties to us) and shall exclude any of its associates. Our Board will also ensure that no rights shall be granted to any other third parties outside of our Group which do not owe any fiduciary duties to our Company;
- (ix) our Board (including the independent non-executive Directors) will ensure that Shengyue Software will only approve and consent to the relevant operating entity carrying out the Principal Business and ancillary business which would otherwise be prohibited or restricted to be carried out by foreign invested entities under relevant PRC laws and regulations;
- (x) our Board (including the independent non-executive Directors) will ensure that the PRC Operating Entities shall retain and continue to hold all relevant intellectual properties, including trademarks, computer software, copyrights and domain names, required for the purpose of maintaining and renewing its operating licenses and permits as required by relevant PRC government authorities, and going forward and to the extent permissible under PRC laws and regulations, Shengyue Software or any other legally held member of our Group shall be the registered owner of the trademarks which will be material to the business of our Group; and
- (xi) our Group will unwind the Contractual Arrangements as soon as relevant PRC laws and regulations allow the Principal Business to be conducted and operated by the subsidiaries of our Company without such arrangements in place.

As of the Latest Practicable Date, Shenzhen Lanyue was wholly-owned by CMGE Mobile Tech, which was in turn owned as to 44.67% by Changpei Shanghai. Changpei Shanghai was controlled by its general partner, Wuhan Husheng. Wuhan Husheng is an independent third party that is not connected with any of the Directors, chief executive or Substantial Shareholders of our Company, our subsidiaries, the PRC Operating Entities, or their respective assets.

To ensure that Shenzhen Lanyue and the PRC Operating Entities will comply with the Contractual Arrangements, we have decided to further introduce the following measures:

- (i) the three independent non-executive Directors will continue to play an independent role in our Board by reviewing the effective implementation of the procedures and controls referred to above and compliance of our Contractual Arrangements;



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## CONTRACTUAL ARRANGEMENTS

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- (ii) Pursuant to a deed of undertaking of Wuhan Husheng dated August 23, 2018, Wuhan Husheng, being the general partner of Changpei Shanghai which indirectly controlled Shenzhen Lanyue as of the Latest Practicable Date, undertook that it will not, and will procure that its close associates (as defined under the Listing Rules) will not, take any actions or inactions which may cause (a) Shenzhen Lanyue or the PRC Operating Entities to breach or be not in compliance with any of the agreements under the Contractual Arrangements, (b) Shengyue Software to be unable to exercise or enjoy any of its rights under any of the agreements under the Contractual Arrangements, or (c) any of the agreements under the Contractual Arrangements to become invalid, unable to be implemented or unenforceable. Our PRC Legal Adviser has advised that such deed of undertaking is enforceable against Wuhan Husheng under the relevant PRC laws; and
- (iii) in the event of the occurrence of a conflict of interests (where Shengyue Software has the sole and absolute discretion to determine whether such conflict arises), Shenzhen Lanyue shall take appropriate measures upon the consent of Shengyue Software or its designee to eliminate such conflicts, failing which Shengyue Software may exercise, to the extent permitted under the PRC laws, the option under the Exclusive Option Agreements.

We also believe that Mr. Xiao and Mr. Sin, being the executive Directors of our Company, will uphold their fiduciary duties in acting in the best interests of our Company and our Shareholders as a whole and will also uphold good governance practices to ensure that the Contractual Arrangements will be implemented and operated in accordance with our Group's policies and the terms of the Contractual Arrangements, which our Directors considered that such terms and arrangements are fair and reasonable and in the best interest of our Company and its Shareholders as a whole.

## INSURANCE

There are certain risks involved in our operations, in particular, those relating to our corporate structure and the Contractual Arrangements. A detailed discussion of material risks relating to our Contractual Arrangements is set forth in the section headed "Risk Factors – Risks Related to Our Contractual Arrangements" in this prospectus. We have determined that the costs of insurance for the risks associated with business liability or disruption and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Accordingly, as of the Latest Practicable Date, our Company did not purchase any insurance to cover the risks relating to the Contractual Arrangements. For further details, see "Risk Factors – Risks Related to Our Business – We have limited insurance coverage which could expose us to significant costs and business disruption" in this prospectus.

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### EFFECT OF THE CONTRACTUAL ARRANGEMENTS

We believe that the Contractual Arrangements provide a mechanism that enables us to exercise effective control over the PRC Operating Entities, and are narrowly tailored to achieve our business purposes and to protect and safeguard the interests of our Company and our future public shareholders in the event of any dispute between us and Shenzhen Lanyue on the following basis:

- (i) under the power of attorney, Shenzhen Lanyue has irrevocably granted its designee (being an authorized director of any direct or indirect shareholder of Shengyue Software) who is a PRC citizen but excluding Shenzhen Lanyue, any other shareholders of the PRC Operating Entities or any of their associates) the power to exercise all of its shareholders' rights in the PRC Operating Entities. These provisions provide Shengyue Software with the powers to determine or change the composition of the board of directors and management team of the PRC Operating Entities at any time, which in turn provide Shengyue Software with the power to control the PRC Operating Entities without the need for any further action or cooperation from Shenzhen Lanyue, thereby conferring the management control of the PRC Operating Entities on our Company and our legally-owned subsidiaries;
- (ii) under the Exclusive Option Agreements, Shenzhen Lanyue has granted Shengyue Software (exercisable by itself or any direct or indirect shareholder of Shengyue Software and a direct or indirect subsidiary of such shareholder (i.e. being any member of our Group) or an authorized director (being a PRC citizen) of any such shareholder or its direct or indirect subsidiary as designated by Shengyue Software, irrevocable options to purchase from Shenzhen Lanyue all or part of the equity interest in the PRC Operating Entities at the minimum purchase price permitted under PRC laws and regulations. These provisions enable Shengyue Software to unilaterally appoint any member of our Group or an authorized director of a member of our Group (whom shall own fiduciary duties to our Group and shall act in the best interests of our Group) to act as nominee shareholders of its choice to take over the equity interest in the PRC Operating Entities at any time, thereby ensuring that our Group will continue to maintain our interest in the PRC Operating Entities upon exercise of the call option pursuant to the Exclusive Option Agreements;
- (iii) under the Equity Pledge Agreements, Shenzhen Lanyue pledged its equity interest in the PRC Operating Entities to Shengyue Software, and all such pledges have been properly registered with the local counterpart of SAIC as required by the PRC Property Rights Law. The registered pledges effectively prevent Shenzhen Lanyue from impeding Shengyue Software's control over the PRC Operating Entities by transferring its equity interests in the PRC Operating Entities to bona fide third parties without Shengyue Software's knowledge or approval;

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## CONTRACTUAL ARRANGEMENTS

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- (iv) the arrangements under the Exclusive Business Operation Agreements will ensure that all economic benefits generated from the operations of the PRC Operating Entities will flow to Shengyue Software whilst ensuring compliance with applicable PRC laws and regulations and allowing the PRC Operating Entities to continue to maintain and renew the relevant operating licenses and permits as required by the relevant PRC government authorities and to operate such value-added telecommunications service and business which are either restricted or prohibited to be conducted by foreign investors or foreign owned or invested entities, and hence, are in the best interest of our Company and our Group as a whole. The delineation of the assets and staffing between Shengyue Software, which shall be responsible for driving key business decision-making processes and providing overall business advice and consulting services, and the PRC Operating Entities, which shall be responsible for the operations of the Principal Business and the holding of relevant intellectual properties in compliance with relevant PRC laws and regulations and the conditions of the ICP Licenses, the Online Culture Operation License and the Online Publication License granted to the PRC Operating Entities, would allow a proper discharge of the respective responsibilities of Shengyue Software and the PRC Operating Entities under the Contractual Arrangements and also ensure sound and effective operation of our Company and the Principal Business in compliance with the Contractual Arrangements and applicable laws and regulations; and
- (v) under the Exclusive Option Agreements, Shenzhen Lanyue has further undertaken to procure that all of its subsidiaries will only be carrying out the Principal Business and ancillary businesses as approved by Shengyue Software and which shall be in compliance with applicable requirements under relevant laws and regulations, rules and guidance from regulatory authorities, approvals and licenses. We, through Shengyue Software, will only approve and consent to the relevant subsidiary carrying out such Principal Business and ancillary businesses, which would otherwise be prohibited or restricted to be carried out by foreign invested entities under the PRC laws and regulations so as to ensure that the Contractual Arrangements are narrowly tailored for our business purpose. In addition to the undertakings given by the PRC Operating Entities under the Contractual Arrangements, we further undertake to procure all PRC subsidiaries of the PRC Operating Entities to only carry out such Principal Business and ancillary businesses, which would otherwise be prohibited or restricted to be carried out by foreign invested entities under PRC laws and regulations so as to ensure that the Contractual Arrangements are narrowly tailored for our business purpose.

As of the Latest Practicable Date, our Company had not encountered any interference or encumbrance from any PRC governing bodies in operating our business through the PRC Operating Entities under the Contractual Arrangements.

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## CONTRACTUAL ARRANGEMENTS

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### LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Our PRC Legal Adviser is of the opinion that each of the agreements underlying the Contractual Arrangements (i) taken individually and collectively, is legal and valid, (ii) does not violate the articles of association of each of Shengyue Software and the PRC Operating Entities, and (iii) is legally binding and enforceable on the parties of each of the agreements underlying the Contractual Arrangements in accordance with their terms and provisions under applicable PRC laws and regulations, except for the dispute resolution provisions of the Contractual Arrangements regarding the remedies that may be awarded by the arbitration tribunal and the power of offshore courts, including the courts in Hong Kong or Cayman Islands, to grant interim remedies in support of the arbitration may not be recognized or enforced by the PRC courts, and (iv) does not fall within any of the circumstances under Article 52 of the PRC Contract Law pursuant to which the contracts would be determined to be invalid. In particular, each of them will not be deemed as “concealing an illegitimate purpose under the guise of legitimate acts” under Article 52 of the PRC Contract Law.

Our PRC Legal Adviser is also of the opinion that the execution, delivery and effectiveness of each of the agreements underlying the Contractual Arrangements do not require any approvals from or filings with PRC governmental authorities, except for (i) the equity pledges under the Equity Pledge Agreements, which were properly registered with the local counterpart of SAIC, and (ii) any transfer of equity interests in the PRC Operating Entities pursuant to the terms of the Exclusive Option Agreements, which will have to be filed and registered with relevant governmental authorities upon the exercise of the call option under the Exclusive Option Agreements.

Notwithstanding the foregoing, the Joint Sponsors and our PRC Legal Adviser conducted interviews with the Shenzhen Communications Administration (深圳通信管理局), the Guangdong Province Department of Culture (廣東省文化廳), the Chengdu Culture, Radio and TV, Press and Publication Bureau (成都市文化廣電新聞出版局) and the State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣電總局) in April and May 2018 with respect to the Contractual Arrangements. We have obtained verbal confirmation that, among other things:

- (i) the Contractual Arrangements are not in violation of any PRC laws and regulations applicable to value-added telecommunications business and online game operation business;
- (ii) the cooperation between Shengyue Software and the PRC Operating Entities and related arrangements contemplated by the Contractual Arrangements are permitted under relevant PRC laws and regulations and/or the authorities have no objection to the Contractual Arrangements; and
- (iii) the Contractual Arrangements are not subject to any approval, consent or filing from any authority.

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## CONTRACTUAL ARRANGEMENTS

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Based on the foregoing, our PRC Legal Adviser is of the view that:

- (i) the interviewed authorities are competent government authorities for the Principal Business;
- (ii) the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations;
- (iii) the use of the Contractual Arrangements does not constitute a breach of the relevant PRC laws and regulations;
- (iv) if a PRC Operating Entity and a foreign-invested enterprise enter into a series of contractual arrangements, such contractual arrangements are not subject to any filing or registration requirement or approval from the Shenzhen Communications Administration and the contractual arrangement does not conflict with PRC laws and regulations concerning online culture operation services;
- (v) when considering applications for the license to conduct telecommunications value-added services, online culture operation and online publication services, and its compliance with the foreign investment restriction or prohibition requirements, the Shenzhen Communications Administration (深圳通信管理局), the Guangdong Province Department of Culture (廣東省文化廳), the Chengdu Culture, Radio and TV, Press and Publication Bureau (成都市文化廣電新聞出版局) and the State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣電總局) shall strictly consider the equity holding structure of the applicant, and as long as the ultimate beneficial owner of the equity interest in such entity carrying out prohibited business is a PRC national, such contractual arrangements which do not involve any direct equity investment will not be taken into consideration; and
- (vi) the risk of Shengyue Software or the PRC Operating Entities being imposed administrative penalties by relevant internet cultural, press, publication or telecommunications authorities as a result of the adoption of the Contractual Arrangements is remote.

### **Implications of the FIL**

Our PRC Legal Adviser has confirmed that, after the promulgation of the FIL on March 15, 2019 and up to the Latest Practicable Date, no laws, administrative regulations or State Council provisions have been issued which specify contractual arrangements as a method of foreign investment. Our PRC Legal Adviser has advised that since contractual arrangements are not specified as foreign investment under the FIL, and if future laws, administrative regulations and State Council provisions do not incorporate contractual arrangements as a form of foreign investment, the Contractual Arrangements will not be affected when the FIL becomes effective on 1 January 2020. However, there is the possibility that future laws, administrative regulations or provisions of the State Council may stipulate that contractual

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## CONTRACTUAL ARRANGEMENTS

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arrangements are a form of foreign investment. As a result, whether our Contractual Arrangements will be recognized as foreign investment, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how our Contractual Arrangements will be handled are uncertain. For details of the FIL and its potential impact on our Company, please see “Risk Factors – Risks Related to Our Contractual Arrangements – Substantial uncertainties exist with respect to the interpretation and implementation of the FIL and how it may impact the viability of our current corporate structure, corporate governance and business operations” in this prospectus.

### **Relevance of PRC Supreme Court decision and two arbitration decisions**

In or around September 2011, various media sources reported that the CSRC had prepared a report proposing regulating the use of the VIE structures, such as ours, in industry sectors subject to foreign investment restrictions in China and overseas listings by China-based companies. However, it is unclear whether the CSRC officially issued or submitted such a report to a higher level government authority or what any such report provides, or whether any new PRC laws or regulations relating to the VIE structures will be adopted or if adopted, what they would provide.

In addition, several articles, including an article published in early June 2013 on The New York Times and another one on The Economic Observer (經濟觀察報), reported discussions that a recent PRC Supreme Court decision and two VIE structure-related arbitration decisions in Shanghai had cast doubt on the validity of the contractual arrangements for the VIE structure. According to these articles, the PRC Supreme Court ruled in late 2012 that an entrustment agreements entered into by and between a Hong Kong company and a PRC domestic entity, which was purported to enable such Hong Kong company to make equity investment in a PRC bank through the proxy PRC domestic entity, was void on the ground that this agreement established an entrustment relationship meant to circumvent the PRC laws and regulations that prohibit foreign investment in PRC financial institutions and as such, constituted an act of concealing illegal intentions with a legitimated form. These articles argued that the contractual arrangement in a VIE structure and the entrustment agreement in the cited case were similar in that the contractual arrangements in the VIE structure were also designed to “get around” the regulatory restrictions on foreign investment in certain industries. As such, the articles noted that this Supreme Court decision might increase the uncertainties relating to the PRC government’s view on the validity of the contractual arrangements used in the VIE structure. These articles also reported, without providing sufficient details, that two arbitration decisions by the Shanghai CIETAC invalidated the contractual arrangements used in a VIE structure in 2010 and 2011.

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## CONTRACTUAL ARRANGEMENTS

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In light of the reported PRC Supreme Court decision and the two arbitration decisions (see “Risk Factors – Risks Related to Our Contractual Arrangements – If the PRC government finds that the agreements that establish the structure for operating our business in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our PRC Operating Entities” in this prospectus), our PRC Legal Adviser is of the view that:

- (i) in accordance with Section 4 of the PRC Contract Law, which is a section under Part One (General Principles) of the PRC Contract Law setting forth fundamental principles under the PRC Contract Law, the parties to the Contractual Arrangements have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right;
- (ii) the purpose of the Contractual Arrangements is not to conceal illegal intentions, but to (a) pass the economic interests received by the PRC Operating Entities to Shengyue Software; and (b) ensure that Shenzhen Lanyue will not take any actions against the interest of Shengyue Software; and
- (iii) the Contractual Arrangements would not be deemed as “concealing illegal intentions with a lawful form” such that they shall not be considered as an illegitimate purpose concealed under the guise of legitimate acts under Section 52 of the PRC Contract Law.

### **BASIS OF CONSOLIDATING THE FINANCIAL RESULTS OF THE PRC OPERATING ENTITIES**

According to HKFRS 10 – Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Under the power of attorneys, Shengyue Software assumes all rights as a shareholder and exercises control over the PRC Operating Entities, including the right to attend shareholders’ meetings and pass any shareholders resolution of the PRC Operating Entities, exercise all shareholders’ rights in accordance with applicable laws and the articles and constitutional documents of the PRC Operating Entities, including but not limited to the exercise of voting rights in shareholders’ meetings, sell, transfer, pledge or otherwise dispose of all or part of the equity interests held in the PRC Operating Entities, submit and/or file any documents or information to relevant companies registry, and elect and appoint the legal representative, chairman, directors, supervisors, general manager and other senior management of the PRC Operating Entities. As a result of these agreements, our Company has obtained control of the PRC Operating Entities through Shengyue Software and, under our Company’s sole discretion, can receive substantially all of the economic interest returns generated by the PRC Operating Entities.



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Under the Exclusive Business Operation Agreements entered into by and among Shengyue Software and the PRC Operating Entities, it was agreed that the PRC Operating Entities shall pay Shengyue Software a service fee that is equal to the profit before taxation of the PRC Operating Entities, including all profits attributable to the PRC Operating Entities of, and any other distributions received by the PRC Operating Entities from, any of its subsidiaries in any given year but without taking into account the service fee payable under the agreements and after offsetting the prior-year loss (if any), and deducting such amounts as required for working capital, expenses and tax of each of the PRC Operating Entities (as the case may be) in any given year. Shengyue Software may adjust the service fee payable by the PRC Operating Entities at its sole discretion and allow the PRC Operating Entities to retain sufficient working capital to carry out any growth plans. Accordingly, Shengyue Software has the ability, at its sole discretion, to extract substantially all of the economic benefit of the PRC Operating Entities through the Exclusive Business Operation Agreements.

As there is no change in management of our business for Listing and majority of owners of our businesses remained the same, our Group resulting from the Reorganization (including the entering into of the Contractual Arrangements) is regarded as a continuation of the businesses of the PRC Operating Entities, accordingly, our financial results during the Track Record Period (or where the entity was established on a date later than January 1, 2016, for the period from the date of establishment to June 30, 2019) can be prepared on a consolidated basis.

In addition, our Directors consider that although our Group does not hold any equity interest in the PRC Operating Entities, our Group has obtained financial and operational control of the PRC Operating Entities and can receive substantially all of the variable economic interest return from the PRC Operating Entities through Shengyue Software pursuant to the terms of the agreements underlying the Contractual Arrangements. Accordingly, our Directors consider that the Company can consolidate the financial results of the PRC Operating Entities as indirect subsidiaries of our Company under HKFRS.

In this regard, our Reporting Accountant, Ernst & Young, has issued an unqualified opinion on our Group's consolidated financial information as of and for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2019 as included in the Accountants' Report set out in Appendix I to this prospectus. The financial information in the Accountants' Report has consolidated the financial results of the PRC Operating Entities during the Track Record Period as if they were consolidated subsidiaries pursuant to the Contractual Arrangements. The basis of combining the results of the PRC Operating Entities is disclosed in note 2.1 to the Accountants' Report set out in Appendix I to this prospectus.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### CONTROLLING SHAREHOLDERS

Mr. Xiao and Mr. Sin are the co-founders of our Group. Immediately after the completion of the Capitalization Issue and the Global Offering, (i) Zhongshouyou Brothers BVI will directly hold 91,360,432 Shares, and will be deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 64% by Zhongshouyou Brothers BVI); and (ii) Silver Joyce will directly hold 51,390,238 Shares, and will be deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 36% by Silver Joyce). Zhongshouyou Brothers BVI is indirectly controlled by CMB Wing Lung (Trustee) Limited (as trustee of the Xiao Family Trust) through Antopex Limited (as nominee for CMB Wing Lung (Trustee) Limited) and its wholly-owned subsidiary, Victory Aspire. Silver Joyce is directly held by Mr. Sin.

Since Mr. Xiao, Mr. Sin, Zhongshouyou Brothers BVI, Silver Joyce, Ambitious Profit, Changpei Cayman, Motion Game, Profound Power and Fairview Ridge together are able to control more than 30% of the voting rights in our Company, they will continue to be our Controlling Shareholders immediately after the Global Offering.

### DELINEATION OF BUSINESS

Our Co-Founders, Mr. Xiao and Mr. Sin, jointly hold the entire equity interest in the general partner of CPC Fund, China Prosperity Capital GP Limited. CMGE Group BVI, an indirect wholly-owned subsidiary of the Company, is a limited partner of CPC Fund with a 25.65% economic interest. Other limited partners of CPC Fund are independent third parties. See “Business – Our Investments” in this prospectus for more details. The investment focus of CPC Fund in the mobile game industry is to make minority investments in IP owners and IP platforms. On the contrary, as evidenced by our Company’s acquisition of Beijing Softstar (which is now our subsidiary) and our investment portfolio which wholly consists of minority investment in mobile game developers, we do not look to make minority investment in IP owners or IP platforms. CPC Fund does not make any investments in mobile game developers which form the principal focus of our Company’s strategic investments, nor does it invest in mobile game publishers. Unlike the Company, which seeks strategic and synergistic effect from its portfolio companies, CPC Fund is a pure financial investor looking for the potential returns that its equity investments may bring to its partners and does not have any management role or shareholding control over any of its investee companies.

Mr. Xiao and Mr. Sin are competent and qualified general partners who have passed the qualification examinations for fund practitioners organized by the Asset Management Association of China. Pursuant to the Articles, Mr. Xiao and Mr. Sin shall abstain from participating in and voting at and shall not be counted as quorum in respect of the relevant Board resolution where there is a conflict of interest or potential conflict of interest between our Group and CPC Fund, such as when our Group and CPC Fund identify the same IPs in which they would like to invest. Should Mr. Xiao and Mr. Sin are both required to abstain from

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS**

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a Board meeting, the remaining members of the Board, including our independent non-executive Directors, will be able to make informed decisions based on the advice of the senior management of our Group. For further details in respect of the roles and responsibilities of our senior management, please see “Directors and Senior Management – Senior Management” in this prospectus.

### **COMPETING INTERESTS**

Each of our Controlling Shareholders and Directors of our Company confirms that he or it or his or its respective close associates do not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

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## CONNECTED TRANSACTIONS

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Upon the Listing, transactions between us and our connected persons will constitute our connected transactions under Chapter 14A of the Listing Rules.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### **Contractual Arrangements**

As disclosed in the section headed “Contractual Arrangements”, due to regulatory restrictions on foreign ownership in the PRC, we conduct our business in China through our PRC Operating Entities, namely Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou. Our PRC Operating Entities are entirely held by Shenzhen Lanyue, which in turn is ultimately controlled by Wuhan Husheng.

The Contractual Arrangements currently in effect comprise three agreements, namely (i) the exclusive business cooperation agreements, (ii) the exclusive option agreements, and (iii) the equity pledge agreements, which were entered into between or amongst Shengyue Software, the PRC Operating Entities and Shenzhen Lanyue (as the case may be), and the irrevocable power of attorney executed by Shenzhen Lanyue pursuant to which Shenzhen Lanyue has appointed an authorized director or any direct or indirect shareholder of Shengyue Software or his/her successor who is a PRC citizen as its proxy to exercise its shareholders’ rights in the PRC Operating Entities, the detailed terms of the three agreements and the power of attorney are set out in the section headed “Contractual Arrangements” in this prospectus.

#### ***Listing Rules Implications***

For the purposes of Chapter 14A of the Listing Rules, our PRC Operating Entities will be treated as the Company’s wholly-owned subsidiaries, and their directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as the Company’s connected persons. As such, Shenzhen Lanyue, which is the registered shareholder of our PRC Operating Entities, will be treated as a connected person of the Company.

Our Directors, including the independent non-executive Directors, and the Joint Sponsors are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group’s legal structure and business operation and it is justifiable and normal business practice for agreements under the Contractual Arrangements to have a term of longer than three years to ensure that (i) the financial and operational policies of the PRC Operating Entities can be effectively controlled by Shengyue Software, (ii) Shengyue Software can obtain the economic benefits derived from the PRC Operating Entities, and (iii) any possible leakage of assets and values of the PRC Operating Entities can be prevented on an uninterrupted basis. Such transactions have been entered into on normal commercial terms and are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Company and the Shareholders as a whole. Our Directors also believe that our Group’s structure, whereby the financial results of the PRC Operating Entities are consolidated into our Group’s financial statements as subsidiaries and the flow of economic benefit of their business to our Group, places our Group in a special position in relation to relevant rules concerning connected transactions under the Listing Rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing agreements to be entered into between the PRC Operating Entities and any member of our

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## CONNECTED TRANSACTIONS

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Group (“**New Intergroup Agreements**”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that it is unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if the Contractual Arrangements are subject to the requirements set out under Chapter 14A of the Listing Rules.

As the registered shareholder of our PRC Operating Entities, Shenzhen Lanyue, is not controlled by us, there is a risk of failure on the part of Shenzhen Lanyue to perform its obligations under the Contractual Arrangements. To protect our interest in our PRC Operating Entities, our Group adopted certain measures to ensure legal and regulatory compliance to ensure the sound and effective operation of our Group (including the PRC Operating Entities). For further details, see “Contractual Arrangements – Operations in compliance with the Contractual Arrangements” in this prospectus.

### *Application for waiver*

In view of the above, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from strict compliance with (i) the announcement, circular and independent shareholders’ approval requirements under Rule 14A.105 of the Listing Rules, (ii) the annual cap requirement for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as Shares are listed on the Stock Exchange subject however to the following conditions:

*(a) No change without independent non-executive Directors’ approval*

No change to the Contractual Arrangements will be made without the approval of the independent non-executive Directors.

*(b) No change without independent Shareholders’ approval*

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our Company’s independent Shareholders. Once independent Shareholders’ approval of any change has been obtained, no further announcement to or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

*(c) Economic benefits flexibility*

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the PRC Operating Entities through (i) our Group’s option, to the extent permitted under PRC laws and regulations, to acquire, all or part of the equity interest in the PRC Operating Entities at the minimum purchase price permitted under PRC laws and regulations, (ii) the business structure under which the profit generated by the PRC Operating Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Shengyue Software

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## CONNECTED TRANSACTIONS

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by the PRC Operating Entities under the Exclusive Business Cooperation Agreement, and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the PRC Operating Entities.

*(d) Renewal and reproduction*

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the PRC Operating Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and, or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

*(e) Ongoing reporting and approvals*

Our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with relevant provisions of the Listing Rules;
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that the profit generated by the PRC Operating Entities has been substantially retained by Shengyue Software, (ii) no dividends or other distributions have been made by the PRC Operating Entities or any non-wholly owned subsidiary of our Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the PRC Operating Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Shareholders as a whole;

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## CONNECTED TRANSACTIONS

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- Our Company's auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by the PRC Operating Entities or any non-wholly owned subsidiary of our Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the PRC Operating Entities and each of its subsidiaries will be treated as our Company's subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the PRC Operating Entities, its subsidiaries and their associates will be treated as connected persons of our Company (excluding for this purpose, the PRC Operating Entities), and transactions between these connected persons and our Group (including for this purpose, the PRC Operating Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and
- The PRC Operating Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, the PRC Operating Entities will provide our Group's management and our Company's auditor with full access to their relevant records, and (where applicable) relevant records of their subsidiaries, for the purpose of our Company's auditor's review of the connected transactions.

In addition, we have also applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Rule 14A.105 of the Listing Rules in respect of the transactions contemplated under any New Intergroup Agreement, (ii) the requirement of setting an annual cap for the fees payable by/to any member of our Group to/from the PRC Operating Entities under any New Intergroup Agreements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of any New Intergroup Agreement to three years or less under Rule 14A.52 of the Listing Rules, for so long as Shares are listed on the Stock Exchange subject however to the condition that the Contractual Arrangements subsist and that the PRC Operating Entities will continue to be treated as our Company's subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the PRC Operating Entities and their associates will be treated as connected persons of our Company (excluding for this purpose, the PRC Operating Entities), and transactions between these connected persons and our Group (including for this purpose, the PRC Operating Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.



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## CONNECTED TRANSACTIONS

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### *Confirmation from the Company*

Our Directors (including independent non-executive Directors) are of the view that the non-exempt continuing connected transactions set out above (i) have been entered into and are conducted in the ordinary and usual course of business of the Company and on normal commercial terms or better; (ii) are fundamental to our Group's legal structure and business operations; and (iii) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

As the transactions contemplated under the Contractual Arrangements have been entered into in the ordinary and usual course of our business, our Directors are also of view that it is unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if the Contractual Arrangements are subject to the requirements set out under Chapter 14A of the Listing Rules.

### *Confirmation from the Joint Sponsors*

The Joint Sponsors have reviewed the relevant documents and information provided by our Group, have participated in the due diligence and discussions with our management and our PRC Legal Adviser and have obtained necessary representations and confirmations from our Company and our Directors.

Based on the above, the Joint Sponsors are of the view that the Contractual Arrangements are fundamental to our Group's legal structure and business operations and it is justifiable and normal business practice for agreements under the Contractual Arrangements to have a term of longer than three years to ensure that (i) the financial and operational policies of the PRC Operating Entities can be effectively controlled by Shengyue Software, (ii) Shengyue Software can obtain the economic benefits derived from the PRC Operating Entities, and (iii) any possible leakage of assets and values of the PRC Operating Entities can be prevented on an uninterrupted basis.

In addition, the Joint Sponsors are of the view that the non-exempt continuing connected transactions described above, and for which waivers have been sought, have been entered into in on normal commercial terms and are fair and reasonable and are in the interests of our Company and the Shareholders as a whole.

## DIRECTORS AND SENIOR MANAGEMENT

### BOARD OF DIRECTORS

Our Board will consist of seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors. The following table provides certain information about our Directors as of the Latest Practicable Date:

Name	Age	Position	Roles and Responsibilities	Date of joining the Group	Date of appointment as Director	Relationship with other Directors or senior management members
Mr. XIAO Jian (肖健)	39	Executive Director, Chairman and Chief Executive Officer	Overall business operation, management and strategic planning of the Group	January 2011	April 25, 2018	None
Mr. SIN Hendrick (洗漢迪)	45	Executive Director and Vice Chairman	Overall business operation, management and strategic planning of the Group	January 2011	April 25, 2018	None
Mr. MA Yuntao (馬雲濤)	44	Non-executive Director	Provide professional advice to the Board	October 2015	June 19, 2018	None
Mr. TANG Yanwen (唐彥文)	37	Non-executive Director	Providing professional advice to the Board	August 2018	August 22, 2018	None
Ms. NG Yi Kum (伍綺琴)	62	Independent Non-executive Director	Provide independent professional advice to the Board	September 2019	September 20, 2019	None
Mr. TANG Liang (唐亮)	41	Independent Non-executive Director	Provide independent professional advice to the Board	September 2019	September 20, 2019	None
Mr. HO Orlando Yaukai (何猷啟)	28	Independent Non-executive Director	Provide independent professional advice to the Board	September 2019	September 20, 2019	None

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## DIRECTORS AND SENIOR MANAGEMENT

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### Executive Directors

**Mr. XIAO Jian** (肖健), aged 39, is an executive Director, the chairman and the chief executive officer of our Company. Mr. Xiao is responsible for the overall business operation, management and strategic planning of our Group. Mr. Xiao has over 10 years of experience in the China mobile game industry. As one of the founders of CMGE Group which was the holding company of our mobile game publishing business, Mr. Xiao was the chief operating officer of CMGE Group from January 2011 to April 2012 and has been the chief executive officer of CMGE Group since April 2012 and a director since August 2012. Prior to that, Mr. Xiao also founded Huiyou Digital (Shenzhen) Ltd. (匯友數碼(深圳)有限公司) in July 2007, a mobile game developer in China, which was subsequently acquired by V1 Group, a new media company listed on the Stock Exchange (stock code: 0082) in October 2009. For further information regarding the relationship between Mr. Xiao and the Group, see “History, Reorganization and Corporate Structure” in this prospectus.

Mr. Xiao is a recognized figure in the industry and was recognized as (i) “Top Ten Influencer (十大影響力人物)” by China’s Music Association’s Game Committee (中國音數協遊戲工委) for three consecutive years from 2014; (ii) “Outstanding Entrepreneur of China’s Game Industry (中國遊戲行業優秀企業家)” by China Culture and Entertainment Association (中國文化娛樂協會) for three consecutive years from 2015; (iii) “The Person of the Year in the Industry (年度行業風雲人物)” by Sina Games (新浪遊戲) in 2015 and 2018; (iv) “Top Ten Person (十大風雲人物)” by China.com (中華網) in 2015; (v) “Top Ten CEOs of Influence (十大影響力CEO)” in 2015 and 2016 and “The Most Influential Person in the Industry (年度行業領軍人物)” in 2017 by Mobile Hardcore Alliance (硬核聯盟); (vi) “Top Ten Person of the Year (十大風雲人物)” by the Youthun Club (遊聯社) in 2016; (vii) “The Most Influential Person in the Industry (最具業內深度影響力人物)” jointly by “Internet Weekly (互聯網週刊)” of the Chinese Academy of Sciences (中國科學院) and the Informatization Research Center of the Chinese Academy of Social Sciences (中國社會科學院資訊化研究中心) in 2017 and 2018; (viii) “2017 Tianfu Award-winning Influencer (2017年度天府獎影響力人物)” by CMGC in 2017; (ix) “Outstanding Entrepreneur of Guangdong Province (廣東省優秀企業家)” by Guangdong Provincial Enterprise Confederation (廣東省企業聯合會組織) and Guangdong Provincial Entrepreneur Association (廣東省企業家協會) in 2017 and 2019; (x) a director of Shenzhen Young Entrepreneurs Federation (深圳市青年企業家聯合會) in 2017; and (xi) an expert of the Guangdong Game Industry Association (廣東省遊戲產業協會) in 2018.

Mr. Xiao graduated from South China Normal University (華南師範大學) in February 2009 with a bachelor’s degree in law through online education, and from Beijing University of Aeronautics and Astronautics (北京航空航天大學) in July 2014 with a master’s degree in software engineering. Mr. Xiao also passed the qualification examinations for fund practitioners (基金從業人員資格考試) organized by the Asset Management Association of China (中國證券投資基金業協會) on basic knowledge of securities investment fund (證券投資基金基礎知識考試) in September 2017, and fund laws and regulations, professional ethics and business practices (基金法律法規,職業道德與業務規範考試) in April 2016.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. SIN Hendrick** (洗漢迪), aged 45, is an executive Director and the vice chairman of our Company. Mr. Sin is responsible for the overall business operation, management and strategic planning of the Group. Mr. Sin together with Mr. Xiao oversee the various departments of the Company including senior supervision on finance, internal control, budgeting, legal and investment, and continually devise, implement and monitor business plans and development strategies with the senior management team. He also together with Mr. Xiao oversee the senior management team. Mr. Sin has over 15 years of experience in corporate management, finance and investment banking. Mr. Sin has been a director and vice chairman of CMGE Group since January 2011. From March 2009 to October 2012, Mr. Sin was an executive director of V1 Group, a new media company listed on the Stock Exchange (stock code: 0082), during which Mr. Sin was also the chief financial officer from May 2009 to October 2012. For further information regarding the relationship between Mr. Sin and the Group, see “History, Reorganization and Corporate Structure” in this prospectus. Mr. Sin has been serving as an independent non-executive director of Evergreen Products Group Limited, a hair product manufacturing company whose shares are listed on the Stock Exchange (stock code: 1962) since June 2017. From July 2013 to August 2015, Mr. Sin was an independent non-executive director of Healthoo International Technology Holdings Limited (formerly known as AID Partners Technology Holdings Limited), a company listed on the Stock Exchange (stock code: 8088).

Mr. Sin graduated from Stanford University in June 1997 with a master’s degree in engineering-economic systems and operations research. Mr. Sin received his triple bachelor’s degrees in computer science/mathematics, economics and industrial management from Carnegie Mellon University in May 1996. Mr. Sin is the president of the Internet Professional Association (香港互聯網專業協會), the executive vice-chairman of the Hong Kong Software Industry Association (香港軟件行業協會) and a member of the Hong Kong Institute of Directors (香港董事學會). Mr. Sin has been appointed as a member of the fourteenth session of Tianjin Municipal’s Committee of Chinese People’s Political Consultative Conference (中國人民政治協商會議天津市第十四屆委員會). Mr. Sin has also been appointed by the Hong Kong Government as a committee member of the Youth Development Commission (青年發展委員會) and a director of Hong Kong Cyberport Management Company Limited (香港數碼港管理有限公司). Mr. Sin was awarded the Young Industrialist Award of Hong Kong of 2018 by Federation of Hong Kong Industries in November 2018. Mr. Sin also passed the qualification examinations for fund practitioners (基金從業人員資格考試) organized by the Asset Management Association of China (中國證券投資基金業協會) on basic knowledge of securities investment fund (證券投資基金基礎知識考試) in November 2016, and fund laws and regulations, professional ethics and business practices (基金法律法規,職業道德與業務規範考試) in November 2016.

Mr. Sin was recognized as one of China’s 100 Most Popular Investors as Voted by Startup Entrepreneurs (中國最受創業者歡迎投資人TOP 100) by 36Kr in 2018 and 2019, respectively, and as one of the Top 10 Investors of Chinese Cultural Industry in 2018-2019 (2018-2019年度中國文化產業十佳投資人物) by Chinese Venture (融資中國).

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## DIRECTORS AND SENIOR MANAGEMENT

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### Non-executive Directors

**Mr. MA Yuntao** (馬雲濤), aged 44, is a non-executive Director. Mr. Ma has over 12 years of industry experience in investment banking and mergers and acquisitions, and has extensive experience in corporate equity investment, mergers and acquisitions, reorganization and listing. Mr. Ma has been serving as a director of CMGE Mobile Tech since October 2015. Mr. Ma founded and has been serving as the general manager of Orient Hontai Investment (Chengdu) Company Limited (東方泓泰資本投資(成都)有限公司) since October 2014. Before that, Mr. Ma has worked as a director of the investment banking department at Citi Orient Securities Co., Ltd. (東方花旗證券有限公司) from July 2012 to September 2014, and a director of the investment banking department at Orient Securities Co., Ltd. (東方證券股份有限公司) from July 2006 to June 2012, respectively. Mr. Ma graduated from Shandong Technology and Business University (山東工商學院) (formerly known as China Coal Economy College (中國煤炭經濟學院)) in July 1997 majoring in foreign economic accounting and obtained his master's degree in business administration from Guanghua School of Management of Peking University (北京大學) in July 2006.

**Mr. TANG Yanwen** (唐彥文), aged 37, is a non-executive Director. Mr. Tang has over 12 years of experience in game developing and operation. Mr. Tang has been working at Lansha Information Technology (Shanghai) Co., Ltd. (藍沙信息技術(上海)有限公司) since September 2006 and has been serving as its co-chief executive officer since June 2018. Since September 2006, Mr. Tang has consecutively served as a director of its legend studio and a vice president from September 2006 to August 2016, and its chief operating officer and chief producer from August 2016 to June 2018. Since January 2018, Mr. Tang has also served as one of the five directors of Shengyue Technology, its wholly-owned subsidiary, Shengqu Technology, was one of the Pre-IPO Investors of the Company, and was the parent company of one of our top five suppliers for the six months ended June 30, 2019. Mr. Tang graduated from Shanghai Normal University (上海師範大學) in July 2005 with a bachelor's degree in applied psychology.

### Independent non-executive Directors

**Ms. NG Yi Kum** (伍綺琴), aged 62, is an independent non-executive Director. Ms. Ng has over 12 years of experience in serving listed companies. She has been serving as (i) an executive director of Tse Sui Luen Jewellery (International) Limited, a company listed on the Stock Exchange (stock code: 0417) since December 2015, (ii) an independent non-executive director of Tianjin Development Holdings Limited, a company listed on the Stock Exchange (stock code: 0882) since July 2010, (iii) an independent non-executive director of Comba Telecom Systems Holdings Limited, a company listed on the Stock Exchange (stock code: 2342) since March 2019, and (iv) an independent non-executive director of CT Vision (International) Holdings Limited (formerly known as Win Win Way Construction Holdings Limited), a company listed on the Stock Exchange (stock code: 0994) since July 2019. From June 2013 to August 2019, Ms. Ng served as an independent non-executive director of China Power New Energy Development Company Limited, a company listed on the Stock Exchange and delisted in August 2019 (stock code: 0735). From May 2016 to May 2017, Ms. Ng served as an independent non-executive director of DS Healthcare Group, Inc., a company listed on

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## DIRECTORS AND SENIOR MANAGEMENT

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the NASDAQ and delisted in December 2016 (stock symbol: DSKX). From September 2012 to August 2015, Ms. Ng served as an independent non-executive director of CMGE Group, a company listed on the NASDAQ and delisted in August 2015 (stock symbol: CMGE). From December 2011 to June 2013, Ms. Ng served as an independent non-executive director of China Finance Investment Holdings Limited (formerly known as Cypass Jade Agricultural Holdings Limited and Ever Fortune International Holdings Limited), a company listed on the Stock Exchange (stock code: 0875). From September 2008 to July 2015, Ms. Ng served as an independent non-executive director of Hong Kong Resources Holdings Company Limited (formerly known as Ocean Grand Chemicals Holdings Limited), a company listed on the Stock Exchange (stock code: 2882). From January 2008 to April 2014, Ms. Ng served as the chief financial officer of Country Garden Holdings Company Limited, a company listed on the Stock Exchange (stock code: 2007). From September 2005 to November 2007, she served as an executive director of Hang Lung Properties Limited, a company listed on the Stock Exchange (stock code: 0101). Ms. Ng graduated from the Hong Kong University of Science and Technology with a master's degree in business administration in 1995. She is a fellow member of the Institute of Chartered Accountants in England and Wales, an associate of the Hong Kong Institute of Chartered Secretaries, a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, and a member of the American Institute of Certified Public Accountants.

**Mr. TANG Liang** (唐亮), aged 41, is an independent non-executive Director. Mr. Tang has been serving as a director of Tencent Music Entertainment Group, a company listed on the New York Stock Exchange (stock symbol: TME) since April 2014, the chairman of China Investment Financial Holdings Fund Management Company Limited (中投中財基金管理有限公司) since April 2015, a director of CAS Health Industry (Beijing) Co., Ltd. (中科健康產業(北京)有限公司) since December 2016, the chairman of Hefei CICFH Industry Investment Management Co., Ltd. (合肥中投中財產業投資管理有限公司) since December 2016, the chairman of Hefei China Film CICFH Investment Management Co., Ltd. (合肥中影中投中財投資管理有限公司) since March 2017 and a director of Zhongke Zhiyun Technology Co., Ltd. (中科智雲科技有限公司) since June 2018.

Mr. Tang graduated from Peking University in July 2000 with a bachelor's degree in law. Mr. Tang received a master's degree in litigation law from Peking University in July 2002, a master's degree in law from Yale University in June 2003 and a master's degree in science of law from Stanford University in June 2005.



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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. HO Orlando Yaukai** (何猷啟), aged 28, is an independent non-executive Director. Mr. Ho has been serving as a director of Koo Tech Limited (酷奧科技有限公司) since October 2014, a director of UNIR Australia Pty Ltd Group since August 2014, a director of Tung Wah Group of Hospitals (東華三院) since April 2016, and a general manager of Guangzhou Luhu Golf & Country Club (廣州麓湖高爾夫球鄉村俱樂部) since March 2016. Mr. Ho is a member of the Standing Committee of the 12th Guangxi Zhuang Autonomous Region Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十二屆廣西壯族自治區委員會常務委員), and was also a member of the 11th Guangxi Zhuang Autonomous Region Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆廣西壯族自治區委員會) from December 2014 to January 2018. Mr. Ho has been serving as the executive vice-chairman of the Hong Kong CPPCC Youth Association (香港政協青年聯會) since May 2016 and served as the executive vice-president of the same institution from May 2014 to April 2016. In addition, Mr. Ho has been the chairman of the Hong Kong Guangxi Sports Association (香港廣西體育總會) since March 2014 and was the executive vice president from November 2013 to February 2014. Mr. Ho is also the executive vice-chairman of the Hong Kong Guangxi Youth Organizations (香港廣西青年聯會) since March 2014, the executive vice-president of the Federation of Hong Kong Guangxi Community Organization (香港廣西社團總會) since November 2013, the vice-chairman of the Hong Kong Volunteers Federation (香港義工聯盟) since November 2015 and the honorary president of the Anti-Drug Army of Hong Kong Limited (香港禁毒兵團) since January 2015. Mr. Ho graduated from Bentley University in the United States with a bachelor's degree in science in corporate finance and accounting in October 2013.

The experience, knowledge and network acquired by Mr. Ho in the roles listed above would facilitate him to bring his independent judgment to our Board. In particular, Mr. Ho has acquired experience in the gaming industry through his directorship in Koo Tech Limited, where he was involved in its game development business. Mr. Ho has also acquired substantial management experience through his general manager role in Guangzhou Luhu Golf & Country Club since March 2016, where he is required to oversee its operation.

Save as disclosed above, none of our Directors held any directorship in public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus. Save as disclosed herein, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, there are no other matters in respect of each of our Directors that are required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules and there is no other material matter relating to our Directors that needs to be brought to the attention of our Shareholders.



## DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

The senior management team of our Group, in addition to our executive Directors listed above, has the following members as of the Latest Practicable Date:

Name	Age	Position	Roles and Responsibilities	Date of joining our Group	Date of appointment	Relationship with other Directors or senior management members
Ms. LIANG Yan (梁燕)	41	Partner and Vice President	Internal control management, budget management, legal department management, business operation analysis and investment execution matters	January 2011	August 2012	None
Mr. WANG Ye (王曄)	32	Partner and Vice President	Mobile games co-publishing, traffic volume purchase and co-publishing promotion	January 2016	January 2016	None
Mr. WANG Xiaolin (王曉霖)	34	Partner and Vice President	Domestic and overseas online games product distribution and operations related matters	February 2014	November 2016	None
Mr. YANG Rongjie (楊榮傑)	35	Partner and Vice President	Marketing and advertising management	December 2016	December 2016	None
Mr. YUAN Yu (袁宇)	43	Partner and Vice President	IP copyright introduction and editorial supervision management	May 2015	November 2016	None
Mr. WANG Tao (王濤)	45	Partner and Vice President	Personnel and administrative management	November 2015	November 2015	None
Ms. LAI Yau Yan Gladys (黎佑欣)	40	Financial Controller and Company Secretary	Financial management and company secretarial matters	July 2014	April 2018	None

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## DIRECTORS AND SENIOR MANAGEMENT

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**Ms. LIANG Yan (梁燕)**, aged 41, is our partner and vice president. Ms. Liang is primarily responsible for our Group's internal control management, budget management, legal department management, business operation analysis and investment execution matters. Ms. Liang has nearly 10 years of experience in corporate management and operation. She joined Huiyou Digital in January 2011 and served as its vice president from August 2012 to November 2015. Ms. Liang also served as the vice president of Shenzhen Douyue since November 2015 and then served as its partner till February 2018. Since March 2018, she has been serving as a vice president and partner of Shenzhen Shengli Huyu. Since May 2018, she has been serving as the director of Beijing Softstar. Prior to joining our Group, from August 2008 to August 2009 and from August 2009 to August 2012, Ms. Liang worked at Shenzhen KKFUN Software Development Co., Ltd. (深圳市快樂風軟件開發有限公司) as a vice director of the network business department and director of production development department, respectively. She received her bachelor's degree in engineering in mechanical design and manufacture from Northwest Textile Science and Technology University (西北紡織工學院, which was renamed as Xi'an Polytechnic University (西安工程大學) in 2006) in July 2000.

**Mr. WANG Ye (王曄)**, aged 32, is our partner and vice president. Mr. Wang is primarily responsible for our Group's mobile games co-publishing, traffic purchase and co-publishing promotion matters. Mr. Wang has nearly eight years of experience in the game and technology industry. He joined our Group in January 2016 and served as the vice president of Beijing China Mobile Games Technology Co., Ltd. (北京中手游技術有限公司) from January 2016 to November 2016. Mr. Wang has also been serving as the vice president and partner of Shenzhen Shengli Huyu since March 2018. Before joining our Group, Mr. Wang worked as a general manager of the gaming center of Youku Network Technology (Beijing) Co., Ltd. (優酷網絡技術(北京)有限公司) from March 2014 to January 2016. From March 2012 and March 2014, he worked as an operation manager of the personal computer online game department at Beijing Star World Technology Company Ltd. (北京世界星輝科技有限責任公司), where he was responsible for the operation of exclusively licensed games. From September 2010 to March 2012, he worked as an operation manager at the project operation department of Shanghai Youzu Information Technology Co., Ltd. (上海游族信息科技有限公司), an interactive entertainment provider, where he was responsible for operation team building and operation management. Mr. Wang received his bachelor's degree in electronic information engineering from Nanchang University (南昌大學) in July 2008.

**Mr. WANG Xiaolin (王曉霖)**, aged 34, is our partner and vice president. Mr. Wang is primarily responsible for our Group's domestic online games product distribution and operations related matters. Mr. Wang has nearly eight years of industry experience in game and technology industry. He joined our Group in February 2014 and has consecutively served as a vice general manager and general manager of Chengdu Zhuoxing, and vice general manager of Tianjin Suiyue since then. Mr. Wang has also been our partner and vice president of Chengdu Zhuoxing since November 2016. Before joining our Group, Mr. Wang worked at WARFACE product department of Tencent Technology (Shenzhen) Co., Ltd. (騰訊科技(深圳)有限公司) as an operation manager from December 2010 to February 2014, where he was primarily responsible for overall project operation and team management. He received his bachelor's degree of engineering in inorganic non-metal material engineering from Hehai University (河海大學) in June 2007 and his master of science in technology management from University of Bridgeport in May 2009.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. YANG Rongjie (楊榮傑)**, aged 35, is our partner and vice president. He is responsible for our Group's marketing and advertising management. Mr. Yang has nearly 10 years of experience in game and technology industry. He joined our Group in December 2016 and has been serving as the vice president and partner of Shenzhen Zhongshouyou since then. Prior to joining our Group, from November 2014 to November 2016, he served as a vice president (marketing) of Shenzhen iDreamsky Technology Limited (深圳創夢天地科技有限公司), a mobile game publisher in China, responsible for overall marketing, advertising and promoting. From July 2011 to August 2013, he worked at Tencent Technology (騰訊科技(深圳)有限公司). He also served as the marketing manager of Ninth City Computer Technology Consulting (Shanghai) Co., Ltd. (第九城市計算機技術諮詢(上海)有限公司) from October 2010 to June 2011, responsible for the overall marketing of web games. From August 2009 to September 2010, Mr. Yang served as a marketing planning manager of Perfect World Game Co., Ltd. (完美世界遊戲有限責任公司) (formerly known as Shanghai Perfect World Network Technology Co., Ltd. (上海完美世界網路技術有限公司)), responsible for marketing and promotion of games. Mr. Yang graduated from Shandong University of Technology (山東理工大學) with a bachelor's degree in urban planning in July 2007.

**Mr. YUAN Yu (袁宇)**, aged 43, is our partner and vice president. He is responsible for our Group's IP introduction and editorial supervision management. Mr. Yuan has nearly 20 years of experience in business management and operation. He joined our Group in May 2015 and served as a general manager of copyright center of Shenzhen Lanyue and has been serving as its vice president and partner since November 2016. Mr. Yuan has also been serving as the vice president and partner of Shenzhen Shengli Huyu since March 2018. Prior to joining our Group, from July 2013 to May 2015, he served as a senior strategic project manager of Walt Disney (Beijing) Co., Ltd. (華特迪士尼(北京)有限公司) and the senior business development manager of Walt Disney Company (China) Limited (華特迪士尼(中國)有限公司), consecutively, responsible for channel docking, authorization of intellectual property and games and channel related matters. From August 2012 to June 2013, he served as an assistant vice president of ME Marketing Center of Madhouse Inc. (上海億動商道廣告有限公司), responsible for marketing and customer management. From February 2006 to April 2011, he served as the regional marketing director of Huayou Times Technology Development Co., Ltd (華友時代科技發展有限公司) (formerly known as Shengda Wireless (Beijing) Technology Development Co., Ltd. (盛大無線(北京)技術發展有限公司)), responsible for sales and marketing in the region. From June 1999 to March 2001, Mr. Yuan served as a regional supervisor of handheld products of Lenovo (Beijing) Co., Ltd. (聯想(北京)有限公司). He graduated from Northeastern University (東北大學) with a bachelor's degree in engineering in July 1999.

**Mr. WANG Tao (王濤)**, aged 45, is our partner and vice president. Mr. Wang is responsible for our Group's human resources and administrative management. Mr. Wang has over eight years of experience in talent training and development in game industry and business operations. He joined our Group in November 2015 and served as a vice president of Shenzhen Lanyue from November 2015 to April 2016. Mr. Wang then served as a vice president of Beijing China Mobile Games Technology Co., Ltd. (北京中手游技術有限公司) in April 2016 and has been serving as its partner since November 2016. Mr. Wang also served as a partner and vice president of Shenzhen Douyue from April 2017 to February 2018. Mr. Wang then has

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## DIRECTORS AND SENIOR MANAGEMENT

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been serving as the partner and vice president of Shenzhen Shengli Huyu since March 2018. Prior to joining our Group, from April 2014 to November 2015, he served as a chief manager of Guangzhou Zhengyou Information Technology Co., Ltd. (廣州正游信息科技有限公司), responsible for research, development and daily operation of a web game project. From January 2013 to March 2014, he served as a human resource director of Guangzhou Feiying Information Technology Co., Ltd. (廣州菲音信息科技有限公司). From December 2007 to April 2011, Mr. Wang served as a manager of the training center of Changyou.com Limited (北京暢游天下網絡技術有限公司) responsible for staff training. From April 2011 to October 2012, Mr. Wang also served as a senior manager of Beijing Oak Pacific Interactive Information Technology Co., Ltd. (北京千橡網景科技發展有限公司) responsible for personnel organization and operation staff training. Mr. Wang graduated from Beijing Wuzi University (北京物資學院) with a bachelor's degree in business administration in July 1999.

**Ms. LAI Yau Yan Gladys (黎佑欣)**, aged 40, is our financial controller and company secretary. Ms. Lai joined China Mobile Game HK as an assistant finance manager in July 2014, and was promoted to a financial controller in April 2018. Ms. Lai was also appointed as the secretary of our Company on June 19, 2018. Ms. Lai has over 15 years of experience in financial reporting as well as management reporting. Ms. Lai served as an assistant accounting manager at Hutchison Whampoa Properties Limited from June 2012 to April 2014, a senior accountant at PCCW Limited from October 2008 to June 2012, an accountant at Hutchison Telecommunications International Limited from October 2005 to April 2008 and a senior accountant at Ernst & Young from September 2001 to September 2005.

Ms. Lai graduated from the University of British Columbia in Canada with a bachelor's degree in commerce in accounting in May 2001. Ms. Lai has also been a member of the American Institute of Certified Public Accountants since September 2004 and a member of the Hong Kong Institute of Certified Public Accountants since September 2005. She qualified as a Certified Internal Auditor of the Institute of Internal Auditors in July 2008. She is also a Chartered Global Management Accountant accredited by the American Institute of Certified Public Accountants in February 2012.

Save as disclosed above, none of the members of our senior management held any directorship in public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

### COMPANY SECRETARY

**Ms. LAI Yau Yan Gladys (黎佑欣)** was appointed as the secretary of our Company on June 19, 2018. For the biography of Ms. Lai, see “– Senior Management” in this section.

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## DIRECTORS AND SENIOR MANAGEMENT

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### BOARD COMMITTEES

#### Audit Committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and provide advice and comments to the board of Directors. The audit committee consists of three members, namely Ms. NG Yi Kum, Mr. TANG Liang and Mr. MA Yuntao. Ms. NG Yi Kum has been appointed as the chairlady of the audit committee and is our independent non-executive Director with the appropriate professional qualifications.

#### Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The primary duties of the remuneration committee are to review and make recommendations to the Board the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The remuneration committee consists of three members, namely Mr. HO Orlando Yaukai, Mr. SIN Hendrick and Ms. NG Yi Kum. Mr. HO Orlando Yaukai has been appointed as the chairman of the remuneration committee.

#### Nomination Committee

We have established a nomination committee with written terms of reference with reference to the Corporate Governance Code. The primary duties of the nomination committee are to make recommendations to our Board on the appointment of Directors and management of Board succession. The nomination committee consists of three members, namely Mr. XIAO Jian, Mr. TANG Liang and Mr. HO Orlando Yaukai. Mr. XIAO Jian has been appointed as the chairman of the nomination committee.

#### Corporate Governance Committee

We have established a corporate governance committee with written terms of reference with reference to the Corporate Governance Code. The primary functions of the corporate governance committee are to develop and review our policies and practices on corporate governance and make recommendations to the board, review and monitor the training and continuous professional development of directors and senior management, review and monitor our policies and practices on compliance with legal and regulatory requirements, develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors, and review our compliance with the code and disclosure in the Corporate Governance Report. The corporate governance committee consists of three members, namely Ms. NG Yi Kum, Mr. SIN Hendrick and Mr. HO Orlando Yaukai. Ms. NG Yi Kum has been appointed as the chairlady of the corporate governance committee.

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## DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Our Directors and senior management receive remuneration, including salaries, allowances and benefits in kind, including our contribution to the pension plan on their behalves.

The aggregate amount of remuneration (including salaries, allowances and benefits in kind, equity-settled share-based payment expense and pension scheme contributions) incurred by the five highest paid individuals who are neither a director nor chief executive of our Group for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2018 and 2019 was approximately RMB2.1 million, RMB3.0 million, RMB3.0 million, RMB1.6 million and RMB2.0 million, respectively.

The aggregate amount of remuneration (including salaries, allowances and benefits in kind, equity-settled share-based payment expense and pension scheme contributions) paid to our Directors and senior management for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2018 and 2019 was approximately RMB3.8 million, RMB4.8 million, RMB6.0 million, RMB3.3 million and RMB4.0 million, respectively. None of our Directors or senior management waived any remuneration during the aforesaid periods.

Save as disclosed above, no other payments have been paid or are payable, in respect of the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2018 and 2019 by our Company to our Directors or senior management.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past directors for the Track Record Period for the loss of office as director or any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

### CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Pursuant to code provision A.2.1 of the Corporate Governance Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer and Mr. Xiao currently performs these two roles. Our Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within our Company and enables more effective and efficient overall strategic planning for our Company. Our Board currently comprises two executive Directors (including Mr. Xiao), two non-executive Directors and three independent non-executive Directors, and therefore has a fairly strong independence element in its composition. Our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Our Board will continue to review and consider separating the roles of chairman of our Board and chief executive officer of our Company at a time when it is appropriate and suitable by taking into account the circumstances of our Company as a whole.



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## DIRECTORS AND SENIOR MANAGEMENT

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Save as disclosed above, we are in compliance with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

### COMPLIANCE ADVISER

We have appointed First Shanghai Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. The compliance adviser will provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company, among others, in the following circumstances:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry to the Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of appointment of the compliance adviser shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

### BOARD DIVERSITY POLICY

We recognize and embrace the benefits of having a diverse Board and see increasing diversity at the Board level as an essential element in maintaining our competitive advantage. The Nomination Committee will review annually the structure, size and composition of our Board and where appropriate, make recommendations on changes to our Board to complement our corporate strategy.

In relation to reviewing and assessing our Board composition, our nomination committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional qualifications, skills, knowledge, length of service and industry and regional experience. Meanwhile, our Company will consider the above factors based on our business mode and our specific needs, and the ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board.

Our Nomination Committee will discuss and where necessary, agree on the measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. We aim to maintain an appropriate balance of diversity perspectives of our Board that are relevant to our business growth.



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## SUBSTANTIAL SHAREHOLDERS

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So far as our Directors are aware, immediately following the completion of the Capitalization Issue and the Global Offering (assuming no exercise of the Over-allotment Option), the following persons will have interests or short positions in our Shares or our underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

<b>Name of Shareholder</b>	<b>Nature of Interest</b>	<b>Number of Shares<sup>(1)</sup></b>	<b>Approximate percentage of shareholding in our Company</b>
Mr. Xiao <sup>(2)</sup>	Founder of a discretionary trust and interest in a controlled corporation	784,669,857 (L)	34.70%
	Beneficial owner	70,826,000 (L)	3.13%
CMB Wing Lung (Trustee) Limited <sup>(2)</sup>	Trustee of a trust	784,669,857 (L)	34.70%
Antopex Limited <sup>(2)</sup>	Nominee for another persons	784,669,857 (L)	34.70%
Victory Aspire <sup>(2)</sup>	Interest in a controlled corporation	784,669,857 (L)	34.70%
Zhongshouyou Brothers BVI <sup>(2)</sup>	Beneficial owner	91,360,432 (L)	4.04%
	Interest in a controlled corporation	693,309,425 (L)	30.66%
Mr. Sin <sup>(3)</sup>	Interest in a controlled corporation	744,699,663 (L)	32.94%
	Beneficial owner	72,360,000 (L)	3.20%
Silver Joyce <sup>(3)</sup>	Beneficial owner	51,390,238 (L)	2.27%
	Interest in a controlled corporation	693,309,425 (L)	30.66%
Fairview Ridge <sup>(2), (3)</sup>	Beneficial owner	693,309,425 (L)	30.66%
Motion Game <sup>(2), (3)</sup>	Interest in a controlled corporation	693,309,425 (L)	30.66%
Profound Power <sup>(2), (3)</sup>	Interest in a controlled corporation	693,309,425 (L)	30.66%
Changpei Cayman <sup>(2), (3)</sup>	Interest in a controlled corporation	693,309,425 (L)	30.66%

## SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Nature of Interest	Number of Shares <sup>(1)</sup>	Approximate percentage of shareholding in our Company
Ambitious Profit <sup>(2), (3)</sup>	Interest in a controlled corporation	693,309,425 (L)	30.66%
Zhike L.P. <sup>(4)</sup>	Beneficial owner	346,673,339 (L)	15.33%
Hontai Zhike <sup>(4)</sup>	Interest in a controlled corporation	346,673,339 (L)	15.33%
Orient BVI <sup>(4)</sup>	Interest in a controlled corporation	346,673,339 (L)	15.33%
Beijing Orient L.P. <sup>(4)</sup>	Interest in a controlled corporation	346,673,339 (L)	15.33%
Mr. Ma <sup>(4)</sup>	Interest in a controlled corporation	346,673,339 (L)	15.33%
Pegasus HK <sup>(5)</sup>	Beneficial owner	293,327,517 (L)	12.97%
Pegasus BVI <sup>(5)</sup>	Interest in a controlled corporation	293,327,517 (L)	12.97%
Pegasus Technology <sup>(5)</sup>	Interest in a controlled corporation	293,327,517 (L)	12.97%
Shanghai Pegasus <sup>(5)</sup>	Interest in a controlled corporation	293,327,517 (L)	12.97%
Dazi Dingcheng <sup>(5) (6)</sup>	Interest in a controlled corporation	369,461,107 (L)	16.34%
Beijing Zhongrong Dingxin <sup>(5) (6)</sup>	Interest in a controlled corporation	369,461,107 (L)	16.34%
Zhongrong Trust <sup>(5) (6)</sup>	Interest in a controlled corporation	369,461,107 (L)	16.34%
C&T Services <sup>(7)</sup>	Trustee of a trust	143,205,000 (L)	6.33%

*Notes:*

- (1) The letter “L” denotes the entity’s long position in the Shares.
- (2) Zhongshouyou Brothers BVI is wholly-owned by Victory Aspire, which in turn is wholly owned by Antopex Limited, a company nominated by CMB Wing Lung (Trustee) Limited, as the trustee of the Xiao Family Trust, which is a discretionary trust established by Mr. Xiao, as the settlor, with Mr. Xiao and his spouse as beneficiaries. Zhongshouyou Brothers BVI owned 64% of the issued shares of Ambitious Profit and in turn is interested in our Shares indirectly held by Ambitious Profit. Under the SFO, Mr. Xiao, CMB Wing Lung (Trustee) Limited, Antopex Limited, Victory Aspire and Zhongshouyou Brothers BVI are deemed to be interested in the Shares indirectly held by Ambitious

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## SUBSTANTIAL SHAREHOLDERS

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Profit, the general partner of Changpei Cayman, holding 693,309,425 Shares through Profound Power, Motion Game and Fairview Ridge. Separately, Zhongshouyou Brothers BVI directly held 91,360,432 Shares, and Mr. Xiao, CMB Wing Lung (Trustee) Limited, Antopex Limited and Victory Aspire are deemed to be interested in the Shares held by Zhongshouyou Brothers BVI under the SFO.

Mr. Xiao has been granted RSUs under the Pre-IPO RSU Scheme for our core connected persons entitling him to receive an aggregate of 70,826,000 Shares, among which, RSUs representing 27,000,000 Shares shall vest on the Listing Date and RSUs representing 43,826,000 Shares shall vest if the required performance targets are achieved.

- (3) Silver Joyce is wholly-owned by Mr. Sin. Silver Joyce owned 36% of the issued shares of Ambitious Profit and in turn is interested in our Shares indirectly held by Ambitious Profit. Under the SFO, Mr. Sin and Silver Joyce are deemed to be interested in the Shares indirectly held by Ambitious Profit, the general partner of Changpei Cayman, holding 693,309,425 Shares through Profound Power, Motion Game and Fairview Ridge. Separately, Silver Joyce directly held 51,390,238 Shares, and Mr. Sin is deemed to be interested in the Shares held by Silver Joyce under the SFO.

Mr. Sin has been granted RSUs under the Pre-IPO RSU Scheme for our core connected persons entitling him to receive an aggregate of 72,360,000 Shares, among which, RSUs representing 27,000,000 Shares shall vest on the Listing Date and RSUs representing 45,360,000 Shares shall vest if the required performance targets are achieved.

- (4) Zhike L.P. is a limited partnership incorporated in the Cayman Islands and is controlled by its general partner, Hontai Zhike Cayman Limited (“**Hontai Zhike**”), which is an exempted company incorporated in the Cayman Islands. Hontai Zhike is wholly-owned by Orient Zhike Limited (“**Orient BVI**”), a limited company incorporated in the BVI, which is in turn wholly-owned by Beijing Orient L.P., a limited partnership established in the PRC which is controlled by its executive general partner ultimately controlled by Mr. Ma. Under the SFO, Mr. Ma, Beijing Orient L.P., Orient BVI and Hontai Zhike are deemed to be interested in the Shares held by Zhike L.P.
- (5) Pegasus HK is wholly-owned by Pegasus BVI, which is in turn wholly-owned by Pegasus Technology. Pegasus Technology is owned as to 99.6% by Shanghai Pegasus and 0.4% by an independent third party. Shanghai Pegasus is a limited partnership established in the PRC, the general partner of which is Dazi Dingcheng, a limited liability company established in the PRC, which is wholly-owned by Beijing Zhongrong Dingxin and in turn wholly-owned by Beijing Zhongrong Trust. Under the SFO, Zhongrong Trust, Beijing Zhongrong Dingxin, Dazi Dingcheng, Shanghai Pegasus, Pegasus Technology and Pegasus BVI are deemed to be interested in the Shares held by Pegasus HK.
- (6) Yichong HK holds 76,133,590 Shares, representing approximately 3.37% of the total issued Shares, immediately following the completion of the Capitalization Issue and the Global Offering, assuming no exercise of the Over-allotment Option. Yichong HK is wholly-owned by Yichong BVI, which is in turn wholly-owned by Jichong Shanghai, Jichong Shanghai is owned as to 99.6% by Yichong Investment and 0.4% by an independent third party. Yichong Investment is a limited partnership established in the PRC, the general partner of which is Dazi Dingcheng, a limited liability company established in the PRC, which is wholly-owned by Beijing Zhongrong Dingxin and in turn wholly-owned by Zhongrong Trust. Under the SFO, Zhongrong Trust, Beijing Zhongrong Dingxin, Dazi Dingcheng are deemed to be interested in the Shares held by Yichong HK. As the Shares to be held by Yichong Investment, Jichong Shanghai, Yichong BVI and Yichong HK will be less than 10% of the Shares immediately after the completion of the Capitalization Issue and the Global Offering, we do not account these companies as our Substantial Shareholders.
- (7) C&T Services is the trustee of the Pre-IPO RSU Scheme for grantees who are the core connected persons of our Company.

Except as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Capitalization Issue and the Global Offering, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

## SHARE CAPITAL

### AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized share capital of our Company as of the Latest Practicable Date and the issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Capitalization Issue and the Global Offering:

		<i>US\$</i>	<i>Approximate percentage to total share capital</i>
<b>Authorized share capital as of the Latest Practicable Date:</b>			
<u>500,000,000</u>	Shares of US\$0.0001 each	<u>50,000</u>	<u>100.00%</u>
<b>Authorized share capital to be increased immediately before the completion of the Global Offering:</b>			
<u>5,000,000,000</u>	Shares of US\$0.0001 each	<u>500,000</u>	<u>100.00%</u>
<b>Issued and to be issued, fully paid or credited as fully paid upon completion of the Capitalization Issue and the Global Offering:</b>			
139,157,814	Shares in issue as of the date of this prospectus	13,915.78	6.15%
1,660,842,186	Shares to be issued pursuant to the Capitalization Issue	166,084.22	73.46%
461,000,000	Shares to be issued pursuant to the Global Offering	46,100.00	20.39%
<u>2,261,000,000</u>	Total	<u>226,100.00</u>	<u>100.00%</u>

### ASSUMPTIONS

The above table assumes that the Global Offering has become unconditional and the Shares are issued or sold (where applicable) pursuant to the Capitalization Issue and the Global Offering. It does not take into account any Shares which may be (a) issued upon the exercise of the Over-allotment Option; (b) allotted and issued upon the exercise of share options granted under the Post-IPO Share Option Scheme; and (c) issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares.

### RANKING

The Shares are ordinary shares in our share capital and rank equally with all Shares currently in issue and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

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## SHARE CAPITAL

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### **CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED**

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares.

Pursuant to the Companies Law and the terms of our Memorandum and Articles of Association, our Company may from time to time by ordinary shareholders' resolution (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce or redeem its share capital by shareholders' special resolution. For further details, see "Summary of the Constitution of the Company and Cayman Islands Company Law and Taxation – Summary of the Constitution of the Company – 2. Articles of Association – 2.5 Alteration of capital" in Appendix III to this prospectus.

Pursuant to the Companies Law and the terms of our Memorandum and Articles of Association, all or any of the rights attached to the Share or any class of Shares may be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For further details, see "Summary of the Constitution of the Company and Cayman Islands Company Law and Taxation – Summary of the Constitution of the Company – 2. Articles of Association – 2.4 Variation of rights of existing shares or classes of shares" in Appendix III to this prospectus.

### **GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES**

Subject to the conditions stated in the section headed "Structure of the Global Offering – Conditions of the Global Offering" in this prospectus, our Directors have been granted general unconditional mandates to issue and repurchase our Shares. For further details of these general mandate, see "Statutory and General Information – A. Further Information about Our Company – 4. Written Resolutions of the shareholders passed on September 20, 2019" in Appendix IV to this prospectus.

### **SHARE INCENTIVE SCHEMES**

We have granted RSUs under the Pre-IPO RSU Schemes. For further details, see "Statutory and General Information – E. Share Incentive Schemes – 1. Pre-IPO RSU Schemes" in Appendix IV to this prospectus.

We have also conditionally adopted the Post-IPO Share Option Scheme. For further details, see "Statutory and General Information – E. Share Incentive Schemes – 2. Post-IPO Share Option Scheme" in Appendix IV to this prospectus.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis with our consolidated financial information, including the notes thereto, included in the Accountants' Report in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with HKFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.*

*The following discussion and analysis contains forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this prospectus, including the sections headed "Risk Factors" and "Business."*

*For the purpose of this section, unless the context otherwise requires, references to 2016, 2017 and 2018 refer to our financial years ended December 31 of such years, and references to the first half of 2018 and 2019 refer to the six months ended June 30, 2018 and 2019, respectively. Unless the context otherwise requires, financial information described in this section is on a consolidated basis.*

### OVERVIEW

We derive the majority of our revenue from the provision of game publishing services in exchange for a portion of the gross billings paid by game players to purchase in-game virtual currency. The majority of our games are published on third-party publishing channels which collect gross billings from game players and remit a portion to us after deducting their share of the gross billings. We acquired our own publishing platform, namely VClub (勝利俱樂部), in September 2018. For our games published on VClub (勝利俱樂部), we collect gross billings directly from payment channels. We retain a prescribed percentage of the gross billings collected from the publishing channels and payment channels as our publishing service fee, and remit the remaining amounts to third-party game developers and IP owners. Our revenue from continuing operations was RMB1,001.2 million, RMB1,012.8 million, RMB1,596.2 million, RMB672.5 million and RMB1,529.1 million for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively. Our gross profit from continuing operations for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019 was RMB349.4 million, RMB340.5 million, RMB532.5 million, RMB238.4 million and RMB528.5 million, respectively. We recorded other income and gains from continuing operations of RMB157.0 million, RMB168.3 million, RMB123.7 million, RMB45.1 million and RMB40.1 million for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively. We recorded net profit from continuing operations of RMB188.5 million, RMB265.0 million, RMB316.0 million, RMB162.7 million and RMB249.9 million for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively.

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## FINANCIAL INFORMATION

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### BASIS OF PRESENTATION

Pursuant to the Reorganization, as more fully explained in the subsection headed “History, Reorganization and Corporate Structure – Reorganization” in this prospectus, our Company became the holding company of the companies now comprising our Group on May 28, 2018. The companies now comprising our Group were under the common control of CMGE Mobile Tech before and after the Reorganization. Accordingly, in this section the historical financial information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Track Record Period.

Due to regulatory prohibitions and restrictions on foreign ownership in the online publication business, network culture operation business and value-added telecommunications business in the PRC, our mobile game publishing businesses were mainly carried out by Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou during the Track Record Period. Pursuant to the Reorganization, Shengyue Software, our wholly-owned subsidiary, has entered into the Contractual Arrangements with, among others, the PRC Operating Entities and their respective equity holders. The Contractual Arrangements enable Shengyue Software to exercise effective control over the PRC Operating Entities and obtain substantially all economic benefits of the PRC Operating Entities. Details of the Contractual Arrangements are disclosed in the section headed “Contractual Arrangements” in this prospectus. We do not have any equity interest in the PRC Operating Entities. However, Shengyue Software and the PRC Operating Entities were ultimately under the control of CMGE Mobile Tech and through the Contractual Arrangements as detailed in note 2.1 to the Accountants’ Report in Appendix I to this prospectus, the PRC Operating Entities and the business carried out by them are under the effective control of CMGE Mobile Tech. Consequently, we regard the PRC Operating Entities as indirect subsidiaries for the purpose of our historical financial information.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of CMGE Mobile Tech where this is a shorter period. The consolidated statements of financial position of our Group as of December 31, 2016, 2017 and 2018, and June 30, 2019 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from CMGE Mobile Tech’s perspective. No adjustments have been made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization.

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



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## FINANCIAL INFORMATION

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### MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, many of which are outside of our control, including the following:

#### **Our ability to continuously license popular mobile games and IPs**

Substantially all of our revenue is generated from gross billings of our mobile games, which are primarily derived from the purchase of virtual currency by our players. For further details, see “– Critical Accounting Policies, Judgments and Estimates – Revenue from Contracts with Customers” in this section. Therefore, our results of operation depend on our ability to publish popular mobile games and effectively encourage players to purchase and use virtual currency as they play. Consequently, our ability to continuously license popular games and IPs is a major factor that will allow us to retain and expand our player base. Although we possess in-house development capabilities and five series of proprietary IPs after our acquisition of Wenmai Hudong and a 51% equity interest in Beijing Softstar, the majority of our games will continue to be licensed from third-party game developers. Our ability to identify and license popular mobile games and IPs and continue to enlarge our game portfolio with attractive games will be critical to retaining and expanding our player base.

#### **Our ability to attract players, especially paying users**

Our results of operations are dependent upon our ability to convert our players into paying users. Nearly all of our games are offered on a free-to-play basis. We believe this freemium model attracts a wider audience of players and increases the number of potential paying users. Our games offer a wide variety of virtual items, including weapons, cards and privileges, which enhance the powers, abilities, attractiveness or social interaction of in-game characters. Our ability to monetize our player base is critical to our continuing success. To enhance game monetization, we will continue to analyze market trends and player preference, and license mobile games and IPs that we believe possess high monetization potential.

#### **Our ability to make successful investments and integrate the operations, technologies, services and personnel of our business units**

During the Track Record Period, we directly invested in 12 companies, all of which are game developers. We started making investments in 2014, and recorded share of profits and losses of associates of a loss of RMB3.3 million, profits of RMB2.0 million, RMB17.9 million and RMB1.6 million, and a loss of RMB2.9 million during the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively. In May 2018, we acquired Wenmai Hudong and a 51% equity interest in Beijing Softstar. We intend to continue investing in and acquiring companies whose business will work synergistically with our publishing business. Such investments and acquisitions may impact our results of operations depending on the amount involved and the performance of the companies in which we invest or which we acquire. We plan to license high-quality games developed by our portfolio companies to supplement our game pipeline, and we plan to integrate and centralize certain of the functions of the companies we acquire. The extent to which we successfully license high-quality games from our portfolio companies and integrate these acquired

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companies into our business in terms of player service, growth strategy and corporate culture could impact our results of operations. Our acquisitions may result in a large amount of goodwill and we may recognize impairment losses on the goodwill in the future. For example, we recorded goodwill of RMB698.0 million and RMB95.7 million as a result of our acquisition of Wenmai Hudong in May 2018 and Beijing Softstar becoming our subsidiary in August 2018, respectively. For further details, see “History, Reorganization and Corporate Structure – Disposals, Acquisitions and Investments – Acquiring a 51% equity interest in Beijing Softstar” and “History, Reorganization and Corporate Structure – Disposals, Acquisitions and Investments – Acquiring all of the equity interests in Wenmai Hudong” in this prospectus.

In July 2016, we disposed of Shenzhen Qi Le Wu Xian Software Development Co., Ltd. (深圳市奇樂無限軟件開發有限公司) and Beijing Zhuoyue Chenxing Co., Limited (北京卓越晨星科技有限公司) (together, the “**Disposal of Zhuoyue Chenxing and QLWX Software**”) in exchange for cash of RMB130.0 million and 48,780,480 shares in Hero Entertainment (approximately 3.4% of Hero Entertainment’s shareholding at the time of disposal). As a result of this disposal and a sale in the following years of a majority of the shares of Hero Entertainment that we held, we recognized significant other income and gains from continuing operations in the years ended December 31, 2017 and 2018. To the extent we will again in the future have the opportunity to dispose of certain games on economic terms that we deem to be favorable to us, it may significantly impact our results of operations.

### **Our ability to maintain our publishing network on favorable terms**

The growth of our player base and our ability to monetize depend on our ability to make our games available for download to mobile game players. To publish our games, we cooperate with more than 400 publishing channels, including application stores and third-party open platforms, application stores operated by mobile phone manufacturers, and social network platforms which cover substantially all of China’s mobile game population. We receive revenue from third-party publishing channels who collect payments either directly from players or through payment platforms and then remit a contracted portion to us. Revenue sharing with publishing channels is the largest component of our cost of sales from continuing operations and our current and future gross billing sharing arrangements with our publishing channel partners could have a significant impact on our operating results. During the Track Record Period, the percentage of gross billings our publishing channels were entitled to ranged from 30% to 50%. Our ability to maintain and expand our publishing network on favorable terms is critical to our continued success.

### **Our ability to control our operating expenses and improve operational efficiency**

Our profitability is significantly affected by our operating expenses, including administrative expenses and selling and distribution expenses. Our operating expenses increased in the six months ended June 30, 2019 compared to the same period in 2018, primarily due to (i) an increase in administrative expenses as a result of our acquisition of Wenmai Hudong in May 2018 and Beijing Softstar becoming our subsidiary in August 2018, and (ii) an increase in selling and distribution expenses as a result of our increased spending

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on marketing and advertising activities to promote our games. Our operating expenses may further increase in the future as we seek to expand our player base, but we also anticipate that this increase will be slower than our expected increase in revenues as we benefit from economies of scale and improved operating efficiencies. Our ability to control such operating expenses directly impacts our profitability.

### **General conditions affecting the mobile game industry**

Our results of operations are affected by general conditions affecting China's mobile game industry, including the overall economic condition, the penetration of mobile phones and mobile internet, the regulatory environment, the demand for mobile games and player preference. According to Analysys, the market environment of mobile games in China has become increasingly favorable. For further details, see "Industry Overview" in this prospectus, as well as "Risk Factors – Risks Related to Our Business – The laws and regulations regulating mobile games in China continue to evolve and change, which may make it difficult for us to obtain or maintain all applicable permits and approvals" in this prospectus. Changes in the conditions affecting China's mobile game industry would have a significant impact on our business and prospects.

### **CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES**

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

When reviewing our consolidated financial statements, you should consider (i) our 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. Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, including any changes in accounting policy and disclosures, are set forth in detail in notes 2 and 3 to the Accountants' Report in Appendix I to this prospectus.

### **Revenue from contracts with customers**

We recognize revenue from contracts with customers when control over goods or services is transferred to customers at an amount that reflects the consideration to which we expect to be entitled in exchange.

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### *Mobile game publishing*

We are primarily engaged in publishing mobile games developed by third-party game developers on various publishing channels including application stores and third-party open platforms, application stores operated by mobile phone manufacturers, and social network platforms.

Most of our games are operated under a free-to-play basis whereby players can play our games free of charge and are charged for the purchase of virtual currency that they can exchange for in-game virtual items. During the Track Record Period, most of our games were developed by third-party game developers, and we are responsible for publishing our licensed games to game players through third-party publishing channels. Game players pay for the virtual currency through publishing channels. Such payments, which are also referred to as gross billings, are generally non-refundable and non-cancellable. Publishing channels are entitled to withhold and deduct prescribed fixed percentages of the gross proceeds collected from game players as their channel service fee, and remit the remaining amount to us. We are entitled to withhold and deduct prescribed percentage of the proceeds collected from publishing channels as our publishing service fee, and remit the remaining amounts to third-party game developers and IP owners (if applicable).

### *Gross versus net revenue recognition*

We evaluate agreements with game developers, publishing channels and IP owners (if applicable) in order to determine whether we act as the principal or agent with regard to each individual party. In our evaluation process, we identify the specific service to be provided to customers and assess whether we control each service before it is transferred to customers. The indicators that we take into consideration in determining whether we control the specific service include but are not limited to whether we (i) are primarily responsible for fulfilling the obligation to provide the service; (ii) bear inventory risk before the service is transferred to customers; and (iii) have discretion in setting the price of the service. We performed the abovementioned evaluation for all of our mobile game publishing revenue during the Track Record Period.

With respect to our game publishing arrangements entered into during the Track Record Period, having taken into consideration that we are responsible for identifying, contracting with and maintaining relationships with publishing channels and IP owners (if applicable), we are of the view that game developers are our customers and accordingly, we record the amounts collected from publishing channels net of the amounts shared with game developers as our revenue on a gross basis, and commission fees paid to the publishing channels and IP owners (if applicable) are included in our cost of sales.

### *Timing of revenue recognition*

Our publishing services are provided over the entire publishing period of our games, and revenue is recognized when the publishing services are provided and the revenue amounts become determinable.

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### *Game development*

We develop games internally and license them either to our Group or other game publishers under various game publishing arrangements.

The online games that we develop are operated under a free-to-play basis whereby players can play our games free of charge and are charged for the purchase of virtual currency that they can exchange for in-game virtual items. The gross payments from players are collected and recorded as our revenue. The payments that we receive are non-refundable, and the related contracts are non-cancellable.

We are obligated to provide on-going services to game players who purchased virtual items to gain an enhanced gameplay experience. Accordingly, we recognize our game development revenues ratably over the estimated average playing period of these paying users (the “**Player Relation Period**”), which commences from the point in time when virtual items are delivered to players’ accounts and all other revenue recognition criteria are met. During the Track Record Period, the Player Relation Period of our games was generally 13 days to three months.

Our determination of the Player Relation Period for each game is based on our best estimate on a game-by-game basis, taking into account all known and relevant information at the time of the assessment. If a new game is launched and only limited paying player data are available, we consider other qualitative factors including the playing patterns of paying users for other games with similar characteristics. As the average Player Relation Period for any game can change over time, our estimates are subject to re-evaluation on a semi-annual basis.

### *Gross versus net consideration*

We consider ourselves as the principal in relation to our games developed in-house as we have the primary responsibilities in game operation, providing player services, hosting game servers, controlling game and service specifications, and pricing. Accordingly, revenue derived from our games developed in-house is recorded on a gross basis, and the amounts withheld by publishing channels and other publishers are recorded as our cost of sales.

### *Timing of revenue recognition*

Revenue from provision of outsourcing game development services are recognized over time if our performance of the relevant services does not create an asset with an alternative use to our Group and we have an enforceable right to payment for the completed performance. For all other cases, revenue is recognized at the point in time when all the revenue recognition criteria are met.

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### ***IP licensing***

We also generate revenue from licensing our proprietary IPs to third parties for the development and launch of pan-entertainment products. Revenue generated from IP licensing agreements is recognized over the licence period (for a right to access) or at the point in time when the customer can first use the licensed IP (for a right to use). Sales-based royalties on IP licences are recognized only upon the occurrence of the sale or the usage of the IP license, or the satisfaction of related performance obligation, whichever the later.

### **Adoption of HKFRS 9, HKFRS 15 and HKFRS 16**

#### ***HKFRS 15 Revenue from Contracts with Customers***

HKFRS 15 *Revenue from Contracts with Customers* supersedes HKAS 11 *Construction Contracts* and HKAS 18 *Revenue and Related Interpretations*, and applies to all revenues arising from contracts with customers, unless those contracts fall within the scope of other standards. HKFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after January 1, 2018, and earlier application is permitted. Our Group has elected to apply HKFRS 15 in the preparation of its financial results throughout the Track Record Period.

HKFRS 15 requires presentation of contract liabilities when the payment is made or the payment is due (whichever is earlier) for contracts with customers. As of December 31, 2016, 2017 and 2018, and June 30, 2019, contract liabilities of RMB19.7 million, RMB18.0 million, RMB57.1 million and RMB71.0 million, respectively, should have been presented as deferred income should HKAS 18 have been applied throughout the Track Record Period.

Based on the above, we are of the view that the adoption of HKFRS 15 had no significant impact on the financial position and/or financial performance of our Group.

#### ***HKFRS 9 Financial Instruments***

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. Our Group has elected to apply HKFRS 9 in the preparation of its financial results throughout the Track Record Period.

HKFRS 9 brought about changes to the determination of the classification and measurement of all financial assets except equity instrument and derivatives by assessing such financial assets based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The accounting for financial liabilities remains largely the same as it was under HKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at fair value through profit or loss. Such movements are presented in other comprehensive income with no subsequent reclassification to profit or loss. Certain equity investments which were classified



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as available-for-sale investments under HKAS 39 were designated as financial assets at fair value through profit or loss under HKFRS 9. The carrying value of equity investments designated as financial assets at fair value through profit or loss as of December 31, 2016, 2017 and 2018, and June 30, 2019 was RMB203.2 million, RMB85.8 million, RMB538.7 million and RMB478.1 million respectively, which should have been classified as available-for-sale investments should HKAS 39 have been applied throughout the Track Record Period.

The adoption of HKFRS 9 has fundamentally changed our Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires our Group to record an allowance for ECLs for all loans and other debt financial assets not held at fair value through profit or loss. The allowance for ECLs recorded under HKFRS 9 as of December 31, 2016, 2017 and 2018, and June 30, 2019 was RMB1.9 million, RMB4.4 million, RMB9.0 million and RMB14.6 million, respectively.

Based on the above, we are of the view that the adoption of HKFRS 9 had no significant impact on the financial position and/or financial performance of our Group.

### **HKFRS 16 *Leases***

HKFRS 16 supersedes HKAS 17 Leases, HK(IFRIC) 4 Determining whether an Arrangement contains a Lease, HK(SIC)-15 Operating Leases – Incentives and HK(SIC)-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged under HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

Our Group has applied HKFRS 16 using the full retrospective method of adoption. The accounting policy for our Group's leases is presented in note 2.4 to the Accountants' Report in Appendix I to this prospectus which has been updated to reflect the application of HKFRS 16. Disclosures on our Group's leases have been made in note 15 to the Accountants' Report in Appendix I to this prospectus upon the application of HKFRS 16.

As a result of the adoption of HKFRS 16, our Group recognized right-of-use assets and corresponding lease liabilities in respect of all leases unless they qualify for low value or short-term leases. Lease liabilities represent payments for the right to use the underlying assets. Our lease liabilities amounted to RMB15.6 million, RMB18.8 million, RMB21.1 million and RMB31.9 million as of December 31, 2016, 2017 and 2018, and June 30, 2019, respectively. Our right-of-use assets amounted to RMB15.6 million, RMB18.8 million, RMB21.1 million and RMB31.6 million as of December 31, 2016, 2017 and 2018, and June 30, 2019, respectively. Our right-of-use assets and lease liabilities represented less than 1.7% of our total assets as of December 31, 2016, 2017 and 2018, and June 30, 2019.

Based on the above, we are of the view that the adoption of HKFRS 16, as compared to the requirements of HKAS 17, had no significant impact on the financial position and/or financial performance of our Group.



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### Valuation of Financial Assets at Fair Value through Profit or Loss

All assets and liabilities for which fair value is measured are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole. There are three levels in the fair value hierarchy, amongst which level 3 is based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. For details, see note 2.4 to the Accountants' Report in Appendix I to this prospectus.

Our fair value gains or loss on fair value through profit or loss categorized within level 3 was gains of RMB1.1 million, RMB1.4 million, RMB20.2 million and RMB5.8 million as of December 31, 2016, 2017 and 2018, and June 30, 2019, respectively.

In relation to the valuation of financial assets at fair value through profit or loss, our Directors adopted the following procedures:

- Carried out independent and sufficient investigation and due diligence, including:
  - (a) understanding the nature of the investments to assess their merits;
  - (b) carefully considering all information that is relevant to the assessment of the investments;
  - (c) taking all reasonable steps to verify the accuracy and reasonableness of material information that is likely to affect the valuation of the investments.
- Engaged qualified and independent external valuer and provided them with necessary financial and non-financial information to perform valuation procedures; and
- Reviewed the valuation working papers and results prepared by the external valuer.

Our Directors are of the view that the valuation of the level 3 financial assets is fair and reasonable, and the financial statements of our Group is correct and properly prepared.

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In relation to the valuation of financial assets at fair value through profit or loss, our reporting accountants adopted the following procedures:

- Involved their internal valuation experts in discussions with the management of our Company and assessing the appropriateness of valuation methodology and assumptions used;
- Tested, on a sample basis, valuation of level 3 financial instruments by evaluating the underlying assumptions including discount rates, projected growth rates, marketability discount, market information of comparable companies such as recent transactions and earnings multiples, based on their industry knowledge as well as underlying supporting documentation; and
- Tested, on a sample basis, the arithmetical accuracy of the valuation computation. Our reporting accountants found that the valuation methodology of level 3 financial instruments is acceptable and the assumptions made by the management of our Company are supported by available evidence.

Our reporting accountants are of the view that the valuation methodology of level 3 financial instruments is acceptable, and the assumptions made by the management of our Company are supported by available evidence.

The Joint Sponsors have reviewed the relevant documents and information provided by our Group, the reporting accountants and the external valuer engaged by our Company for the valuation of these level 3 financial assets (the “**Assets Valuer**”), participated in the due diligence and discussions with all parties mentioned above, and obtained necessary representations and confirmations from our Company, our Directors, the reporting accountants and the Assets Valuer.

Based on the above, the Joint Sponsors are of the view that such valuation is fair and reasonable and determined with reference to the applicable guidance, auditing standards and valuation standards.

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### CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The following table presents items of the consolidated statements of profit or loss and comprehensive income of our Group, as well as their percentages to the total revenue during the Track Record Period.

	Year ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(in thousands, except for percentages)										
(Unaudited)										
<b>CONTINUING OPERATIONS</b>										
Revenue	1,001,163	100.0	1,012,791	100.0	1,596,204	100.0	672,508	100.0	1,529,118	100.0
Cost of sales	(651,773)	(65.1)	(672,336)	(66.4)	(1,063,734)	(66.6)	(434,080)	(64.5)	(1,000,660)	(65.4)
<b>Gross profit</b>	<b>349,390</b>	<b>34.9</b>	<b>340,455</b>	<b>33.6</b>	<b>532,470</b>	<b>33.4</b>	<b>238,428</b>	<b>35.5</b>	<b>528,458</b>	<b>34.6</b>
Other income and gains	156,999	15.7	168,345	16.6	123,674	7.7	45,149	6.7	40,127	2.6
Selling and distribution expenses	(225,705)	(22.5)	(189,407)	(18.7)	(148,054)	(9.3)	(58,337)	(8.7)	(140,329)	(9.2)
Administrative expenses	(50,040)	(5.0)	(39,046)	(3.9)	(147,672)	(9.3)	(43,731)	(6.5)	(111,435)	(7.3)
Other expenses	(18,539)	(1.9)	(16,078)	(1.6)	(7,948)	(0.5)	(55)	(0.0)	(14,073)	(0.9)
Finance costs	(765)	(0.1)	(1,220)	(0.1)	(10,053)	(0.6)	(3,581)	(0.5)	(5,437)	(0.4)
Share of profits and losses of:										
A joint venture	–	–	–	–	(4,257)	(0.2)	(1,147)	(0.2)	(1,436)	(0.1)
Associates	(3,278)	(0.3)	2,002	0.2	17,887	1.1	1,586	0.2	(2,946)	(0.2)
<b>Profit before tax from continuing operations</b>	<b>208,062</b>	<b>20.8</b>	<b>265,051</b>	<b>26.1</b>	<b>356,047</b>	<b>22.3</b>	<b>178,312</b>	<b>26.5</b>	<b>292,929</b>	<b>19.2</b>
Income tax expense	(19,563)	(2.0)	(56)	(0.0)	(40,074)	(2.5)	(15,660)	(2.3)	(43,050)	(2.8)
<b>Profit for the year/period from continuing operations</b>	<b>188,499</b>	<b>18.8</b>	<b>264,995</b>	<b>26.1</b>	<b>315,973</b>	<b>19.8</b>	<b>162,652</b>	<b>24.2</b>	<b>249,879</b>	<b>16.3</b>
<b>DISCONTINUED OPERATION<sup>(Note)</sup></b>										
Profit for the year/period from a discontinued operation	12,074	1.2	42,469	4.2	–	–	–	–	–	–
<b>Profit for the year/period</b>	<b>200,573</b>	<b>20.0</b>	<b>307,464</b>	<b>30.3</b>	<b>315,973</b>	<b>19.8</b>	<b>162,652</b>	<b>24.2</b>	<b>249,879</b>	<b>16.3</b>
Earnings per share attributable to equity holders of the parent										
Basic and diluted (RMB)										
– for profit for the year/period	<u>1.44</u>		<u>2.21</u>		<u>2.27</u>		<u>1.17</u>		<u>1.80</u>	
– for profit from continuing operations	<u>1.35</u>		<u>1.90</u>		<u>2.27</u>		<u>1.17</u>		<u>1.80</u>	

*Note:* In December 2017, our Board determined to dispose of our card and board games business, which was completed on December 31, 2017. For further details, see “History, Reorganization and Corporate Structure – Reorganization – 1. Onshore Restructuring – 1.2 Exclusion of the Discontinued Operation” in this prospectus.

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### DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

#### Revenue from continuing operations

Our revenue from continuing operations consists of (i) revenue from the provision of our publishing services in relation to games developed by third parties, (ii) revenue from the licensing and publication of our in-house developed games, and (iii) revenue from the licensing of our proprietary IPs to third parties.

For the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, our revenue from continuing operations was RMB1,001.2 million, RMB1,012.8 million, RMB1,596.2 million, RMB672.5 million and RMB1,529.1 million, respectively. The following table sets forth a breakdown of the components of our revenue in absolute amounts and as percentages of our total revenue during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
(in thousands, except for percentages)										
(Unaudited)										
Game publishing	1,001,163	100.0	1,012,791	100.0	1,400,454	87.8	623,592	92.7	1,307,087	85.5
Game development	–	–	–	–	177,946	11.1	48,916	7.3	218,431	14.3
IP licensing	–	–	–	–	17,804	1.1	–	–	3,600	0.2
Total	<u>1,001,163</u>	<u>100.0</u>	<u>1,012,791</u>	<u>100.0</u>	<u>1,596,204</u>	<u>100.0</u>	<u>672,508</u>	<u>100.0</u>	<u>1,529,118</u>	<u>100.0</u>

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The following table sets forth the key operating metrics and revenue contribution (both in absolute amount and as a percentage of our total revenue) of our top five revenue-generating games during the Track Record Period:

Game	Year ended December 31,					Six months ended June 30,				
	2016					2018				
	Revenue (RMB'000)	%	Average MAUs	Average MPUs	ARPPU (RMB)	Revenue (RMB'000)	%	Average MAUs	Average MPUs	ARPPU (RMB)
<i>One Piece – the Road of the Strong</i> (航海王强者之路) (Note 1)	292,399	29.2	1,223,371	117,090	208.1	One Piece – the Road of the Strong (航海王强者之路) (Note 1)	208.1	One Piece – the Road of the Strong (航海王强者之路) (Note 1)	208.1	One Piece – the Road of the Strong (航海王强者之路) (Note 1)
<i>Heaven Sword and Dragon Slayer</i> (倚天屠龙记) (Note 1)	233,215	23.3	911,803	116,811	249.6	Jue Zhao Shu Chang Zhi Ji Long (决胜沙城之屠龙) (倚天屠龙记) (Note 1)	249.6	Jue Zhao Shu Chang Zhi Ji Long (决胜沙城之屠龙) (倚天屠龙记) (Note 1)	249.6	Jue Zhao Shu Chang Zhi Ji Long (决胜沙城之屠龙) (倚天屠龙记) (Note 1)
<i>New Legend of Sword and Fairy</i> (新仙剑奇侠传) (Note 1)	123,969	12.4	285,023	20,170	512.2	Mystery of Wuxia (武林之迷) (Note 1)	512.2	Mystery of Wuxia (武林之迷) (Note 1)	512.2	Mystery of Wuxia (武林之迷) (Note 1)
<i>Naruto – Ninja Master</i> (火影忍者-忍者大师) (Note 1)	67,364	6.7	379,989	28,472	193.8	Eternal Myth (神话永恒) (Note 1)	193.8	Eternal Myth (神话永恒) (Note 1)	193.8	Eternal Myth (神话永恒) (Note 1)
<i>National Gunfight</i> (全民枪战) (Note 2)	43,775	4.4	3,942,584	87,586	71.4	Heaven Sword and Dragon Slayer (倚天屠龙记) (Note 1)	71.4	Heaven Sword and Dragon Slayer (倚天屠龙记) (Note 1)	71.4	Heaven Sword and Dragon Slayer (倚天屠龙记) (Note 1)
<b>Total</b>	760,722	76.0	6,742,770	370,611	171.1	<b>Total</b>	171.1	<b>Total</b>	171.1	<b>Total</b>
<i>Notes:</i>										

1. Games newly published in the year/period.
2. Our subsidiaries publishing *National Gunfight* (全民枪战) were sold in July 2016. For further details, see “– Description of Major Components of Our Results of Operations – Other Income and Gains from Continuing Operations” in this section.

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As illustrated in the table above, our most popular games by revenue differ from year to year, as each year new games are published and begin generating significant revenue while older games that had previously generated significant revenue progress in their lifecycle, eventually resulting in decreased revenue from those games. Given the difficulty in predicting which games will become popular and how long the lifecycle of a successful game will be, historical revenue of our games is limited in its ability to predict our future success, as our results in any given year are largely dependent on the number of games we publish and the performance of our games published in that year. As of the Latest Practicable Date, we had identified 29 games in our pipeline for potential launch by the end of 2020. For further details of our game pipeline, see “Business – Our Business Model – Our Games – Our Game Pipeline” in this prospectus.

### ***Game Publishing***

We provide game publishing services to mobile game developers in exchange for a share of the gross billings from the games we publish. Most of our games are operated under a free-to-play basis whereby players can download and play our games free of charge but may purchase virtual currency that they can exchange for in-game virtual items. We recognize our revenue on a portion of the gross billings of our games that we are entitled to according to the gross billing sharing arrangements with third-party game developers, from whom we license developed games or with whom we cooperate in developing games based on our licensed or proprietary IPs. Third-party game developers typically receive between 14% and 25% of the gross billings of the game. We recognize our game publishing revenue on the amount of the gross billings paid by our game players net of the amount remitted to third-party game developers. For further details, see “– Critical Accounting Policies, Judgments and Estimates – Revenue from Contracts with Customers – Mobile Game Publishing” in this section.

Our game publishing revenue is directly affected by our game performance, which can be demonstrated using certain key operating indicators, including average MAUs, average MPUs, ARPPU and total new registered users. For further details, see “Business – Our Game Players” in this prospectus.

### ***Game Development***

As a result of our acquisitions of Wenmai Hudong and a 51% equity interest in Beijing Softstar, we now possess in-house game development capabilities. For our games developed in-house, we may elect to license them to third-party game publishers or publish them ourselves. During the Track Record Period, we developed and licensed one mobile game, namely *The Legend of Battle Songs* (戰歌傳說), to a third party for publication, and our game portfolio also included six web games developed in-house and published by third parties. During the Track Record Period, we also developed and published one mobile game, namely *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業). During the Track Record Period, we recorded game development revenue of RMB177.9 million and RMB218.4 million in the year ended December 31, 2018 and the six months ended June 30, 2019, respectively.

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### *IP Licensing*

As a result of our acquisitions of Wenmai Hudong and a 51% equity interest in Beijing Softstar, we now possess five series of popular IPs, including *Legend of Sword and Fairy* (仙劍奇俠傳), *Xuan Yuan Sword* (軒轅劍), *Monopoly* (大富翁), *Stardom* (明星志願) and *Empire of Angels* (天使帝國), comprising 68 video and PC game IPs in total. During the Track Record Period, we licensed our IPs to third parties for the development and operation of mobile games and TV series, and other offline applications. For example, in December 2018, we entered into an IP licensing agreement with Tencent, pursuant to which we granted a five-year exclusive license over our IP *Legend of Sword and Fairy III* (仙劍奇俠傳III) to Tencent for the development and operation of a TV series. During the Track Record Period, we generated IP licensing revenue of RMB17.8 million and RMB3.6 million in the year ended December 31, 2018 and the six months ended June 30, 2019, respectively.

### **Cost of sales from continuing operations**

Our cost of sales from continuing operations consists primarily of (i) revenue sharing with publishing channels, (ii) revenue sharing with IP owners, (iii) amortization of royalties of games and IPs, and (iv) game development cost. The following table sets forth a breakdown of the components of the cost of sales from continuing operations of our Group in absolute amounts and as percentages of total revenue during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(in thousands, except percentages)										
(Unaudited)										
Revenue sharing with publishing channels	531,051	53.0	608,950	60.1	985,714	61.8	397,087	59.0	940,429	61.5
Revenue sharing with IP owners	75,016	7.5	35,648	3.5	28,206	1.8	16,185	2.4	12,794	0.8
Amortization of royalties of games and IPs	36,708	3.7	22,793	2.3	18,155	1.1	8,570	1.3	26,706	1.7
Game development cost	–	–	–	–	13,328	0.8	11,792	1.8	15,672	1.0
Others	8,998	0.9	4,945	0.5	18,331	1.1	446	0.1	5,059	0.3
<b>Total</b>	<b>651,773</b>	<b>65.1</b>	<b>672,336</b>	<b>66.4</b>	<b>1,063,734</b>	<b>66.6</b>	<b>434,080</b>	<b>64.5</b>	<b>1,000,660</b>	<b>65.3</b>

For our game publishing business, we enter into separate gross billing sharing arrangements with publishing channels and IP owners, whereby the publishing channels are entitled to 30% to 50% of the gross billings of our games, and the IP owners are entitled to 5% to 9% of the gross billings of our games. For further details, see “Business – Our Business Model – Game Publishing” in this prospectus. In addition, we pay royalties to certain IP owners and game developers upfront, which (i) in relation to IPs, are amortized over the shorter of (a) the expected lifecycle of the game developed based on the IP and (b) the term of the relevant IP licensing agreement, and (ii) in relation to games, are amortized over the expected lifecycle



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of the game. For further details, see “Business – Our Business Model – Game Sourcing – Existing IP Reserve – Our IP Licensing Process” and “Business – Our Business Model – Game Sourcing – Game Licensing” in this prospectus. As a result of these arrangements, our cost of sales as a percentage of revenue are relatively stable. As a result of our acquisition of Wenmai Hudong in May 2018 and Beijing Softstar becoming our subsidiary in August 2018, we also recorded amortization of intangible assets with respect to their games and IPs.

We started incurring game development cost in 2018 as a result of our acquisition of Wenmai Hudong in May 2018 and Beijing Softstar becoming our subsidiary in August 2018, which equipped us with in-house game development capabilities.

### Other income and gains from continuing operations

Other income and gains from continuing operations primarily consist of (i) bank interest income, (ii) government grants, (iii) gains on dividends from and disposal of financial assets at fair value through profit or loss, (iv) fair value gains on financial assets at fair value through profit or loss, (v) fair value adjustment of contingent consideration, and (vi) gain on disposal of subsidiaries. We received other income and gains of RMB157.0 million, RMB168.3 million, RMB123.7 million, RMB45.1 million and RMB40.1 million for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively.

The following table sets forth a breakdown of the components of our other income and gains during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
	<i>(in RMB thousands)</i>				
	<i>(Unaudited)</i>				
Bank interest income	460	687	1,228	952	277
Government grants	8,542	2,203	4,241	3,483	7,053
Gains on disposal of financial assets at fair value through profit or loss	–	124,889	2,308	2,308	–
Dividend income from financial assets at fair value through profit or loss	–	–	–	–	8,898
Fair value gains on financial assets at fair value through profit or loss	32,597	40,546	86,055	37,861	11,734
Fair value adjustment of contingent consideration	–	–	17,498	–	737
Gain on disposal of subsidiaries	115,135	–	–	–	–
Foreign exchange gains	–	–	6,739	518	–
Others	265	20	5,605	27	11,428
<b>Total</b>	<b>156,999</b>	<b>168,345</b>	<b>123,674</b>	<b>45,149</b>	<b>40,127</b>

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Our government grants recorded during the Track Record Period represent subsidies received from various PRC local government authorities.

We recorded gain on disposal of subsidiaries of RMB115.1 million in 2016 as a result of the Disposal of Zhuoyue Chenxing and QLWX Software. As consideration for the disposal, we received cash of RMB130.0 million and 48,780,480 shares in Hero Entertainment, a company listed on the NEEQ (representing approximately 3.4% of its shareholding at the time of disposal) in July 2016. We disposed of these subsidiaries which published and operated the games *National Gunfight* (全民槍戰) and *Dance Group* (炫舞團) because we determined that, given the stage of these two games in their lifecycle, the consideration offered was reasonable and would allow us to achieve a better and more immediate return on investment than if we were to continue to publish the games ourselves. In 2017 and 2018, we sold 36,112,000 and 3,208,000 shares in Hero Entertainment in the NEEQ, and recorded gains on disposal of financial assets at fair value through profit or loss of RMB124.9 million and RMB2.3 million, respectively, which was the increase in value from the amount that we are deemed to purchase them for and the amount we received for their disposition. In the first half of 2019, we recorded dividend income from financial assets at fair value through profit or loss as a limited partner of CPC Fund.

We recorded fair value adjustment of contingent consideration in relation to changes in the fair value of our outstanding payment obligations for our acquisition of Wenmai Hudong in 2018. For further details, see “History, Reorganization and Corporate Structure – Disposals, Acquisitions and Investments – Acquiring all of the equity interests in Wenmai Hudong” in this prospectus.

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### Selling and distribution expenses from continuing operations

Our selling and distribution expenses from continuing operations primarily consist of (i) marketing expenses, (ii) salaries and welfare, and (iii) office costs and utilities. We incurred selling and distribution expenses of RMB225.7 million, RMB189.4 million, RMB148.1 million, RMB58.3 million and RMB140.3 million for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively, representing 22.5%, 18.7%, 9.3%, 8.7% and 9.2%, respectively, of our total revenue for the same periods. The table below sets forth our selling and distribution expenses in absolute amounts and as percentages of our total revenue during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(in thousands, except for percentages)										
(Unaudited)										
Marketing expenses	203,463	20.3	173,080	17.1	109,988	6.9	48,997	7.3	127,576	8.3
Salaries and welfare	13,309	1.3	11,567	1.1	35,462	2.2	8,447	1.3	11,992	0.8
Office costs and utilities	8,232	0.8	4,760	0.5	1,825	0.1	808	0.1	539	0.0
Others	701	0.1	–	–	779	0.1	85	0.0	222	0.0
<b>Total</b>	<b>225,705</b>	<b>22.5</b>	<b>189,407</b>	<b>18.7</b>	<b>148,054</b>	<b>9.3</b>	<b>58,337</b>	<b>8.7</b>	<b>140,329</b>	<b>9.2</b>

Our marketing expenses primarily consist of our expenses for the online and offline promotion of our games. Our marketing expenses decreased during the three years ended December 31, 2018 as a result of a change in our marketing efforts to focus on targeted advertising to attract more relevant user traffic with improved cost efficiency. We incurred significant marketing expenses in promoting and advertising our highest revenue-generating game in the first half of 2019, *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), on various popular media and social networks including Today's Headlines (今日頭條) and Tik Tok (抖音).

### Administrative expenses from continuing operations

Our administrative expenses from continuing operations primarily consist of (i) salaries and welfare, (ii) office costs and utilities, and (iii) research and development expenses. We incurred administrative expenses of RMB50.0 million, RMB39.0 million, RMB147.7 million, RMB43.7 million and RMB111.4 million for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively, representing 5.0%, 3.9%, 9.3%, 6.5% and 7.3%, respectively, of our total revenue for the same periods.

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The following table sets forth a breakdown of the components of our administrative expenses in absolute amounts and as percentages of our total revenue during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages) (Unaudited)									
Salaries and welfare	20,780	2.1	13,779	1.4	32,158	2.0	12,426	1.8	19,936	1.3
Office costs and utilities	15,983	1.6	10,649	1.1	29,117	1.8	12,187	1.8	16,892	1.1
Research and development expenses	10,911	1.1	11,686	1.2	59,719	3.7	9,853	1.5	66,264	4.3
Listing fees	–	–	–	–	24,420	1.5	8,691	1.3	7,402	0.5
Others	2,366	0.2	2,932	0.2	2,258	0.3	574	0.1	941	0.1
<b>Total</b>	<b>50,040</b>	<b>5.0</b>	<b>39,046</b>	<b>3.9</b>	<b>147,672</b>	<b>9.3</b>	<b>43,731</b>	<b>6.5</b>	<b>111,435</b>	<b>7.3</b>

Our acquisition of Wenmai Hudong in May 2018 and Beijing Softstar becoming our subsidiary in August 2018 expanded our employee headcount and brought us in-house research and development capabilities, which led to increases in salaries and welfare, office costs and utilities, and research and development expenses since the first half of 2018.

We recorded listing fees in relation to professional services in connection with the Global Offering since the first half of 2018.

### Other expenses from continuing operations

Our other expenses from continuing operations primarily consist of (i) foreign exchange loss, (ii) loss from disposals of non-current assets, (iii) asset impairment loss, (iv) loss from liquidation of associates, and (v) fair value change on business combination. We incurred other expenses of RMB18.5 million, RMB16.1 million, RMB7.9 million, RMB55,000 and RMB14.1 million for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively, representing 1.9%, 1.6%, 0.5%, 0.0% and 0.9%, respectively, of our total revenue for the same periods.

### Finance costs from continuing operations

Our finance costs from continuing operations consist of our interest expenses, which were RMB765,000, RMB1.2 million, RMB10.1 million, RMB3.6 million and RMB5.4 million for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively, representing 0.1%, 0.1%, 0.6%, 0.5% and 0.4% of our total revenue for each period.

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### **Share of profits and losses of a joint venture from continuing operations**

Our share of profits and losses of a joint venture from continuing operations was nil for the years ended December 31, 2016 and 2017, and losses of RMB4.3 million, RMB1.1 million and RMB1.4 million for the year ended December 31, 2018, and the six months ended June 30, 2018 and 2019, respectively, representing nil, nil, 0.2%, 0.2% and 0.1% of our total revenue for each period.

### **Share of profits and losses of associates from continuing operations**

Our share of the profits and losses of associates from continuing operations was a loss of RMB3.3 million, profits of RMB2.0 million, RMB17.9 million and RMB1.6 million, and a loss of RMB2.9 million for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively, representing 0.3%, 0.2%, 1.1%, 0.2% and 0.2%, respectively, of our total revenue for the same periods. For a list of our associates during the Track Record Period, please refer to note 19 to the Accountants' Report in Appendix I to this prospectus.

### **Income tax expense from continuing operations**

We recorded income tax expense from continuing operations of RMB19.6 million, RMB56,000, RMB40.1 million, RMB15.7 million and RMB43.1 million for the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, respectively, representing 2.0%, 0.0%, 2.5%, 2.3% and 2.8%, respectively, of our total revenue for each of the same periods. Our income tax expense increased significantly in 2018 primarily because our major operating subsidiaries, namely Shenzhen Douyue and Shenzhen Zhongshouyou, no longer enjoyed tax exemption. Our income tax expenses further increased in the first half of 2019 as a result of the significant increase in our profit before tax from continuing operations.

## **TAXATION**

### **Cayman Islands**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and accordingly is not subject to income tax in the Cayman Islands.

### **Hong Kong**

Hong Kong profits tax rate is 16.5% of our Group's assembled profit derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which our Group operates.

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### China

Under the PRC Enterprise Income Tax Law effective from January 1, 2008, our PRC subsidiaries, and PRC Operating Entities and their subsidiaries are subject to the statutory rate of 25%, subject to preferential tax treatments available to qualified enterprises in certain encouraged sectors of the economy.

Enterprises that qualify as “high and new technology enterprises” are entitled to a preferential rate of 15%. Wenmai Hudong and Beijing Softstar have been accredited as “high and new technology enterprises” since 2016 and 2009, respectively. As a result, Wenmai Hudong is eligible for a preferential tax rate of 15%, and its high and new technology enterprise certificate will expire on November 30, 2019.

Our PRC Operating Entities are qualified as “newly established software enterprises.” Chengdu Zhuoxing enjoyed a preferential tax rate of 12.5% for 2016, 2017 and 2018. Shenzhen Douyue and Shenzhen Zhongshouyou enjoyed enterprise income tax exemption for 2016 and 2017, and were subject to a preferential tax rate of 12.5% for 2018.

Zhongsheng Huyu was established in Horgos Development Zone of Xinjiang and was exempt from EIT Law from the first year of operation which was 2016 for five-year period according to the applicable regulations promulgated by the State Council and relevant authorities.

EIT Law provision was made on the estimated assessable profits of entities within our Group incorporated in the PRC, and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from foreign investment enterprises established in China. The requirement became effective on January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For our Group, the applicable rate is 10% and may be reduced to 5% if certain criteria could be met under the Double Taxation Arrangement (Hong Kong). Our Group is therefore liable for withholding taxes on dividends distributed by its subsidiaries established in China in respect of earnings generated from January 1, 2008.

### PERIOD-ON-PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

##### *Revenue from continuing operations*

Our revenue from continuing operations increased by 127.4% from RMB672.5 million for the six months ended June 30, 2018 to RMB1,529.1 million for the six months ended June 30, 2019, primarily as a result of the strong performance of our games published in the first half

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of 2019, in particular *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), which was officially launched in October 2018 and generated game publishing revenue of RMB634.7 million in the first half of 2019. Our game development revenue increased significantly from RMB48.9 million for the six months ended June 30, 2018 to RMB218.4 million for the six months ended June 30, 2019, primarily because (i) we only started consolidating the financial statements of Wenmai Hudong and Beijing Softstar in May and August 2018, respectively; and (ii) we published more games developed in-house in the first half of 2019, including *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) and *The Attack – Advanced Version* (攻沙加強版) which generated game development revenue of RMB137.1 million and RMB51.2 million, respectively. In addition, we licensed several proprietary IPs to third parties for the development and operation of movies and mobile games, and generated IP licensing revenue of RMB3.6 million in the first half of 2019.

### ***Cost of sales from continuing operations***

Cost of sales from continuing operations increased by 130.5% from RMB434.1 million for the six months ended June 30, 2018 to RMB1,000.7 million for the same period in 2019, primarily as a result of (i) an increase in our revenue shared with publishing channels, which is in line with our overall increase in revenue; and (ii) the amortization of intangible assets resulting from our acquisition of Wenmai Hudong in May 2018 and Beijing Softstar becoming our subsidiary in August 2018.

### ***Gross profit from continuing operations***

As a result of the foregoing, our gross profit from continuing operations increased by 121.6% from RMB238.4 million for the six months ended June 30, 2018 to RMB528.5 million for the same period in 2019. Our gross profit margin remained stable at 35.5% and 34.6% for the six months ended June 30, 2018 and 2019, respectively.

### ***Other income and gains from continuing operations***

Other income and gains from continuing operations decreased by 11.1% from RMB45.1 million for the six months ended June 30, 2018 to RMB40.1 million for the six months ended June 30, 2019, primarily due to a decrease in fair value gains on financial assets at fair value through profit or loss, which was partially offset by an increase in dividend income from financial assets at fair value through profit or loss as a result of our receipt of dividends distributed by CPC Fund.

### ***Selling and distribution expenses from continuing operations***

Selling and distribution expenses from continuing operations increased by 140.5% from RMB58.3 million for the six months ended June 30, 2018 to RMB140.3 million for the six months ended June 30, 2019, primarily because we incurred higher marketing expenses in promoting and advertising our highest revenue-generating game in the first half of 2019, *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), on various popular media and social networks including Today's Headlines (今日頭條) and Tik Tok (抖音).



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### ***Administrative expenses from continuing operations***

Administrative expenses from continuing operations increased by 154.8% from RMB43.7 million for the six months ended June 30, 2018 to RMB111.4 million for the six months ended June 30, 2019, primarily as a result of an increase in our research and development expenses due to our acquisition of Wenmai Hudong in May 2018 and the consolidation of the financial statements of Beijing Softstar after it became our subsidiary in August 2018.

### ***Other expenses from continuing operations***

Other expenses from continuing operations increased significantly from RMB55,000 for the six months ended June 30, 2018 to RMB14.1 million for the six months ended June 30, 2019, primarily because we recorded (i) asset impairment loss in the amount of RMB4.2 million in relation to our royalty paid to the game developer of *Space Wars* (時空亂鬥), a game that we took offline in May 2019, and (ii) impairment loss of trade receivables under the relevant management policies of our Group adopted in accordance with HKFRS 9. For further details, see notes 17 and 21 to the Accountants' Report in Appendix I to this prospectus.

### ***Finance costs from continuing operations***

Finance costs from continuing operations increased by 51.8% from RMB3.6 million for the six months ended June 30, 2018 to RMB5.4 million for the six months ended June 30, 2019, primarily as a result of an increase in our bank borrowings.

### ***Share of profits and losses of a joint venture from continuing operations***

Share of profits and losses of a joint venture from continuing operations increased by 25.2% from a loss of RMB1.1 million for the six months ended June 30, 2018 to a loss of RMB1.4 million for the six months ended June 30, 2019, primarily because our joint venture, Shenzhen Boliang Technology Co., Ltd. (深圳博良科技有限公司) (“**Shenzhen Boliang**”), recorded loss in the first half of 2019.

### ***Share of profits and losses of associates from continuing operations***

Share of profits and losses of associates from continuing operations decreased from a profit of RMB1.6 million for the six months ended June 30, 2018 to a loss of RMB2.9 million for the six months ended June 30, 2019, primarily because one of our associates, Shanghai Langkun Digital Technology Co., Ltd. (上海朗鵬數碼科技有限公司), recorded loss.

### ***Profit before tax from continuing operations***

As a result of the foregoing, our profit before tax from continuing operations increased by 64.3% from RMB178.3 million for the six months ended June 30, 2018 to RMB292.9 million for the six months ended June 30, 2019.

### ***Income tax expense from continuing operations***

Income tax expense from continuing operations increased from RMB15.7 million for the six months ended June 30, 2018 to RMB43.1 million for the six months ended June 30, 2019, primarily due to the significant increase in our profit before tax from continuing operations in the first half of 2019.

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### ***Profit for the period from continuing operations***

As a result of the forgoing, our profit for the period from continuing operations increased by 53.6% from RMB162.7 million for the six months ended June 30, 2018 to RMB249.9 million for the six months ended June 30, 2019.

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

#### ***Revenue from continuing operations***

Our revenue from continuing operations increased by 57.6% from RMB1,012.8 million for the year ended December 31, 2017 to RMB1,596.2 million for the year ended December 31, 2018, primarily as a result of the strong performance of our games published in 2018, including *Fighter of Destiny* (擇天記) and *The Land of the Dawn* (曙光之境), which attained gross billings of over RMB417.0 million and RMB484.6 million, respectively. In addition, as a result of our acquisition of Wenmai Hudong and a 51% equity interest in Beijing Softstar, we now possess in-house development capabilities. In the year ended December 31, 2018, we developed and licensed one mobile game, namely *The Legend of Battle Songs* (戰歌傳說), to a third party for publication, and our game portfolio also included six web games developed in-house and published by third parties. We also developed and published one mobile game, namely *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業). In the year ended December 31, 2018, we recorded game development revenue of RMB177.9 million. In addition, we licensed some of our IPs to third parties for the development and operation of TV series and mobile games, and generated IP licensing revenue of RMB17.8 million in 2018.

#### ***Cost of sales from continuing operations***

Cost of sales from continuing operations increased by 58.2% from RMB672.3 million for the year ended December 31, 2017 to RMB1,063.7 million for the year ended December 31, 2018, primarily as a result of (i) an increase in our revenue shared with publishing channels due to (a) our overall increase in revenue, and (b) our revenue sharing arrangements in relation to our games developed in-house giving a higher percentage of game revenue to publishing channels; (ii) an increase in our game development cost due to our acquisition of Wenmai Hudong in May 2018 and Beijing Softstar becoming our subsidiary in August 2018; and (iii) the amortization of intangible assets resulting from our acquisition of Wenmai Hudong and Beijing Softstar becoming our subsidiary.

#### ***Gross profit from continuing operations***

As a result of the foregoing, our gross profit from continuing operations increased by 56.4% from RMB340.5 million for the year ended December 31, 2017 to RMB532.5 million for the year ended December 31, 2018. Our gross profit margin remained stable at 33.6% and 33.4% for the years ended December 31, 2017 and 2018, respectively.

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### *Other income and gains from continuing operations*

Other income and gains from continuing operations decreased by 26.5% from RMB168.3 million for the year ended December 31, 2017 to RMB123.7 million for the year ended December 31, 2018, primarily as a result of a decrease in gains on disposal of financial assets at fair value through profit or loss. For details, see “– Description of Major Components of Our Results of Operations – Other Income and Gains from Continuing Operations” in this section. This was partially offset by an increase in fair value gains on financial assets at fair value through profit or loss and fair value adjustment of contingent consideration.

### *Selling and distribution expenses from continuing operations*

Our selling and distribution expenses from continuing operations decreased by 21.8% from RMB189.4 million for the year ended December 31, 2017 to RMB148.1 million for the year ended December 31, 2018, primarily due to the decrease in our marketing expenses because we further optimized our advertising strategy to focus on targeted advertising to attract more relevant user traffic with improved cost efficiency. For example, commencing from 2017, we reduced our expenses on celebrity endorsements and television advertisements, and focused our marketing spending on targeted advertising activities. The decrease in our marketing expenses was partially offset by an increase in salaries and welfare as a result of an expansion of our sales and marketing personnel, and an increase in our social insurance and housing provident fund contributions.

### *Administrative expenses from continuing operations*

Our administrative expenses from continuing operations increased from RMB39.0 million for the year ended December 31, 2017 to RMB147.7 million for the year ended December 31, 2018, primarily because (i) we acquired Wenmai Hudong and Beijing Softstar became our subsidiary in 2018, which both expanded our employee headcount and research and development capabilities, and (ii) we incurred listing expenses in 2018 in relation to the Global Offering.

### *Other expenses from continuing operations*

Other expenses from continuing operations decreased by 50.9% from RMB16.1 million for the year ended December 31, 2017 to RMB7.9 million for the year ended December 31, 2018, primarily because we incurred high asset impairment losses and losses from liquidation of associates in 2017.

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### ***Finance costs from continuing operations***

Finance costs from continuing operations increased from RMB1.2 million for the year ended December 31, 2017 to RMB10.1 million for the year ended December 31, 2018. Pursuant to the share transfer agreement in relation to our acquisition of Wenmai Hudong, the total consideration for the acquisition is to be paid by instalments. We paid the first instalment of the consideration in the year ended December 31, 2018, and the remaining instalments will be made after June 30, 2019. The interest accrued on such consideration payable is classified as finance costs under applicable accounting principles.

### ***Share of profits and losses of a joint venture from continuing operations***

Our share of profits and losses of a joint venture from continuing operations was nil for the year ended December 31, 2017 and a loss of RMB4.3 million for the year ended December 31, 2018, because Beijing Softstar, which only became our subsidiary on August 28, 2018 as a result of a change in its articles of association thereby giving our Group control, recorded loss.

### ***Share of profits and losses of associates from continuing operations***

Share of profits and losses of associates from continuing operations increased from a profit of RMB2.0 million for the year ended December 31, 2017 to a profit of RMB17.9 million for the year ended December 31, 2018 primarily because two of our associates, namely Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司) and Shenzhen Haituo Shidai Technology Co., Ltd. (深圳海拓時代科技有限公司), recorded profits.

### ***Profit before tax from continuing operations***

As a result of the foregoing, our profit before tax from continuing operations increased by 34.3% from RMB265.1 million for the year ended December 31, 2017 to RMB356.0 million for the year ended December 31, 2018.

### ***Income tax expense from continuing operations***

Our income tax expense from continuing operations increased from RMB56,000 for the year ended December 31, 2017 to RMB40.1 million for the year ended December 31, 2018, primarily because our major operating subsidiaries, namely Shenzhen Douyue and Shenzhen Zhongshouyou, no longer enjoyed tax exemption.

### ***Profit for the year from continuing operations***

As a result of the foregoing, our profit for the year from continuing operations increased by 19.2% from RMB265.0 million for the year ended December 31, 2017 to RMB316.0 million for the year ended December 31, 2018.

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### Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

#### *Revenue from continuing operations*

Our revenue from continuing operations increased by 1.2% from RMB1,001.2 million for the year ended December 31, 2016 to RMB1,012.8 million for the year ended December 31, 2017. In July 2016, we sold *National Gunfight* (全民槍戰) and *Dance Group* (炫舞團), which together accounted for approximately 6.7% of our revenue from continuing operations in 2016 before they were sold. The disposal of these two games resulted from the Disposal of Zhuoyue Chenxing and QLWX Software in exchange for cash of RMB130.0 million and 48,780,480 shares in Hero Entertainment (approximately 3.4% of Hero Entertainment's shareholding at the time of disposal). Despite the sale of these two games, our revenue in 2017 still increased as compared to 2016 primarily because games newly published in 2017, such as *Fairy Tail* (妖精的尾巴), *Eternal Myth* (神話永恒) and *Mystery of Wuxia* (武俠之謎), achieved high gross billings.

#### *Cost of sales from continuing operations*

Cost of sales from continuing operations increased by 3.1% from RMB651.8 million for the year ended December 31, 2016 to RMB672.3 million for the year ended December 31, 2017, which was mainly due to an increase in revenue shared with publishing channels, in particular, the publishing channel which published our popular game, *Jue Zhan Sha Cheng Zhi Tu Long* (決戰沙城之屠龍), was entitled to a higher gross billing sharing rate.

#### *Gross profit from continuing operations*

As a result of the foregoing, our total gross profit from continuing operations decreased by 2.5% from RMB349.4 million for the year ended December 31, 2016 to RMB340.5 million for the year ended December 31, 2017. Our overall gross profit margin decreased from 34.9% for the year ended December 31, 2016 to 33.6% for the year ended December 31, 2017.

#### *Other income and gains from continuing operations*

Other income and gains from continuing operations increased by 7.2% from RMB157.0 million for the year ended December 31, 2016 to RMB168.3 million for the year ended December 31, 2017, primarily as a result of the disposal of most of our shares of Hero Entertainment which was partially offset by the decrease in government grants received in 2017 from Chengdu Hi-Tech Industrial Development Zone, which was in accordance with provisions of the relevant agreement with local tax authorities.

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### ***Selling and distribution expenses from continuing operations***

Our selling and distribution expenses from continuing operations decreased by 16.1% from RMB225.7 million for the year ended December 31, 2016 to RMB189.4 million for the year ended December 31, 2017, primarily due to a decrease in our marketing expenses as a result of our change in marketing policies. In the second half of 2016, we began strategically reducing our marketing expenses by promoting our games through more targeted advertising. In 2017, we switched from a cost-intensive marketing program to a more cost-effective marketing program, through which we were able to obtain more relevant user traffic.

### ***Administrative expenses from continuing operations***

Our administrative expenses from continuing operations decreased by 22.0% from RMB50.0 million for the year ended December 31, 2016 to RMB39.0 million for the year ended December 31, 2017, mainly as a result of the decrease in the salaries and welfare expenses due to the Disposal of Zhuoyue Chenxing and QLWX Software in July 2016, which led to a decrease in the number of administrative employees.

### ***Other expenses from continuing operations***

Other expenses from continuing operations decreased by 13.0% from RMB18.5 million for the year ended December 31, 2016 to RMB16.1 million for the year ended December 31, 2017. The decrease was mainly because we recorded higher asset impairment losses in 2016 compared to 2017.

### ***Finance costs from continuing operations***

Finance costs from continuing operations increased from RMB765,000 for the year ended December 31, 2016 to RMB1.2 million for the year ended December 31, 2017. The increase was because we had borrowed an interest-bearing bank loan of RMB10.0 million in 2017, which we fully repaid in January 2018.

### ***Share of profits and losses of associates from continuing operations***

Share of profits and losses of associates from continuing operations increased from a loss of RMB3.3 million to a profit of RMB2.0 million. The increase was primarily because Tianjin Fenzhi Huyu Technology Co., Ltd. (天津紛至互娛科技有限公司), a mobile game developer and one of our portfolio companies, began generating profits.

### ***Profit before tax from continuing operations***

As a result of the foregoing, our profit before tax from continuing operations increased by 27.4% from RMB208.1 million for the year ended December 31, 2016 to RMB265.1 million for the year ended December 31, 2017.

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### *Income tax expense from continuing operations*

Our income tax expense from continuing operations decreased by 99.7% from RMB19.6 million for the year ended December 31, 2016 to RMB56,000 for the year ended December 31, 2017, which was primarily because more of our business was operated under Shenzhen Douyue and Shenzhen Zhongshouyou in 2017, both of which enjoyed tax exemption, because they were qualified as “software enterprises” in 2016 under relevant PRC laws and regulations, which led to their tax rate of nil in each of 2016 and 2017.

### *Profit for the year from continuing operations*

As a result of the foregoing, our profit for the year from continuing operations increased by 40.6% from RMB188.5 million for the year ended December 31, 2016 as compared to RMB265.0 million for the year ended December 31, 2017.

## KEY FINANCIAL METRICS

The following table sets forth our key financial metrics during the Track Record Period:

	Year ended December 31,			Six months ended	
	2016	2017	2018	2018	2019
Current ratio (times) <sup>(1)</sup>	1.1	2.6	1.3	1.1	1.7
Gearing ratio <sup>(2)</sup>	–	1.1%	2.8%	–	8.5%
Gross profit margin	34.9%	33.6%	33.4%	35.5%	34.6%

(1) Current ratio is our current assets divided by our current liabilities at the end of each financial period.

(2) Gearing ratio is total debt divided by total equity at the end of each financial period. Total debt equals our total interest-bearing bank borrowings. We had no outstanding borrowings as of December 31, 2016 and June 30, 2018.

## LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we funded our cash requirements principally from cash generated from our operating activities. We had cash and cash equivalents of RMB120.5 million, RMB245.8 million, RMB144.4 million and RMB173.9 million as of December 31, 2016, 2017 and 2018, and June 30, 2019, respectively. For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of our Group’s cash management. We generally deposit our excess cash in interest-bearing bank accounts and current accounts.



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Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, bank loans, and other funds raised from the capital markets from time to time and the net proceeds received from the Global Offering. We currently do not have any plans for material additional external financing.

### Cash flow

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

	Year ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
	<i>(in RMB thousands)</i>				
	<i>(Unaudited)</i>				
Net cash flows from operating activities	25,622	164,075	59,631	69,209	171,424
Net cash flows (used in)/from investing activities	(21,923)	129,305	(428,363)	(187,553)	(255,674)
Net cash flows from/(used in) financing activities	23,926	(166,879)	264,888	225,234	114,915
Net increase/(decrease) in cash and cash equivalents	27,625	126,501	(103,844)	106,890	30,665
Cash and cash equivalents at beginning of year/period	90,815	120,460	245,762	245,762	144,445
Effect of foreign exchange rate changes, net	2,020	(1,199)	2,527	1,615	(1,183)
Cash and cash equivalents at end of the year/period	<u>120,460</u>	<u>245,762</u>	<u>144,445</u>	<u>354,267</u>	<u>173,927</u>

### *Net cash flows from operating activities*

For the six months ended June 30, 2019, net cash flows from operating activities was RMB171.4 million, primarily due to (i) profit before tax of RMB292.9 million, (ii) an increase in trade payables of RMB36.7 million, (iii) amortization of other intangible assets of RMB27.1 million, and (iv) an increase in other payables and accruals of RMB19.7 million. These were partially offset by (a) an increase in trade receivables of RMB177.5 million, (b) a decrease in amounts due to related parties of RMB23.1 million, and (c) fair value gains on financial assets at fair value through profit or loss of RMB11.7 million.

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For the year ended December 31, 2018, net cash flows from operating activities was RMB59.6 million, primarily due to (i) profit before tax of RMB356.0 million, (ii) amortization of other intangible assets of RMB33.0 million, (iii) an increase in amounts due to related parties of RMB16.4 million, (iv) an increase in other payables and accruals of RMB23.8 million, (v) depreciation of right-of-use assets of RMB15.3 million, (vi) finance costs of RMB10.1 million, and (vii) an increase in trade payables of RMB10.0 million. These were partially offset by (a) an increase in trade receivables of RMB175.8 million due to an increase in revenue as well as the long settlement cycle for two of our games, (b) an increase in prepayments, other receivables and other assets of RMB114.9 million primarily due to an increase in our prepayments of minimum guarantees to IP owners as well as our prepayments made in relation to our acquisition of Angel Fund, (c) fair value gains on financial assets at fair value through profit or loss of RMB86.1 million, (d) fair value adjustment of contingent consideration of RMB17.5 million, (e) share of profits and losses of a joint venture and associates of RMB13.6 million, and (f) income tax paid of RMB11.0 million.

For the year ended December 31, 2017, net cash flows from operating activities was RMB164.1 million, primarily due to (i) profit before tax of RMB307.5 million, (ii) a decrease in trade receivables of RMB79.6 million, (iii) an increase in trade payables of RMB37.0 million, and (iv) amortization of other intangible assets of RMB23.0 million. These were partially offset by (a) gains on disposal of financial assets at fair value through profit or loss of RMB124.9 million, (b) an increase in amounts due from related parties of RMB52.3 million, (c) a decrease in amounts due to related parties of RMB41.4 million, (d) fair value gains on financial assets at fair value through profit or loss of RMB40.5 million, (e) an increase in prepayments, other receivables and other assets of RMB27.5 million, and (f) a decrease in other payables and accruals of RMB14.9 million.

For the year ended December 31, 2016, net cash flows from operating activities was RMB25.6 million, primarily due to (i) profit before tax of RMB220.1 million, (ii) a decrease in prepayments, other receivables and other assets of RMB26.6 million, (iii) an increase in other payables and accruals of RMB39.3 million, (iv) amortization of other intangible assets of RMB36.7 million, (v) an increase in amounts due to related parties of RMB13.8 million, and (vi) write-off of prepayments of RMB13.1 million. These were partially offset by (a) gain on disposal of subsidiaries of RMB115.1 million, (b) an increase in amounts due from related parties of RMB87.7 million, (c) a decrease in trade payables of RMB69.6 million, (d) fair value gains on financial assets at fair value through profit or loss of RMB32.6 million, and (e) an increase in trade receivables of RMB26.6 million.

### *Net cash flows (used in)/from investing activities*

For the six months ended June 30, 2019, net cash used in investing activities was RMB255.7 million, primarily due to (i) acquisition of subsidiaries of RMB179.9 million, (ii) an increase in pledged time deposits of RMB100.0 million, (iii) additions to other intangible assets of RMB42.4 million, and (iv) purchases of an investment in a joint venture of RMB20.0 million. These were partially offset by disposal of financial assets at fair value through profit or loss of RMB67.5 million.

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For the year ended December 31, 2018, net cash used in investing activities was RMB428.4 million, primarily due to (i) purchases of financial assets at fair value through profit or loss of RMB280.6 million, primarily relating to our acquisition of Angel Fund and the acquisition of various associates, (ii) purchases of investments in associates of RMB76.4 million, (iii) acquisition of subsidiaries of RMB63.5 million, primarily because of cash consideration paid for the acquisition of Wenmai Hudong, (iv) acquisition of subsidiaries under common control of RMB40.1 million, and (v) additions to other intangible assets of RMB42.5 million. These were partially offset by disposal of financial assets at fair value through profit or loss of RMB82.9 million.

For the year ended December 31, 2017, net cash flows from investing activities was RMB129.3 million, primarily due to disposal of financial assets at fair value through profit or loss of RMB231.8 million. These were partially offset by (a) additions to other intangible asset of RMB46.3 million, (b) purchases of investments in associates of RMB35.5 million, and (c) disposal of discontinued operation of RMB13.1 million.

For the year ended December 31, 2016, net cash used in investing activities was RMB21.9 million, primarily due to (i) additions to other intangible assets of RMB37.7 million, (ii) purchases of investments in associates of RMB30.1 million, and (iii) purchases of financial assets at fair value through profit or loss of RMB23.8 million. These were partially offset by disposal of subsidiaries of RMB70.2 million.

### *Net cash flows from/(used in) financing activities*

For the six months ended June 30, 2019, net cash flows from financing activities was RMB114.9 million, primarily due to new bank loans in the amount of RMB142.8 million, which was partially offset by repayment of bank loans in the amount of RMB14.8 million.

For the year ended December 31, 2018, net cash flows from financial activities was RMB264.9 million, primarily due to (i) contribution from the shareholders of RMB263.0 million, and (ii) new bank loans of RMB69.6 million. These were partially offset by (a) prepayment of bank loans of RMB30.0 million, (b) dividends paid by Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou to their then shareholder, Shenzhen Lanyue, which is not part of our Group as a result of the Reorganization, in the amount of RMB20.9 million, and (c) principal portion of lease payment of RMB15.3 million.

For the year ended December 31, 2017, net cash used in financing activities was RMB166.9 million, which was attributable to (i) new bank loans of RMB10.0 million, and (ii) interest paid of RMB1.2 million, which were partially offset by (a) dividends paid by Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou to their then shareholder, Shenzhen Lanyue, which is not part of our Group as a result of the Reorganization, in the amount of RMB170.0 million, and (b) principal portion of lease payment of RMB6.7 million.

For the year ended December 31, 2016, we had cash flows from financing activities of RMB23.9 million, primarily attributable to contribution from the then shareholders of RMB29.1 million which was partially offset by principal portion of lease payment of RMB4.4 million.

## FINANCIAL INFORMATION

### DISCUSSION OF CERTAIN KEY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus.

	As of December 31,			As of June 30,
	2016	2017	2018	2019
	<i>(in RMB thousands)</i>			
Total non-current assets	639,452	580,913	2,053,163	1,986,829
Total current assets	649,774	534,614	960,041	1,280,763
<b>Total assets</b>	<b>1,289,226</b>	<b>1,115,527</b>	<b>3,013,204</b>	<b>3,267,592</b>
Total non-current liabilities	13,812	4,712	395,265	398,669
Total current liabilities	585,795	203,162	755,210	755,817
<b>Total liabilities</b>	<b>599,607</b>	<b>207,874</b>	<b>1,150,475</b>	<b>1,154,486</b>

### Non-current Assets and Non-current Liabilities

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

	As of December 31,			As of June 30,
	2016	2017	2018	2019
	<i>(in RMB thousands)</i>			
<b>Non-current assets</b>				
Property and equipment	7,957	5,313	6,245	5,390
Right-of-use assets	15,619	18,768	21,095	31,637
Goodwill	324,842	324,842	1,118,617	1,118,617
Other intangible assets	28,608	35,102	117,545	119,331
Investment in a joint venture	—	—	4,124	2,688
Investments in associates	32,722	58,002	167,804	158,857
Financial assets at fair value through profit or loss	203,176	85,788	538,701	478,050
Deferred tax assets	5,014	6,153	10,651	8,279
Prepayments	21,514	46,945	68,381	63,980
<b>Total non-current assets</b>	<b>639,452</b>	<b>580,913</b>	<b>2,053,163</b>	<b>1,986,829</b>

## FINANCIAL INFORMATION

	As of December 31,			As of June 30,
	2016	2017	2018	2019
	<i>(in RMB thousands)</i>			
<b>Non-current liabilities</b>				
Deferred tax liabilities	3,934	2,639	30,081	27,055
Payable for business combination	–	–	92,324	94,559
Contingent consideration for business combination	–	–	268,189	258,842
Lease liabilities	9,878	2,073	4,671	18,213
<b>Total non-current liabilities</b>	<b>13,812</b>	<b>4,712</b>	<b>395,265</b>	<b>398,669</b>

### Goodwill

We acquired goodwill through the Reorganization which was completed on November 23, 2015, and goodwill was allocated to the cash-generating unit (“CGU(s)”) of mobile game publishing for impairment testing. On November 23, 2015, goodwill arose from the Reorganization, of which RMB470.3 million was allocated to us based on the relative value of the CGUs that were acquired. In July 2016, goodwill associated with the Disposal of Zhuoyue Chenxing and QLWX Software was included in the carrying amount of the disposed operations when determining whether the disposal resulted in a gain or loss. On May 31, 2018, we recorded goodwill in the amount of RMB698.0 million as a result of our acquisition of Wenmai Hudong. On August 28, 2018, we recorded goodwill in the amount of RMB95.7 million as a result of a change in the articles of association of Beijing Softstar making it our subsidiary.

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

	As of December 31,			As of June 30,
	2016	2017	2018	2019
	<i>(in RMB thousands)</i>			
Cost	470,275	324,842	324,842	1,118,617
Disposal of subsidiaries	(145,433)	–	–	–
Acquisition of subsidiaries	–	–	793,775	–
<b>Net carrying amount</b>	<b>324,842</b>	<b>324,842</b>	<b>1,118,617</b>	<b>1,118,617</b>

## FINANCIAL INFORMATION

In determining our goodwill, we adopted the following impairment assessment procedures:

- Allocated goodwill to CGUs in relation to both mobile game publishing and game development for the purpose of the goodwill impairment test;
- Based the goodwill impairment test on the recoverable amount of each CGU to which goodwill is allocated, which is determined based on a value in use calculation using cash flow projections based on financial budgets approved by the senior management of our Company covering a five-year period;
- Engaged an external valuer and provided them with the necessary financial and non-financial information to perform goodwill impairment assessment procedures;
- Reviewed the impairment working papers prepared and results reached by the external valuer;
- Calculated the headroom based on the results reached by the external valuer and performed a sensitivity analysis; and
- Properly disclosed goodwill impairment test in the financial statements, including the methodology, the key assumptions used and the sensitivity analysis (if any).

The respective recoverable amount and the carrying value of the CGUs as of the dates indicated are as follows:

	As of December 31,			As of
	2016	2017	2018	June 30,
	(in RMB thousands)			2019
Mobile game publishing				
CGU:				
Recoverable amount	867,176	1,247,599	1,570,000	1,830,000
Carrying value including				
allocated goodwill	382,921	412,202	424,888	412,945
Game development of				
Wenmai Hudong CGU:				
Recoverable amount	–	–	881,791	887,781
Carrying value including				
allocated goodwill	–	–	731,312	730,519
Game development of Beijing				
Softstar CGU:				
Recoverable amount	–	–	266,183	283,334
Carrying value including				
allocated goodwill	–	–	246,563	255,827

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The pre-tax discount rates applied to the cash flow projections, the forecasted growth rates and gross margin used to extrapolate cash flow projections, and the terminal growth rates as of the dates indicated are follows:

	As of December 31,			As of June 30,
	2016	2017	2018	2019
Mobile game publishing				
CGU:				
Growth rates (during the five-year period)	5%-10%	5%-10%	3%-10%	3%-79%
Gross margin	36%-38%	35%-36%	35%-36%	35%
Pre-tax discount rate	18%	17%	17%	17%
Terminal growth rate	3%	3%	3%	3%
Game development of Wenmai Hudong CGU:				
Growth rates (during the five-year period)	—	—	3%-136%	3%-201%
Gross margin	—	—	16%-18%	16%
Pre-tax discount rate	—	—	19%	19%
Terminal growth rate	—	—	3%	3%
Game development of Beijing Softstar CGU:				
Growth rates (during the five-year period)	—	—	3%-1,001%	3%-225%
Gross margin	—	—	17%-19%	14%-17%
Pre-tax discount rate	—	—	21%	21%
Terminal growth rate	—	—	3%	3%

In estimating future cash flows, we carefully choose assumptions and parameters based on our past financial performance and expected market conditions. As of December 31, 2016, 2017 and 2018, taking into consideration the expected launch time of the games in our pipeline and our past financial performance, we estimated that our revenue growth rate would be 5% to 10%, 5% to 10%, and 3% to 10%, respectively. As of June 30, 2019, we estimated that our revenue growth rate would be 3% to 79%.

For game development of Wenmai Hudong CGU and Beijing Softstar CGU, we expect a high growth rate in the first forecast year due to expected revenue generated from newly launched mobile games and the synergy arising from the acquisition.



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## FINANCIAL INFORMATION

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The historical gross profit margin of our game publishing business was 35%, 34%, 35% and 31% for each of the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019, respectively. The gross margin remained stable year-to-year. We estimate that the gross profit margin in the following years will remain stable.

The pre-tax discount rate reflects the required return on the relevant CGU and was determined based on the market data available on the valuation date. In determining the risk-adjusted discount rate, the management of our Company applied an adjustment for the systematic risk to our operations determined using an average of the betas of comparable listed game publishing companies and, where available and appropriate, across a specific territory. The management of our Company used a forward-looking equity market risk premium that takes into consideration studies by independent economists, the average equity market risk premium over the past ten years, and the market risk premiums typically used by investment banks in evaluating acquisition proposals. Having taken into account market data, betas and equity market risk premium, amongst others, no significant change of the system risk relating to our business was identified, and our business performance remained stable throughout the Track Record Period. Based on the above analysis, no substantial change of the discount rate was expected during the Track Record Period.

In our value in use calculations, the terminal growth rate was determined based on the long-term inflation rate of the country of our business operations. During the Track Record Period, no substantial change of the long-term inflation rate of the country of our business operations was expected, and therefore the terminal growth rate remained the same.

As part of our goodwill impairment assessment procedures, we conducted a sensitivity analysis. For game publishing CGU, the estimated recoverable amounts exceeded its carrying values by RMB484,255,000, RMB835,397,000, RMB1,145,112,000 and RMB1,417,055,000 as of December 31, 2016, 2017 and 2018 and June 30, 2019, respectively. Our Directors believe that no reasonably possible change in any of the key assumptions set out in note 16 to the Accountants' Report in Appendix I to this prospectus would cause the carrying value of the game publishing CGU to exceed its recoverable amount.

## FINANCIAL INFORMATION

The changes to the assumptions used in the impairment review listed in the following table would have, in isolation, made the game publishing CGU's recoverable amount equal to its carrying value as of the dates indicated:

	Change required for carrying value to equal recoverable amount			
	As of December 31,			As of
	2016	2017	2018	June 30, 2019
Growth rates (during the five-year period)	(3%)	(4%)	(4%)	(2%)
Gross margin	(5%)	(8%)	(9%)	(7%)
Pre-tax discount rate	8%	19%	19%	19%

For game development of Wenmai Hudong CGU, the estimated recoverable amounts exceeded its carrying values by RMB150,479,000 and RMB157,262,000 as of December 31, 2018 and June 30, 2019, respectively. Any significant adverse change in key assumptions would, in isolation, cause an impairment loss to be recognized. Our Directors believe that no reasonably possible change in any of the key assumptions set out in note 16 to the Accountants' Report in Appendix I to this prospectus would cause the carrying value of the game development of Wenmai Hudong CGU to exceed its recoverable amount.

The changes to the assumptions used in the impairment review listed in the following table would have, in isolation, made the game development of Wenmai Hudong CGU's recoverable amount equal to its carrying value as of the dates indicated:

	Change required for carrying value to equal recoverable amount	
	As of December 31, 2018	As of June 30, 2019
Growth rates (during the five-year period)	(3%)	(4%)
Gross margin	(2%)	(2%)
Pre-tax discount rate	3%	4%

For game development of Beijing Softstar CGU, the estimated recoverable amounts exceeded its carrying values by RMB19,620,000 and RMB27,507,000 as of December 31, 2018 and June 30, 2019, respectively. Any significant adverse change in key assumptions would, in isolation, cause an impairment loss to be recognized. Our Directors believe that no reasonably possible change in any of the key assumptions set out in note 16 to the Accountants' Report in Appendix I to this prospectus would cause the carrying value of the game development of Beijing Softstar CGU to exceed its recoverable amount.

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## FINANCIAL INFORMATION

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The changes in the following table of assumptions used in the impairment review would have, in isolation, made the game development of Beijing Softstar CGU's recoverable amount equal to its carrying value as of the dates indicated:

	<b>Change required for carrying value to equal recoverable amount</b>	
	<b>As of December 31, 2018</b>	<b>As of June 30, 2019</b>
Growth rates (during the five-year period)	(2%)	(2%)
Gross margin	(1%)	(1%)
Pre-tax discount rate	1%	2%

### **Other intangible assets**

Our other intangible assets primarily comprise IP copyrights, game copyrights and development expenditure. Our other intangible assets increased from RMB35.1 million as of December 31, 2017 to RMB119.3 million as of June 30, 2019, as a result of our acquisition of Wenmai Hudong in May 2018 and Beijing Softstar becoming our subsidiary in August 2018. During the Track Record Period, our IP and game copyrights were purchased from IP owners and game developers, which constituted the majority of our other intangible assets.

Our development expenditure refers to the development costs incurred for a PC game under a licensing agreement entered into between Beijing Softstar and a third party. Under the licensing agreement, we are entitled to receive a pre-determined royalty and a certain percentage of the gross billings generated from the PC game. As the PC game is in the development stage, and the right to use the license over the PC game will only be transferred to the third party upon completion of the development, the capitalized development costs will only be amortized to cost of sales when the right to use the license is transferred to the third party.

The recoverable amount of the development expenditure has been determined based on the amount of consideration that we expect to receive in exchange for the right to use the license over the PC game, less the future costs that may be incurred by us in providing such right to use.

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## FINANCIAL INFORMATION

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The respective recoverable amount and the carrying value of the development expenditure as of December 31, 2018 and June 30, 2019 are as follows:

	<b>As of December 31, 2018</b>	<b>As of June 30, 2019</b>
	<i>(in RMB thousands)</i>	
Recoverable amount	25,170	40,594
Carrying value	23,049	38,758

The pre-tax discount rates applied to the cash flow projections, the estimated future cash inflows and the estimated future cash outflows used to extrapolate cash flow projections are as follows:

	<b>As of December 31, 2018</b>	<b>As of June 30, 2019</b>
	<i>(in RMB thousands)</i>	
Estimated future cash inflows	50,943	50,943
Estimated future cash outflows	24,948	9,239
Pre-tax discount rate	18%	18%

### *Sensitivity analysis*

For the development expenditure, the estimated recoverable amounts exceeded its carrying values by RMB2,121,000 and RMB1,836,000 as of December 31, 2018 and June 30, 2019, respectively. Our Directors believed that no reasonably possible change in any of the above key assumptions would cause the carrying value of the development expenditure to exceed its recoverable amount.

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The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the development expenditure's recoverable amount to be equal to its carrying value as of December 31, 2018 and June 30, 2019.

	<b>Change required for carrying value to equal recoverable amount</b>	
	<b>As of December 31, 2018</b>	<b>As of June 30, 2019</b>
	<i>(in RMB thousands)</i>	
Estimated future cash inflows	(3,512)	(2,835)
Estimated future cash outflows	2,639	2,207

### Investment in a joint venture

As of June 30, 2019, we held 60% equity interest in Shenzhen Boliang, which is considered as a joint venture of our Group under applicable accounting policies. As of June 30, 2019, we had investment in a joint venture of RMB2.7 million.

### Investments in associates

During the Track Record Period, we invested in associate companies, the majority of which engage in mobile game development. The following table sets forth our investments in associates as of the dates indicated:

	<b>As of December 31,</b>			<b>As of June 30,</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>(in RMB thousands)</i>			
Share of net assets	15,867	7,832	62,222	60,312
Goodwill on acquisition	16,855	50,170	105,582	98,545
	<u>32,722</u>	<u>58,002</u>	<u>167,804</u>	<u>158,857</u>

For further details, see note 19 to the Accountants' Report in Appendix I to this prospectus.

## FINANCIAL INFORMATION

### Financial assets at fair value through profit or loss

The following table sets forth the breakdown of our financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,			As of June 30,
	2016	2017	2018	2019
	<i>(in RMB thousands)</i>			
Listed equity investment	–	–	64,700	52,681
NEEQ quoted equity investment, at fair value	181,472	57,300	71,682	72,275
Unlisted equity investments at fair value	21,704	23,188	342,497	336,840
Convertible Loans	–	5,300	59,822	16,254
<b>Total</b>	<b>203,176</b>	<b>85,788</b>	<b>538,701</b>	<b>478,050</b>

Our listed equity investment represents our investment in Angel Fund, which held 9,740,562 shares in Taiwan Softstar as of June 30, 2019. For further details, see “History, Reorganization and Corporate Structure – Disposals, Acquisitions and Investments – Investment in Angel Fund” in this prospectus.

Our NEEQ quoted equity investments at fair value decreased from RMB181.5 million as of December 31, 2016 to RMB71.7 million as of December 31, 2018. In July 2016, we disposed of Beijing Zhuoyue Chenxing Co., Limited (北京卓越晨星科技有限公司) and Shenzhen Qi Le Wu Xian Software Development Co., Ltd. (深圳市奇樂無限軟件開發有限公司) in exchange for cash of RMB130.0 million and 48,780,480 shares of Hero Entertainment as of the time of the disposal. In 2017 and 2018, we sold 36,112,000 and 3,208,000 shares in Hero Entertainment in the NEEQ. We engage a third-party professional valuer to value each share of Hero Entertainment, which was valued at RMB3.72, RMB4.52, RMB7.58 and RMB7.64 as of December 31, 2016, 2017 and 2018, and June 30, 2019, respectively.

## FINANCIAL INFORMATION

Our financial assets at fair value through profit or loss increased from RMB85.8 million as of December 31, 2017 to RMB478.1 million as of June 30, 2019, primarily because we invested in more portfolio companies, all of which unlisted, and the investment in CPC Fund was transferred from CMGE Group. The table below sets forth the breakdown of our unlisted equity investments held at fair value as of the dates indicated.

	Fair value		
	As of December 31,		As of
	2017	2018	June 30, 2019
	<i>(in RMB thousands)</i>		
Shanghai X-idea Info Tech Co., Ltd. (上海交叉點信息科技有限公司)	3,000	5,704	4,953
Shanghai Kucheng Internet Technology Co., Ltd. (上海酷橙網絡科技有限公司)	7,041	6,496	5,602
Zhuhai Tianlang Interactive Technology Co., Ltd. (珠海天朗互動科技有限公司)	6,750	9,500	11,000
Guangzhou Heiqi Internet Technology Co., Ltd. (廣州黑旗網絡科技有限公司)	3,200	3,400	1,700
Chengdu Jumeng Tianxia Technology Co., Ltd. (成都聚夢天下科技有限公司)	3,150	3,600	4,200
Shanghai Ada Internet Technology Co., Ltd. (上海啊嗶網絡科技有限公司)	17	56	44
Shenzhen Yunwa Technology Co., Ltd. (深圳雲娃科技有限公司)	—	33,480	39,600
Shanghai Yuanjia Digital Technology Co., Ltd. (上海源稼數碼科技有限公司) <sup>(Note)</sup>	—	29,100	—
CPC Fund	—	223,229	233,931
Fontaine Fund	—	27,872	35,790
Bank financing product	30	60	20
<b>Total</b>	<b>23,188</b>	<b>342,497</b>	<b>336,840</b>

*Note:* We disposed of our 10% equity interests in this company to an independent third party in February 2019.



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As of December 31, 2017 and 2018, and June 30, 2019, we held investments by way of Convertible Loans in two, five and three game developing companies, respectively. The table below sets forth the fair value of these Convertible Loans as of the dates indicated.

	Fair value as of		
	December 31, 2017	December 31, 2018	June 30, 2019
	<i>(in RMB thousands)</i>		
Tibet Huanzhong Information Technology Co., Ltd. (西藏歡眾信息科技有限公司)	3,800	4,002	—
Chengdu Jumeng Tianxia Technology Co., Ltd. (成都聚夢天下科技有限公司)	1,500	2,060	2,305
Shanghai X-idea Info Tech Co., Ltd (上海交叉點信息科技有限公司)	—	3,166	3,219
Shenzhen Sparks Interactive Entertainment Co., Ltd. (深圳市火花幻境互動娛樂有限公司)	—	10,336	10,730
Shanghai Yuanjia Digital Technology Co., Ltd. (上海源稼數碼科技有限公司)	—	40,258	—
<b>Total</b>	<b>5,300</b>	<b>59,822</b>	<b>16,254</b>

## FINANCIAL INFORMATION

### Current Assets and Current Liabilities

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

	As of December 31,			As of	As of
	2016	2017	2018	June 30,	August 31,
	(in RMB thousands)			2019	2019
					(Unaudited)
<b>Current assets</b>					
Trade receivables	282,227	164,478	472,431	643,656	658,411
Prepayments, other receivables and other assets	52,796	124,369	332,648	351,277	397,268
Due from related parties	194,291	5	10,517	11,903	6,541
Pledged deposits	–	–	–	100,000	100,000
Cash and cash equivalents	120,460	245,762	144,445	173,927	159,218
<b>Total current assets</b>	<b>649,774</b>	<b>534,614</b>	<b>960,041</b>	<b>1,280,763</b>	<b>1,321,438</b>
<b>Current liabilities</b>					
Trade payables	71,072	101,210	111,230	147,909	143,510
Other payables and accruals	82,697	45,327	463,645	286,605	247,077
Interest-bearing bank borrowings	–	10,000	51,422	179,368	205,230
Tax payable	20,777	18,215	41,212	80,075	82,532
Due to related parties	405,508	11,715	71,277	48,156	46,705
Lease liabilities	5,741	16,695	16,424	13,704	12,014
<b>Total current liabilities</b>	<b>585,795</b>	<b>203,162</b>	<b>755,210</b>	<b>755,817</b>	<b>737,068</b>

## FINANCIAL INFORMATION

### Trade receivables

Trade receivables mainly represent amounts receivable from third-party publishing channels, which includes both our revenue and the amounts that we have to pay to game developers and IP owners. The following table sets forth our trade receivables as of the dates indicated:

	As of December 31,			As of
	2016	2017	2018	June 30,
				2019
	(in RMB thousands)			
Trade receivables	284,122	168,904	481,478	658,302
Allowance for expected credited losses	(1,895)	(4,426)	(9,047)	(14,646)
Trade receivables, net	<u>282,227</u>	<u>164,478</u>	<u>472,431</u>	<u>643,656</u>

Our trade receivables decreased from RMB282.2 million as of December 31, 2016 to RMB164.5 million as of December 31, 2017, as our settlement process with respect to two of our games, namely *One Piece – the Road of the Strong* (航海王強者之路) and *Heaven Sword and Dragon Saber* (倚天屠龍記), became increasingly smooth. Our trade receivables increased from RMB164.5 million as of December 31, 2017 to RMB472.4 million as of December 31, 2018, primarily as a result of (i) the increase in our revenue, and (ii) the long settlement cycle for two of our popular games, namely (a) *Fighter of Destiny* (擇天記), pursuant to the publishing arrangements of which the IP owner collects revenue from the publishing channel before making settlements with us, and (b) *The Land of the Dawn* (曙光之境), which we publish on a larger number of publishing channels compared to our other games, leading to a longer settlement cycle. Our trade receivables increased from RMB472.4 million as of December 31, 2018 to RMB643.7 million as of June 30, 2019, primarily because the gross billings from our highest revenue-generating game, *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), increased at a rate higher than the rate at which the relevant publishing channels were able to make settlements with us, resulting in a longer settlement cycle.

During the Track Record Period, the weighted average settlement period for our trade receivables was approximately 4.06 months. Because our trade receivables include amounts that we are to pay to game developers and IP owners in addition to our own revenues, we are unable to present meaningful trade receivables turnover days for our operations.

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We normally allow credit terms of 30 to 90 days to most publishing channels, and extend credit terms up to 180 days for major publishing channels. The actual credit term we offer to publishing channels is determined on an case-by-case basis, after taking into account, among others, reconciliation timing, payment history, length of their business relationship with us and their financial status. The following table sets forth an aging analysis of our trade receivables as of the dates indicated, based on the billing date and net of provision:

	As of December 31,			As of June 30,
	2016	2017	2018	2019
	<i>(in RMB thousands)</i>			
<b>Trade receivables</b>				
Within 90 days	142,467	108,364	224,150	348,710
90 days to 180 days	76,797	31,175	148,963	182,071
180 days to 1 year	40,977	23,343	85,603	103,395
Over 1 year	21,986	1,596	13,715	9,480
	<u>282,227</u>	<u>164,478</u>	<u>472,431</u>	<u>643,656</u>

As of the Latest Practicable Date, approximately RMB238.0 million (equivalent to 36.1%) of the trade receivables outstanding as of June 30, 2019 had been settled.

### Prepayments, other receivables and other assets

The following table sets forth a breakdown of our prepayments, other receivables and other assets of the dates indicated:

	As of December 31,			As of June 30,
	2016	2017	2018	2019
	<i>(RMB in thousands)</i>			
<b>Non-current</b>				
Prepayments	21,514	46,945	68,381	63,980
<b>Current</b>				
Prepayments	43,876	49,924	272,115	289,966
Receivables from disposal of financial assets at fair value through profit or loss	—	66,623	—	—
Deposits and other receivables	8,920	7,822	48,066	38,205
Prepaid listing expenses	—	—	6,484	12,230
Contract costs	—	—	5,983	10,876
<b>Total</b>	<u>74,310</u>	<u>171,314</u>	<u>401,029</u>	<u>415,257</u>

## FINANCIAL INFORMATION

Our prepayments primarily consist of prepaid game royalties, minimum guarantees paid to game developers and IP owners, and marketing expenses. The amount of receivables from disposal of financial assets at fair value through profit or loss represents receivables from the last instalment of consideration for our sale of 36,112,000 shares in Hero Entertainment, which was collected in April 2018.

Our prepayments increased from RMB65.4 million as of December 31, 2016 to RMB353.9 million as of June 30, 2019, primarily as a result of (i) an increase in our prepayments of minimum guarantees to game developers, and (ii) our prepayments made in relation to our acquisition of Angel Fund pursuant to the share purchase agreements dated June 11, 2018 and September 21, 2018.

### Cash and cash equivalents

Our cash and cash equivalents is comprised of (i) cash and bank balances, and (ii) time deposits. Our cash and cash equivalents as of December 31, 2016, 2017 and 2018, and June 30, 2019 was RMB120.5 million, RMB245.8 million, RMB144.4 million and RMB173.9 million, respectively. The increase in our cash and cash equivalents as of June 30, 2019 was attributable to net cash flows from operating activities and financing activities, partially offset by net cash used in investing activities.

### Trade payables

Trade payables represent amounts of revenue sharing and royalties due to game developers and revenue sharing due to IP owners. The following table sets forth an aging analysis of our trade payables as of the dates indicated.

	As of December 31,			As of
	2016	2017	2018	June 30,
				2019
	<i>(in RMB thousands)</i>			
Within 3 months	40,523	50,850	55,020	75,052
3 to 6 months	14,550	18,816	29,060	47,302
6 months to 1 year	12,608	27,603	15,384	18,282
Over 1 year	3,391	3,941	11,766	7,273
<b>Total</b>	<b>71,072</b>	<b>101,210</b>	<b>111,230</b>	<b>147,909</b>

During the Track Record Period, the weighted average settlement period for our trade payables was approximately 4.79 months. Trade payables turnover days have not been presented because (i) our gross billings to be shared with game developers is included in our trade payables but not in our cost of sales; and (ii) our gross billings to be shared with publishing channels is included in our cost of sales but not in trade payables.

As of the Latest Practicable Date, approximately RMB57.4 million (equivalent to 38.8%) of the trade payables outstanding as of June 30, 2019 had been settled.

## FINANCIAL INFORMATION

### Other payables and accruals and contingent consideration for business combination

The following table sets forth the amount of our other payables and accruals and contingent consideration for business combination as of the dates indicated.

	As of December 31,			As of
	2016	2017	2018	June 30,
	(in RMB thousands)			2019
<b>Non-current portion</b>				
Contingent consideration for business combination	—	—	268,189	258,842
Payable for business combination	<u>—</u>	<u>—</u>	<u>92,324</u>	<u>94,559</u>
<b>Current portion</b>				
Contingent consideration for business combination	—	—	90,583	99,193
Payable for business combination	—	—	220,000	39,899
Payable for the acquisition of an associate	—	—	20,000	—
Contract liabilities	19,694	18,010	57,112	71,005
Salary and welfare payables	10,610	5,699	23,062	15,971
Other tax payables	4,843	2,163	20,756	26,390
Accruals	42,918	13,692	16,511	23,226
Other payables	<u>4,632</u>	<u>5,763</u>	<u>15,621</u>	<u>10,921</u>
<b>Total</b>	<u>82,697</u>	<u>45,327</u>	<u>463,645</u>	<u>286,605</u>

Contingent consideration for business combination, payable for business combination and payable for the acquisition of an associate represent the remaining instalments of consideration for our acquisitions of Wenmai Hudong and a 51% equity interest in Beijing Softstar, and our investment in Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司).

Contract liabilities represents the unamortized revenue from sales of virtual currency used in card and board games and our in-house developed games. In addition, we recorded contract liabilities for our game publishing business as our agreements with certain publishing channels provide for advance payments of gross billings, whereby the publishing channels would only remit our portion of the gross billings had such amount exceeded the amount of the advance payments. Our contract liabilities increased from RMB18.0 million as of December 31, 2017 to RMB57.1 million as of December 31, 2018 and further to RMB71.0 million as of June 30, 2019, primarily due to an increase in short-term advances received from publishing channels and revenue generated by our in-house developed games.

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## FINANCIAL INFORMATION

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### WORKING CAPITAL

We intend to continue to finance our working capital with cash generated from our operations, bank loans, the net proceeds from the Global Offering and other funds raised from capital markets from time to time. We will closely monitor the level of our working capital, particularly in view of our strategy to continue expanding our product and service offerings and trying to reach more customers.

During the Track Record Period and up to the Latest Practicable Date, we financed our operations primarily through cash generated by operating activities. Taking into account that (i) as of August 31, 2019, we had an unutilized standby bank facility of approximately RMB469.8 million; (ii) as of June 30, 2019, we had RMB173.9 million in cash and cash equivalents; (iii) as of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to obtain future financing, nor was there any material default on our indebtedness or breach of covenant during the Track Record Period and up to the Latest Practicable Date; and (iv) other financial resources available to us, including cash flows from operations, borrowings from banks and the estimated net proceeds of the Global Offering (after a possible Downward Offer Price Adjustment setting the final Offer Price up to 10% below HK\$2.19, being the low end of the Offer Price range), our Directors are of the opinion that we have sufficient working capital for our requirements for at least the next 12 months from the date of this prospectus.

### INDEBTEDNESS, CONTINGENT LIABILITIES AND OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

#### Indebtedness

For the year ended December 31, 2017, we had interest-bearing bank borrowings of RMB10.0 million. The effective interest rate on the loan is 5.66% per annum. We repaid the loan in full upon its maturity in January 2018.

For the year ended December 31, 2018, we had interest-bearing bank borrowings of RMB51.4 million. The effective interest rate on the loans ranged from 5.44% to 7.00% per annum. We repaid bank loans in the amount of RMB7.3 million in June 2019.

For the six months ended June 30, 2019, we had interest-bearing bank borrowings of RMB179.4 million, including a secured bank loan amounting to RMB95.2 million which was secured by the pledge of our time deposits in the sum of RMB100.0 million, and several secured bank loans amounting to RMB40.0 million for which Mr. Xiao provided personal guarantee. The effective interest rate on the loans ranged from 4.79% to 7.00% per annum.

As of August 31, 2019, being the latest practicable date of our indebtedness statement, we had interest-bearing bank borrowings of RMB205.2 million, including a secured bank loan amounting to RMB95.2 million which was secured by the pledge of our time deposits in the sum of RMB100.0 million, a secured bank loan amounting to RMB9.8 million for which



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## FINANCIAL INFORMATION

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Shenzhen Small & Medium Enterprises Financing Co., Ltd. (深圳市中小企業融資擔保有限公司) provided corporate guarantee, and a secured bank loan amounting to RMB20.0 million for which Mr. Xiao provided personal guarantee. The effective interest rate on the loans ranged from 4.79% to 7.00% per annum. We confirm that the personal guarantee provided by Mr. Xiao will be released upon Listing.

We also had an unutilized standby bank facility of approximately RMB469.8 million as of August 31, 2019.

As of December 31, 2016, 2017 and 2018, and June 30 and August 31, 2019, our lease liabilities were RMB15.6 million, RMB18.8 million, RMB21.1 million, RMB31.9 million and RMB30.1 million, respectively.

Save as disclosed above, we did not have any other borrowings, or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities as of August 31, 2019. Our Directors confirm that there has not been any material change in our indebtedness since August 31, 2019.

### Contingent Liabilities

As of the Latest Practicable Date, we did not have any contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group. Our Directors have confirmed that there has not been any change in our contingent liabilities since June 30, 2019. Except as stated above, as of the Latest Practicable Date, we did not have any other loan issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits (other than normal trade-related bills), debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors confirm that as of the Latest Practicable Date, there was no covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that we did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

### Off-balance Sheet Commitments and Arrangements

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

### CAPITAL EXPENDITURES

Our historical capital expenditures primarily included royalties paid to game developers and IP owners. We had funded our capital expenditure requirements during the Track Record Period mainly with our internal resources.

## FINANCIAL INFORMATION

Our capital expenditure is expected to be RMB66.7 million for the year ending December 31, 2019. We plan to fund our planned capital expenditure using cash flows generated from our investing activities and the net proceeds received from the Global Offering.

### Capital Commitments

Our Group's capital commitments as of December 31, 2016, 2017 and 2018, and June 30, 2019 amounted to RMB12.6 million, RMB23.8 million, RMB10.1 million and RMB55.2 million, respectively. Our capital commitments as of June 30, 2019 was for the purchase of IP and game licenses.

### MATERIAL RELATED PARTY TRANSACTIONS

Our Directors are of the view that the following parties/companies were related parties that had transaction or balances with our Group during the Track Record Period:

Name of related party	Relationship with our Group
Beijing Zhongshouyou Technology Co., Ltd. (北京中手游科技有限公司)	Fellow subsidiary
Shenzhen Lanyue	Fellow subsidiary
Tibet Quyou Network Technology Co., Ltd. (西藏趣遊網路科技有限公司)	Fellow subsidiary
Taiwan Softstar	Minority shareholder of a subsidiary
Softstar International Inc.	Equity invested by our Group
Chengdu Jumeng Tianxia Technology Co., Ltd. (成都聚夢天下科技有限公司)	Equity invested by our Group
China Perfect Investments Limited	Fellow subsidiary
CMGE Group	Fellow subsidiary
Tianjin Fenzhi Huyu Technology Co., Ltd. (天津紛至互娛科技有限公司)	Associate
Beijing Yingyou Technology Co., Ltd. (北京影遊科技有限公司)	Associate
Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司)	Associate
Guangzhou Leiyu Information Technology Co., Ltd. (廣州市雷娛信息科技有限責任公司)	Associate
Shanghai Langkun Digital Technology Co., Ltd. (上海朗騰數碼科技有限公司)	Associate
Shenzhen Haituo Shidai Technology Co., Ltd. (深圳海拓時代科技有限公司)	Associate
Zhuhai Tianlang Interactive Technology Co., Ltd. (珠海天朗互動科技有限公司)	Associate
Shanghai X-idea Info Tech Co., Ltd. (上海交叉點信息科技有限公司)	Associate
Shenzhen Boliang	Joint venture
Mr. Fan Yingjie	Key management of a subsidiary
Mr. Xiao	Director
Mr. Sin	Director

## Transactions with Related Parties

Year ended December 31,			Six months ended	
			June 30,	
2016	2017	2018	2018	2019
(in RMB thousands)			(Unaudited)	

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## FINANCIAL INFORMATION

### Amounts due from/(to) Related Parties

Receivables and payables from/(to) our related parties were unsecured, interest-free and repayable on demand. The amounts due from related parties are neither past due nor impaired. The carrying amounts of the amounts due from/(to) related parties approximate their fair values and are denominated in RMB. The table below sets forth the amounts due from and due to related parties as of the dates indicated.

	As of December 31,			As of	Nature of
	2016	2017	2018	June 30, 2019	Balance as of June 30, 2019 <sup>(Note 2)</sup>
	(in RMB thousands)				
<b>Amounts due from related parties</b>					
Beijing Zhongshouyou Technology Co., Ltd. (北京中手游科技有限公司)	21	5	–	–	N/A
Shenzhen Lanyue	194,240	–	–	–	N/A
Tibet Quyou Network Technology Co., Ltd. (西藏趣遊網路科技有限公司)	30	–	–	–	N/A
Taiwan Softstar <sup>(Note 1)</sup>	–	–	9,717	9,353	Trade
Mr. Fan Yingjie	–	–	800	1,350	Non-trade
Shenzhen Boliang	–	–	–	1,200	Trade
	<u>194,291</u>	<u>5</u>	<u>10,517</u>	<u>11,903</u>	

<b>Amounts due to related parties</b>					
China Perfect Investments Limited	216,584	–	–	–	N/A
CMGE Group	169,771	–	–	–	N/A
Tianjin Fenzhi Huyu Technology Co., Ltd. (天津紛至互娛科技有限公司)	1,000	363	–	–	N/A
Beijing Yingyou Technology Co., Ltd. (北京影遊科技有限公司)	5,900	–	–	–	N/A
Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司)	12,223	1,852	1,872	3,410	Trade
Guangzhou Leiyu Information Technology Co., Ltd. (廣州市雷娛信息科技有限責任 公司)	–	5,000	5,000	5,000	Non-trade
Shanghai Langkun Digital Technology Co., Ltd. (上海朗鵬數碼科技有限公司)	–	4,500	30,067	4,836	Trade
Chengdu Jumeng Tianxia Technology Co., Ltd. (成都聚夢天下科技有限公司)	–	–	7,667	7,751	Trade
Shenzhen Haituo Shidai Technology Co., Ltd. (深圳海拓時代科技有限公司)	–	–	21,418	20,828	Trade
Mr. Xiao	30	–	–	–	N/A
Zhuhai Tianlang Interactive Technology Co., Ltd. (珠海天朗互動科技有限公司)	–	–	37	9	Trade
Taiwan Softstar <sup>(Note 1)</sup>	–	–	4,137	4,633	Non-trade
Softstar International Inc.	–	–	1,079	1,079	Non-trade
Shanghai X-idea Info Tech Co., Ltd. (上海交叉點信息科技有限公司)	–	–	–	610	Trade
	<u>405,508</u>	<u>11,715</u>	<u>71,277</u>	<u>48,156</u>	

## FINANCIAL INFORMATION

### *Notes:*

1. As of the Latest Practicable Date, Taiwan Softstar held a 49% interest in Beijing Softstar, which is an insignificant subsidiary of the Company under Chapter 14A of the Listing Rules. Accordingly, Taiwan Softstar is not a connected person of our Company as of the Latest Practicable Date.
2. The balances that are non-trade in nature will be fully settled before Listing.

## FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, namely foreign currency risk, credit risk and liquidity risk. We regularly monitor our exposure to these risks. Risk management is carried out by our senior management.

### Foreign currency risk

Our Group has transactional currency exposures which arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity as of the dates indicated to a reasonably possible change in the foreign exchange rate due to changes in fair value of monetary assets and liabilities, with all other variables held constant, of our Group's profit before tax.

	Year ended December 31,			Six months ended June 30,
	2016	2017	2018	2019
	<i>(in RMB thousands)</i>			
<b>RMB/HKD</b>				
Strengthened 5%	(7,880)	(8,253)	25,078	25,221
Weakened 5%	7,880	8,253	(25,078)	(25,221)
<b>RMB/USD</b>				
Strengthened 5%	(2,874)	(2,663)	8,869	9,114
Weakened 5%	2,874	2,663	(8,869)	(9,114)
<b>RMB/KRW</b>				
Strengthened 5%	266	347	357	367
Weakened 5%	(266)	(347)	(357)	(367)
<b>RMB/TWD</b>				
Strengthened 5%	(109)	(235)	(179)	(178)
Weakened 5%	109	235	179	178

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## FINANCIAL INFORMATION

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### **Credit risk**

The credit risk of our other financial assets, which comprise cash and cash equivalents, trade receivables, other receivables and other assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

### ***Cash and cash equivalents***

As disclosed in note 23 to the Accountants' Report in Appendix I to this prospectus, most of the bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The expected credit loss is close to zero.

### ***Trade receivables***

Customer credit risk is managed by each business unit subject to our Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than two years and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 21 to the Accountants' Report in Appendix I to this prospectus. Our Group does not hold collateral as security.

### ***Other receivables***

Other receivables were mainly loans to employees, loans to third parties and related parties and other receivables. Our Group considers the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on ongoing basis during the Track Record Period. To assess whether there is a significant increase in credit risk our Group compares risk of a default occurring on the assets as the reporting date with the risk of default as of the date of initial recognition.

A default on a financial asset is when the counterparty fails to make contractual payments within 12 months of when they fall due. Financial assets are written-off when there is no reasonable expectation of recovery. Our Group categorizes a receivable for write off when a debtor fails to make contractual payments greater than 25 months past due.

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## FINANCIAL INFORMATION

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### **Liquidity risk**

Our objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operation and bank borrowings. We regularly review our major funding positions to ensure that it has adequate financial resources in meeting our financial obligations.

### **DIVIDENDS**

During the Track Record Period, our Group did not declare or pay any dividend to our Shareholders. Our Board has absolute discretion to recommend any dividend. In order to return capital to our Shareholders as and when appropriate, we intend to distribute approximately 30% of our annual distributable profit as dividends after Listing. However, we cannot assure you that we will be able to distribute dividends of such amount or any amount each year or in any year. Such intention does not amount to any guarantee, representation or indication that we must or will pay dividends in such manner or at all. We will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic environment. The determination to pay dividends will be made at the discretion of our Directors and will depend upon our earnings and financial condition, operating requirements, capital and investment requirements, level of indebtedness and any other factors that our Directors may deem relevant. Our Shareholders may in a general meeting also declare dividends, provided that no dividends shall exceed the amount recommended by our Directors. As advised by our Cayman Islands legal adviser, a position of accumulated losses does not necessarily restrict us from declaring and paying dividends to our Shareholders. Under Cayman Islands law, our Company may pay a dividend out of either our profits (realised or unrealised) or amounts standing to the credit of our share premium account, provided that this would not result in our Company being unable to pay debts as they fall due in the ordinary course of business.

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on, among other things, the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require a foreign-invested enterprise to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. In addition, the dividends paid by our PRC subsidiaries are subject to withholding taxes imposed under PRC law. Distributions from us and our subsidiaries may also become subject to any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

### **DISTRIBUTABLE RESERVES**

As of June 30, 2019, our Company did not have any distributable reserves.



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### LISTING EXPENSES

Listing expenses consist primarily of underwriting commission and professional fees, and are estimated to be approximately RMB108.0 million (assuming an Offer Price of HK\$2.51 per Share, being the mid-point of the indicative offer price range stated in this prospectus), no listing expenses were incurred on or before December 31, 2017. For the year ended December 31, 2018, we recognized and charged to our consolidated statement of profit or loss RMB24.4 million and approximately RMB6.5 million will be accounted for as a reduction from equity upon completion of the Global Offering. For the six months ended June 30, 2019, we recognized and charged to our consolidated statement of profit or loss RMB7.4 million and approximately RMB2.0 million will be accounted for as a reduction from equity upon completion of Global Offering. We estimate we will further incur underwriting commission and other listing expenses of approximately RMB67.7 million after June 30, 2019, of which (i) RMB32.4 million will be charged to our consolidated statements of profit or loss, and (ii) RMB35.3 million is expected to be accounted for as a deduction from equity upon the completion of Global Offering.

### UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets is set out here to illustrate the effect of the Global Offering on our consolidated net tangible assets as of June 30, 2019 as if it had taken place on June 30, 2019. The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of June 30, 2019 or any future dates. It is prepared based on our consolidated net tangible assets as of June 30, 2019 as set out in the Accountants' Report as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report as set out in Appendix I to this prospectus.

	Consolidated net tangible assets attributable to owners of the Company as of June 30, 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	<i>RMB'000</i> <i>(note 1)</i>	<i>RMB'000</i> <i>(note 2)</i>	<i>RMB'000</i>	<i>RMB</i> <i>(note 3)</i>	<i>HKD</i> <i>(note 4)</i>
Based on an Offer Price of HK\$1.98 per Share after a Downward Offer Price Adjustment of 10%	772,995	754,585	1,527,580	0.68	0.75
Based on an Offer Price of HK\$2.19 per Share	772,995	838,816	1,611,811	0.71	0.79
Based on an Offer Price of HK\$2.83 per Share	772,995	1,095,522	1,868,517	0.83	0.92

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## FINANCIAL INFORMATION

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*Notes:*

1. The consolidated net tangible assets attributable to owners of the Company as of June 30, 2019 is extracted from “Appendix I – Accountants’ Report”, which is based on the audited consolidated equity attributable to owners of the Company as of June 30, 2019 of approximately RMB2,010,943,000 less intangible assets and goodwill as of June 30, 2019 of approximately RMB1,237,948,000.
2. The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.19 per Share or HK\$2.83 per Share and also based on Share Offer Price of HK\$1.98 per offer share after making a Downward Offer Price Adjustment of 10%, after deduction of the underwriting fees and other related expenses payable by the Company and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.0 to RMB0.9017 prevailing on October 9, 2019.
3. The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 2,261,000,000 Shares in issue immediately following the completion of the Global Offering and does not take into account of any shares which may be issued upon the exercise of the Over-allotment Option.
4. The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.0 to RMB0.9017 prevailing on October 9, 2019.

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since June 30, 2019 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there is no event since June 30, 2019 which would materially affect the information shown in our consolidated financial statements included in the Accountants’ Report in Appendix I to this prospectus.

### RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the date of this prospectus, our business model remained unchanged. Since the end of the Track Record Period and up to the date of this prospectus, we published nine new games, including *Destiny* (破曉戰歌) which ranked Top 8 in the Free Game Category on Apple’s App Store in the first week of its launch in July 2019, *The Gate to Adventures* (冒險之門) which was a recommended game on Apple’s App Store in September 2019, and *VGAME* which was recommended by Apple’s App Store as an editors’ pick and game of the month in September 2019. Since the end of the Track Record Period and up to the date of this prospectus, we entered into five game licensing agreements and one IP licensing agreement.

As of the Latest Practicable Date, approximately RMB238.0 million (equivalent to 36.1%) and RMB57.4 million (equivalent to 38.8%) of the trade receivables and trade payables outstanding as of June 30, 2019, respectively, had been settled.

From April to December 2018, PRC regulators ceased granting pre-approvals to new domestically developed online games. This change followed the issuance of the Plan for Deepening the Institutional Reform of the Party and the State (深化黨和國家機構改革方案)

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## FINANCIAL INFORMATION

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and the Institutional Reform Plan of the State Council (國務院機構改革方案) in March 2018. Since the resumption of the assessment and pre-approval procedures in December 2018, we have obtained pre-approval for five of the 11 games that we submitted for pre-approval. The majority of the remaining six games had only been recently submitted for pre-approval and as a result, they were still under assessment by the PRC regulators as of the date of this prospectus. It is unclear when the remaining pre-approvals will be obtained, which may delay our publishing schedule and negatively affect our ability to monetize our games. For further details of the suspension and resumption of the assessment and pre-approval procedures and the relevant impact on our Company, see “Risk Factors – Risks Related to Our Business – The laws and regulations regulating mobile games in China continue to evolve and change, which may make it difficult for us to obtain or maintain all applicable permits and approvals” and “Business – Recent Changes in the Regulatory Environment” in this prospectus.

The Foreign Investment Law (“FIL”) was adopted by the National People’s Congress on March 15, 2019 and will take effect on January 1, 2020. The FIL does not explicitly stipulate contractual arrangements such as our Contractual Arrangements as a form of foreign investment. Instead, the FIL stipulates that foreign investment includes foreign investors’ investment in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council. Our PRC Legal Adviser has confirmed that, after the promulgation of the FIL on March 15, 2019 and up to the date of this prospectus, no laws, administrative regulations or State Council provisions have been issued which specify contractual arrangements as a method of foreign investment. However, there is the possibility that future laws, administrative regulations or provisions of the State Council may stipulate that contractual arrangements are a form of foreign investment. As a result, whether our Contractual Arrangements will be recognized as foreign investment, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how our Contractual Arrangements will be handled are uncertain. For details of the FIL and its potential impact on our Company, please see “Risk Factors – Risks Related to Our Contractual Arrangements – Substantial uncertainties exist with respect to the interpretation and implementation of the FIL and how it may impact the viability of our current corporate structure, corporate governance and business operations” in this prospectus.

Our Directors confirm that our business operations and financial performance have remained stable after the Track Record Period and up to the date of this prospectus, as there were no material changes to our business model and the general economic and regulatory environment in which we operate, except as otherwise disclosed in this prospectus.

Our Directors confirm that, as of the date of this prospectus and except as otherwise disclosed in this prospectus, there had been no material adverse change in the financial conditions or prospects of our Group and there had been no event since June 30, 2019 which could materially affect the information shown in the Accountants’ Report as set out in Appendix I to this prospectus.

### DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

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

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## CORNERSTONE INVESTORS

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### THE CORNERSTONE PLACING

We have entered into cornerstone investment agreement with a number of investors (the “**Cornerstone Investors**”), pursuant to which the Cornerstone Investors have agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) that may be purchased with an aggregate amount of approximately US\$31.7 million (equivalent to approximately HK\$248.9 million, based on an exchange rate of US\$1.00 to HK\$7.8433). The actual investment amount of the Cornerstone Investors in Hong Kong dollars may vary due to the actual exchange rate on the business day immediately prior to the Price Determination Date.

Assuming an Offer Price of HK\$1.98 (being the low-end of the Offer Price range after a Downward Offer Price Adjustment stated in this prospectus), the total number of Shares to be subscribed for by the Cornerstone Investors would be 125,636,000 Shares, representing approximately (i) 27.3% of the total Offer Shares (assuming that the Over-allotment Option is not exercised) and (ii) 5.6% of the Shares in issue upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised).

Assuming an Offer Price of HK\$2.19 (being the low-end of the Offer Price range stated in this prospectus), the total number of Shares to be subscribed for by the Cornerstone Investors would be 113,586,000 Shares, representing approximately (i) 24.6% of the total Offer Shares (assuming that the Over-allotment Option is not exercised) and (ii) 5.0% of the Shares in issue upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised).

Assuming an Offer Price of HK\$2.51 (being the mid-point of the Offer Price range stated in this prospectus), the total number of Shares to be subscribed for by the Cornerstone Investors would be 99,106,000 Shares, representing approximately (i) 21.5% of the total Offer Shares (assuming that the Over-allotment Option is not exercised) and (ii) 4.4% of the Shares in issue upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised).

Assuming an Offer Price of HK\$2.83 (being the high-end of the Offer Price range stated in this prospectus), the total number of Shares to be subscribed for by the Cornerstone Investors would be 87,896,000 Shares, representing approximately (i) 19.1% of the total Offer Shares (assuming that the Over-allotment Option is not exercised) and (ii) 3.9% of the Shares in issue upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised).

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## CORNERSTONE INVESTORS

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The Cornerstone Investors will acquire the Offer Shares pursuant to, and as part of, the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Offer Shares in issue and will be counted towards the public float of our Company. The Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering (other than pursuant to the respective cornerstone investment agreements). Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any board representation in our Company, nor will any of the Cornerstone Investors become a substantial shareholder of our Company.

To the best knowledge of the Company, each of the Cornerstone Investors is independent of each other, independent of the Company, its connected persons and their respective associates, and not an existing shareholder or close associates of the Company. Pursuant to the respective cornerstone investment agreements with the Company, the Cornerstone Investors have confirmed that they are not accustomed to take and have not taken any instructions from any core connected person of the Company in relation to the acquisition, disposal, voting or other disposition of securities of the Company. As confirmed by each of the Cornerstone Investors, the cornerstone investments of the Cornerstone Investors are not financed, directly or indirectly, by the Company, its subsidiaries, its directors and close associates of any of them.

The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in the section headed “Structure of the Global Offering – The Hong Kong Public Offering – Reallocation” in this prospectus. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Company on or around October 30, 2019.

### OUR CORNERSTONE INVESTORS

Our Cornerstone Investors are set out below:

#### **Cosmic Blue Investments Limited**

Cosmic Blue Investments Limited was incorporated under the laws of the British Virgin Islands with limited liability and is an investment holding company wholly-owned by Kuaishou Technology (快手科技), a company incorporated under the laws of the Cayman Islands with limited liability. Kuaishou is principally engaged in internet services.

#### **Successful Lotus Limited**

Successful Lotus Limited was incorporated under the laws of the British Virgin Islands with limited liability and is an investment holding company wholly-owned by Dr. Peter Lee Ka-kit. Dr. Peter Lee Ka-kit is the chairman and the managing director of Henderson Land Development Company Limited, a company listed on the Main Board of Stock Exchange (stock code: 0012).

**Bilibili Inc.**

Bilibili Inc. was incorporated under the laws of the Cayman Islands with limited liability and is listed on the NASDAQ (NASDAQ: BILI). Bilibili Inc. provides online entertainment services for the young generations in the PRC and offers a platform that covers mobile games, advertising, live broadcasting and value-added services. Its ultimate controlling shareholder is Mr. Chen Rui, who also serves as the chairman and chief executive officer of Bilibili Inc..

**WB Online Investment Limited**

WB Online Investment Limited was incorporated under the laws of the Cayman Islands with limited liability and is a wholly-owned subsidiary of Weibo Corporation, a company established in the Cayman Islands and listed on NASDAQ (NASDAQ: WB). Weibo is a leading social media platform for people to create, distribute and discover Chinese-language content. By providing an unprecedented and simple way for Chinese people and organizations to publicly express themselves in real time, interact with others on a massive global platform and stay connected with the world. Weibo has had a profound social impact in the PRC.

**Cloudary Holdings Limited**

Cloudary Holdings Limited was incorporated under the laws of Hong Kong with limited liability and is indirectly wholly-owned by China Literature Limited, a company established in the Cayman Islands and listed on the Main Board of the Stock Exchange (stock code: 0772). China Literature Limited is a leading online literature platform in the PRC.

**G-Mei Network Technology Co., Limited**

G-Mei Network Technology Co., Limited was incorporated under the laws of the British Virgin Islands with limited liability and is an indirectly wholly-owned subsidiary of Wuhu Sanqi Interactive Entertainment Network Technology Group Co., Ltd.\* (蕪湖三七互娛網絡科技集團股份有限公司) (“**Wuhu 37**”), a limited liability company established under the laws of the PRC on May 26, 1995 whose shares are listed on the Shenzhen Stock Exchange (SZSE: 002555). Wuhu 37 is primarily engaged in developing, distributing and operating mobile games and online games.

**Gamenow Technology Limited**

Gamenow Technology Limited was incorporated under the laws of Hong Kong with limited liability and is wholly-owned by Beijing Ju You Zhang Lian Technology Limited (北京聚遊掌聯科技有限公司), which in turn is wholly-owned by Ourpalm Co., Ltd. (北京掌趣科技股份有限公司), a company established in the PRC and listed on the Shenzhen Stock Exchange (SZSE: 300315). Ourpalm Co., Ltd. is a mobile and social web game developer and publisher in the PRC.

## CORNERSTONE INVESTORS

### DETAILS OF THE CORNERSTONE PLACING

The table below sets forth details of the Cornerstone Placing:

Based on the Offer Price of HK\$1.98 (being the low-end of the Offer Price range after a Downward Offer Price Adjustment stated in this prospectus)

	Cornerstone Investor	Investment amount <sup>(1)</sup>	Number of Offer Shares to be acquired <sup>(2)</sup>	Approximate% of total number of Offer Shares <sup>(3)</sup>		Approximate% of total Shares in issue immediately following the completion of the Global Offering <sup>(3)</sup>	
				Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
1.	Cosmic Blue Investments Limited	US\$10,000,000 (equivalent to HK\$78,433,000) <sup>(4)</sup>	39,612,000	8.6%	7.5%	1.8%	1.7%
2.	Successful Lotus Limited	HK\$45,000,000 <sup>(4)</sup>	22,726,000	4.9%	4.3%	1.0%	1.0%
3.	Bilibili Inc.	US\$5,000,000 (equivalent to HK\$39,216,500) <sup>(4)</sup>	19,806,000	4.3%	3.7%	0.9%	0.8%
4.	WB Online Investment Limited	US\$5,000,000 (equivalent to HK\$39,216,500) <sup>(4)</sup>	19,806,000	4.3%	3.7%	0.9%	0.8%
5.	Cloudary Holdings Limited	US\$2,000,000 (equivalent to HK\$15,686,600) <sup>(4)</sup>	7,922,000	1.7%	1.5%	0.4%	0.3%
6.	G-Mei Network Technology Co., Limited	US\$2,000,000 (equivalent to HK\$15,686,600) <sup>(4)</sup>	7,922,000	1.7%	1.5%	0.4%	0.3%
7.	Gamenow Technology Limited	US\$2,000,000 (equivalent to HK\$15,686,600) <sup>(5)</sup>	7,842,000	1.7%	1.5%	0.3%	0.3%
<b>Total</b>		HK\$248,925,800	125,636,000	27.3%	23.7%	5.6%	5.4%



## CORNERSTONE INVESTORS

Based on the Offer Price of HK\$2.19 (being the low-end of the Offer Price range)

	Cornerstone Investor	Investment amount <sup>(1)</sup>	Number of Offer Shares to be acquired <sup>(2)</sup>	Approximate% of total number of Offer Shares <sup>(3)</sup>		Approximate% of total Shares in issue immediately following the completion of the Global Offering <sup>(3)</sup>	
				Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
1.	Cosmic Blue Investments Limited	US\$10,000,000 (equivalent to HK\$78,433,000) <sup>(4)</sup>	35,814,000	7.8%	6.8%	1.6%	1.5%
2.	Successful Lotus Limited	HK\$45,000,000 <sup>(4)</sup>	20,546,000	4.5%	3.9%	0.9%	0.9%
3.	Bilibili Inc.	US\$5,000,000 (equivalent to HK\$39,216,500) <sup>(4)</sup>	17,906,000	3.9%	3.4%	0.8%	0.8%
4.	WB Online Investment Limited	US\$5,000,000 (equivalent to HK\$39,216,500) <sup>(4)</sup>	17,906,000	3.9%	3.4%	0.8%	0.8%
5.	Cloudary Holdings Limited	US\$2,000,000 (equivalent to HK\$15,686,600) <sup>(4)</sup>	7,162,000	1.6%	1.4%	0.3%	0.3%
6.	G-Mei Network Technology Co., Limited	US\$2,000,000 (equivalent to HK\$15,686,600) <sup>(4)</sup>	7,162,000	1.6%	1.4%	0.3%	0.3%
7.	Gamenow Technology Limited	US\$2,000,000 (equivalent to HK\$15,686,600) <sup>(5)</sup>	7,090,000	1.5%	1.3%	0.3%	0.3%
<b>Total</b>		HK\$248,925,800	113,586,000	24.6%	21.4%	5.0%	4.9%

## CORNERSTONE INVESTORS

Based on the Offer Price of HK\$2.51 (being the middle point of the Offer Price range)

Cornerstone Investor	Investment amount <sup>(1)</sup>	Number of Offer Shares to be acquired <sup>(2)</sup>	Approximate% of total number of Offer Shares <sup>(3)</sup>		Approximate% of total Shares in issue immediately following the completion of the Global Offering <sup>(3)</sup>	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
1. Cosmic Blue Investments Limited	US\$10,000,000 (equivalent to HK\$78,433,000) <sup>(4)</sup>	31,248,000	6.8%	5.9%	1.4%	1.3%
2. Successful Lotus Limited	HK\$45,000,000 <sup>(4)</sup>	17,928,000	3.9%	3.4%	0.8%	0.8%
3. Bilibili Inc.	US\$5,000,000 (equivalent to HK\$39,216,500) <sup>(4)</sup>	15,624,000	3.4%	2.9%	0.7%	0.7%
4. WB Online Investment Limited	US\$5,000,000 (equivalent to HK\$39,216,500) <sup>(4)</sup>	15,624,000	3.4%	2.9%	0.7%	0.7%
5. Cloudary Holdings Limited	US\$2,000,000 (equivalent to HK\$15,686,600) <sup>(4)</sup>	6,248,000	1.4%	1.2%	0.3%	0.3%
6. G-Mei Network Technology Co., Limited	US\$2,000,000 (equivalent to HK\$15,686,600) <sup>(4)</sup>	6,248,000	1.4%	1.2%	0.3%	0.3%
7. Gamenow Technology Limited	US\$2,000,000 (equivalent to HK\$15,686,600) <sup>(5)</sup>	6,186,000	1.3%	1.2%	0.3%	0.3%
<b>Total</b>	<b>HK\$248,925,800</b>	<b>99,106,000</b>	<b>21.5%</b>	<b>18.7%</b>	<b>4.4%</b>	<b>4.3%</b>

## CORNERSTONE INVESTORS

Based on the Offer Price of HK\$2.83 (being the high end of the Offer Price range)

	Cornerstone Investor	Investment amount <sup>(1)</sup>	Number of Offer Shares to be acquired <sup>(2)</sup>	Approximate% of total number of Offer Shares <sup>(3)</sup>			Approximate% of total Shares in issue immediately following the completion of the Global Offering <sup>(3)</sup>	
				Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	
1.	Cosmic Blue Investments Limited	US\$10,000,000 (equivalent to HK\$78,433,000) <sup>(4)</sup>	27,714,000	6.0%	5.2%	1.2%	1.2%	1.2%
2.	Successful Lotus Limited	HK\$45,000,000 <sup>(4)</sup>	15,900,000	3.4%	3.0%	0.7%	0.7%	0.7%
3.	Bilibili Inc.	US\$5,000,000 (equivalent to HK\$39,216,500) <sup>(4)</sup>	13,856,000	3.0%	2.6%	0.6%	0.6%	0.6%
4.	WB Online Investment Limited	US\$5,000,000 (equivalent to HK\$39,216,500) <sup>(4)</sup>	13,856,000	3.0%	2.6%	0.6%	0.6%	0.6%
5.	Cloudary Holdings Limited	US\$2,000,000 (equivalent to HK\$15,686,600) <sup>(4)</sup>	5,542,000	1.2%	1.0%	0.2%	0.2%	0.2%
6.	G-Mei Network Technology Co., Limited	US\$2,000,000 (equivalent to HK\$15,686,600) <sup>(4)</sup>	5,542,000	1.2%	1.0%	0.2%	0.2%	0.2%
7.	Gamenow Technology Limited	US\$2,000,000 (equivalent to HK\$15,686,600) <sup>(5)</sup>	5,486,000	1.2%	1.0%	0.2%	0.2%	0.2%
<b>Total</b>			87,896,000	19.1%	16.6%	3.9%	3.8%	

Notes:

- (1) Calculated based on an exchange rate of US\$1.00 to HK\$7.8433. The actual investment amount of the Cornerstone Investors in Hong Kong dollars may vary due to the actual exchange rate on the business day immediately prior to the Price Determination Date.
- (2) Subject to rounding down to the nearest whole board lot of 2,000 Shares.
- (3) Immediately upon the completion of the Capitalization Issue and the Global Offering.
- (4) Exclusive of the brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% payable by the relevant cornerstone investors.
- (5) Inclusive of the brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% payable by the relevant cornerstone investors.

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## CORNERSTONE INVESTORS

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### CONDITIONS PRECEDENT AND TERMINATION

The subscription obligation of each of the Cornerstone Investors is subject to, among other things, the following conditions precedent:

- (a) the underwriting agreements for the Hong Kong Public Offering and the International Offering being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in those underwriting agreements, and neither of the aforesaid underwriting agreements having been terminated;
- (b) the Offer Price having been agreed upon between the Company and the Joint Global Coordinators (for themselves and on behalf of the underwriters of the Global Offering); and
- (c) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Shares (including the Investor Shares), as well as other applicable waivers and approvals, and such approval, permission or waiver having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange.

### RESTRICTIONS ON THE CORNERSTONE INVESTORS' INVESTMENT

Each Cornerstone Investor has agreed that, without the prior written consent of the Company, it will not, whether directly or indirectly, at any time during the period of six months commencing from and including the Listing Date, dispose of any of the Shares subscribed for by it pursuant to the relevant cornerstone investment agreement and any other securities of the Company which are derived therefrom (the “**Relevant Shares**”) or any interest in any company or entity holding any of the Relevant Shares.

Each Cornerstone Investor may transfer the Relevant Shares in certain limited circumstances as set out in the relevant cornerstone investment agreement, such as a transfer to a wholly-owned subsidiary of such Cornerstone Investor, provided that, prior to such transfer, such wholly-owned subsidiary undertakes to be bound by such Cornerstone Investor's obligations under the relevant cornerstone investment agreement and be subject to the restrictions on disposal of Relevant Shares imposed on such Cornerstone Investor.

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## FUTURE PLANS AND USE OF PROCEEDS

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### OUR REASONS FOR THE GLOBAL OFFERING

Our Directors believe that the Global Offering will allow us to:

- *Generate employee incentive and commitment.* We believe the Global Offering will allow our employees to share our success and deepen their commitment to our performance and continued success;
- *Gain higher profile and visibility and strengthen our competitiveness.* The Global Offering will help us enhance our status and our competitiveness among our competitors. This may result in a larger player base, strengthened relationships with new and existing IP owners, game developers and publishing channels; and
- *Create a long-term fund raising platform.* The Global Offering will provide us the means to raise funds through future fund raising exercises after the Global Offering.

### USE OF PROCEEDS

The aggregate net proceeds that we expect to receive from the Global Offering (after deducting the underwriting fees and estimated expenses in connection with the Global Offering, assuming an Offer Price of HK\$2.51 per Share, being the mid-point of the indicative Offer Price range of HK\$2.19 to HK\$2.83 per Share) will be approximately HK\$1,037.3 million (equivalent to RMB935.3 million). We intend to use the net proceeds from the Global Offering as follows:

- Approximately 50% of our total estimated net proceeds, or HK\$518.6 million (equivalent to RMB467.6 million), will be used primarily to expand and enhance our IP-based game publishing and development business. In particular, we intend to allocate:
  - approximately 15% of our total estimated net proceeds, or HK\$155.6 million (equivalent to RMB140.3 million), to license promising IPs relating to popular and promising animations, literature, game and motion pictures, amongst others, from IP owners. For a list of factors that we consider in licensing IPs and the responsible personnel for identifying and approving the IPs, see “Business – Our Business Model – Game Sourcing – Our IP Licensing Process” in this prospectus. In determining whether potential IPs are popular and promising, we take into consideration the following factors:
    - (i) the fan base of the IP, in particular, its size, loyalty to the specific IP, preferences in terms of game genres and categories, and paying abilities; and
    - (ii) the popularity of the IP, in particular, the longevity of its popularity, and its ability to derive new contents to further enhance its popularity.

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## FUTURE PLANS AND USE OF PROCEEDS

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- approximately 12% of our total estimated net proceeds, or HK\$124.5 million (equivalent to RMB112.2 million), to license promising games from successful and promising mobile game developers. For a list of factors that we consider in licensing games and the responsible personnel for identifying and approving the games, see “Business – Our Business Model – Game Sourcing – Game Licensing” in this prospectus. In determining whether potential games are promising and successful, we take into consideration the following factors:
  - (i) the targeted player base of the game, in particular, its size and paying abilities; and
  - (ii) the technical capabilities of the game developer, in particular, its game execution capabilities and server technologies.
- approximately 8% of our total estimated net proceeds, or HK\$83.0 million (equivalent to RMB74.8 million), to strengthen relationships with and expand into new publishing channels that will allow us to tap into new markets and audiences to make our growing portfolio of games available on more devices and to more players. In addition to our existing publishing channel partners such as Apple’s App Store and Google Play, we intend to develop relationships with new publishing channels that are vertical in nature, whose users share common interests and features that are relevant to our games, such as vertical platforms and websites that are female-oriented, or with principal audience being fans of the nijigen (二次元) culture. As one of our business strategies, we strive to enhance our monetization by exploring games in other formats and genres, in particular female-oriented games and nijigen (二次元) games. For further details, see the section headed “Business – Business Strategies – Enhance Our Monetization and Operational Capabilities” in this prospectus. Unlike our existing publishing channel partners, whose respective vast user bases generally share no particular common interests, promoting and publishing our games on these new publishing channels will enable us to acquire more targeted and accurate user traffic. In the future, we plan to publish more games on these new publishing channels and invest more in promoting our games by placing advertisements for our games on these publishing channels to enhance our user acquisition process. We plan to strengthen our relationships with these new publishing channels through expanding our scope of cooperation, including co-organizing online and offline competitions and offering in-game discounts to further promote our games. We may also provide customized game development services to new publishing channels, tailoring our games to the interests and preferences shared by the main audience of these publishing channels, in order to promote and publish our games more effectively and efficiently. We believe that with our rich experience in game publishing, long-lasting relationships with experienced game developers and a strong IP reserve, we will be able to provide users of these new publishing channels with games that accurately match their interests and preferences, thereby increasing our player stickiness and revenue generation. In addition, these publishing channels will also provide more support in promoting customized games, further adding to our game publishing efforts.

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## FUTURE PLANS AND USE OF PROCEEDS

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In particular, we plan to utilize HK\$83.0 million in the following manner:

<b>Amount of HK\$83.0 million</b>	<b>Intended use</b>
<ul style="list-style-type: none"> <li>• Approximately 60%, or HK\$49.8 million</li> <li>• Approximately 20%, or HK\$16.6 million</li> <li>• Approximately 20%, or HK\$16.6 million</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening relationship with new publishing channels through cooperation in the marketing and promotion of our games</li> <li>Developing relationships with vertical platforms</li> <li>Providing customized game development services to new publishing channels</li> </ul>
<ul style="list-style-type: none"> <li>◦ approximately 6% of our total estimated net proceeds, or HK\$62.2 million (equivalent to RMB56.1 million), will be used to support our overall strategy of expanding into select markets outside of China and developing our overseas operation, including to recruit additional talent with experience in overseas gaming markets and to fund related activities, including our planned participation in various game industry events such as game expos and conferences in Asia. As of the Latest Practicable Date, we were not aware of any regulatory barriers that we anticipate will inhibit our plans to expand overseas.</li> <li>◦ approximately 6% of our total estimated net proceeds, or HK\$62.2 million (equivalent to RMB56.1 million), will be used on research and development. In the future, we plan to license more games from overseas game developers and publish more games overseas. Therefore, we intend to further enhance our ability to localize and provide technical support for these games. In addition, with the expansion of our game portfolio and player base, we plan to invest more in research and development to further develop and enhance our operational systems and platforms, and other related infrastructure, thereby ensuring players' smooth gaming experience.</li> <li>◦ approximately 3% of our total estimated net proceeds, or HK\$31.1 million (equivalent to RMB28.1 million), to hire additional marketing personnel with competitive compensation.</li> </ul>	



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## FUTURE PLANS AND USE OF PROCEEDS

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- Approximately 40% of our total estimated net proceeds, or HK\$415.0 million, equivalent to RMB374.2 million, will be used primarily to conduct merger and acquisition activities of participants in the mobile game ecosystem. As of the Latest Practicable Date, we had no finalized or definitive understandings, commitments or agreements for investment or acquisition and had not engaged in any related negotiations. In particular, we intend to allocate:
  - approximately 20% of our total estimated net proceeds, or HK\$207.5 million (equivalent to RMB187.1 million), to directly or indirectly invest in companies or funds that develop or own IPs. We may acquire controlling or minority stakes in these companies or funds. With respect to our controlling stake investments, the target company or fund is expected to possess one or more IP(s) of more than five years old. These IPs should be suitable for development into games with our network of game developers, and possess the potential to be developed into other pan-entertainment products including movies, dramas and animations, amongst others. When we make a minority investment, the target company or fund is expected to possess at least one popular IP. Our minority stake investments should grant us a board seat.
  - approximately 20% of our total estimated net proceeds, or HK\$207.5 million (equivalent to RMB187.1 million), will be used to conduct minority investments in or acquire game developers. We plan to invest in game developers with a track record of successful game development, relevant management experience and capabilities, and a strong game portfolio and pipeline, especially those with potential to develop our licensed or proprietary IPs into popular female-oriented games, nijigen (二次元) games or H5 and mini program games. We intend to focus our investments and acquisitions on China-based game developers. By acquiring equity interests in third-party game development companies, we will be able to exert greater influence on the game design and development process and we will have greater access to the best game content. We intend to take a case-by-case approach in the investment decision-making process but in general we will take into consideration the following factors:
    - (i) *Track record of game development.* The target company should have previously developed at least one successful game with either average monthly gross billings of over RMB30 million or a registered user base and active user base of over 5 million and 100,000, respectively;
    - (ii) *The experience and capability of the management team.* Each member of the target company's management team should have significant experience in the game genre and category that are in line with our business strategies and focus at the time of investment. Core management members should also have capabilities and experience in game design, development, graphic design and operation;

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## FUTURE PLANS AND USE OF PROCEEDS

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- (iii) *The game portfolio and pipeline.* The target company should have developed and operated at least one game historically, and already have in the pipeline at least one game; and
  - (iv) Any other attributes that we deem important for our Group's development.
- Approximately 10% of our total estimated net proceeds, or HK\$103.7 million (equivalent to RMB93.5 million), will be used for working capital and general corporate purposes.

In the event that the Offer Price is fixed below or above the mid-point of the indicative Offer Price range, the proceeds allocated to the above purposes will be adjusted on a pro-rata basis.

In the event that the Offer Price is set at HK\$2.83 per Offer Share (being the top end of the indicative Offer Price range), the estimated net proceeds we will receive will be increased by approximately HK\$142.3 million (after deducting the underwriting fees and estimated expenses in connection with the Global Offering). In the event that the Offer Price is set at HK\$2.19 per Offer Share (being the bottom end of the indicative Offer Price range), the estimated net proceeds we will receive will be decreased by approximately HK\$142.3 million (after deducting the underwriting fees and estimated expenses in connection with the Global Offering). If we make a Downward Offer Price Adjustment to set the final Offer Price at HK\$1.98 per Offer Share, the estimated net proceeds we will receive from the Global Offering will be further reduced by an additional amount of approximately HK\$93.4 million. In such event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis and we will consider internal resources or external financing for the relevant purposes in the case of decrease of net proceeds allocated.

To the extent that the proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to apply the proceeds to short-term demand deposits and/or money market instruments.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited  
BNP Paribas Securities (Asia) Limited  
CMB International Capital Limited  
AMTD Global Markets Limited  
China Investment Securities International Brokerage Limited  
Futu Securities International (Hong Kong) Limited  
Mason Securities Limited  
Hermes Securities Limited

### UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 46,100,000 Hong Kong Offer Shares and the International Offering of initially 414,900,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in “Structure of the Global Offering” as well as to the Over-allotment Option (in the case of the International Offering).

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on October 18, 2019. Pursuant to the Hong Kong Underwriting Agreement, the Company is offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue, the Global Offering and the exercise of the Post-IPO Share Options that may be granted under the Post-IPO Share Option Scheme on the Main Board of the Stock Exchange and such approval not having been withdrawn and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

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## UNDERWRITING

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The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

### *Grounds for Termination*

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) may, in their sole and absolute discretion, be entitled by written notice to the Company to terminate this Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
  - (i) any local, national, regional or international event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, large scale outbreak or escalations of disease including but not limited to SARS, H5N1 and MERS, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, rebellion, riots, severe transport disruption, aircraft collision, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the Cayman Islands, the United States, the United Kingdom, or the European Union (or any member thereof), Japan, Singapore or any other jurisdiction relevant to the Group (collectively, the “**Relevant Jurisdiction**”); or
  - (ii) any new law or regulation or any change or development involving a prospective change in existing laws or regulations, or any change or development involving a prospective change in the interpretation or application thereof by any court or other authority in or affecting any of the Relevant Jurisdictions; or
  - (iii) any change or development involving a prospective change or development, or any event or series of events resulting or likely to result in any change or development, or any prospective change or development, in local, national, regional or international financial, economic, political, military, industrial, legal, fiscal, regulatory, currency, credit or market matters or conditions or equity securities or exchange control or any monetary or trading settlement system or other financial markets (including, without limitation, a change in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets or a change in the system under which the value of the Hong Kong dollars is linked to the United States dollars or Renminbi is linked to any foreign currency or currencies), in or affecting any of the Relevant Jurisdictions; or

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## UNDERWRITING

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- (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at the U.S. Federal or New York State level or by any other competent authority), London, Singapore, the PRC, the European Union (or any member thereof), Japan or any of the other Relevant Jurisdictions (declared by the relevant authorities) or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Relevant Jurisdictions; or
- (v) the imposition of any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- (vi) the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- (vii) any change or development or event involving a prospective change or amendment in or affecting taxation or foreign exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollars or the Renminbi against any foreign currencies) in any of the Relevant Jurisdictions adversely affecting an investment in the Offer Shares; or
- (viii) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company or the commencement by any government, political, regulatory body of any investigation or action against any Director in his capacity as such or an announcement by any governmental, political regulatory body that it intends to take any such action; or
- (ix) the chairman or the chief executive officer of the Company vacating his office; or
- (x) any authority or a political or regulatory body or organisation in any Relevant Jurisdiction commencing any investigation or take other action, or announcing an intention to investigate or take other action, against any member of the Group or Controlling Shareholders; or
- (xi) save as disclosed in this prospectus, any litigation or claim being threatened or instigated against the any member of the Group or Controlling Shareholders; or

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## UNDERWRITING

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- (xii) save as disclosed in this prospectus, any contravention by any member of the Group or any Director of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Listing Rules or other applicable laws; or
- (xiii) non-compliance of the Hong Kong Public Offering Documents (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
- (xiv) except with the prior written consent of the Joint Sponsors and the Joint Global Coordinators, the issue or requirement to issue by the Company of any supplement or amendment to this prospectus, the Application Forms or other documents in connection with the offer and sale of the Shares pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xv) an order or a petition is presented for the winding up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (xvi) a valid demand by any creditor for repayment or payment of any of the indebtedness of any member of the Group or in respect of which that member of the Group is liable prior to its stated maturity, which is legally enforceable; or

which, in any such case individually or in the aggregate, in the “sole and absolute” opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) (1) is or will or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or (2) has or will have or is likely to have a material adverse effect on the success or marketability of the Hong Kong Public Offering or the International Offering or the level of applications under the Hong Kong Public Offering; or (3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable or incapable for any part of the Hong Kong Public Offering or the Global Offering or the delivery of the Offered Shares to be performed or implemented or proceed or to market the Global Offering in the manner contemplated by this prospectus; or (4) has or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting the Hong Kong Public Offering or the delivery of the Hong Kong Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms and the Formal Notice) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

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## UNDERWRITING

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- (b) there comes to the notice of the Joint Global Coordinators after the date of the Hong Kong Underwriting Agreement:
- (i) any statement contained in any of this prospectus, the Application Forms and the Formal Notice and/or in any notices, announcements, the post hearing information pack (“PHIP”), advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incomplete, incorrect or inaccurate in any material respect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation expressed or contained in any of this prospectus, the Application Forms and the Formal Notice and/or any notices, announcements, PHIP, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions with reference to the facts and circumstances then subsisting; or
  - (ii) any matter or event, act or omission which gives or is likely to give rise to any liability of the Company or the Warrantors (as defined in the Hong Kong Underwriting Agreement) pursuant to the indemnities given by the Company, the Warrantors (as defined in the Hong Kong Underwriting Agreement) or any of them under the Hong Kong Underwriting Agreement; or
  - (iii) there has been a material breach of any of the obligations, undertakings or provisions under the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Company and/or the Warrantors (as defined in the Hong Kong Underwriting Agreement), as applicable; or
  - (iv) there has been a breach of any of the representations and warranties of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Company and/or the Warrantors (as defined in the Hong Kong Underwriting Agreement) or it is (or would when repeated be) untrue, incorrect, incomplete in any material respect or misleading, provided however that where any of such representations and warranties has been given on a materiality basis, then this termination right will be exercisable when such representation or warranty is (or would when repeated be) breached; or
  - (v) any of the experts (other than the Joint Sponsors) specified in this prospectus has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or



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## UNDERWRITING

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- (vi) any material adverse change or development involving a prospective material adverse change (and, in respect of such prospective material adverse change, it is not or is not likely to be remedied by the Company prior to 8:00 a.m. on the Listing Date) or development in the assets, liabilities, business, management, prospects, shareholders' equity, profits, losses, properties, results of operations, position or condition (financial or otherwise) of the Company and other member of the Group (taken as a whole with the Company), including any litigation or claim of any third party being threatened or instigated against any member of the Group; or
- (vii) the Company has withdrawn this prospectus, the Application Forms (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (viii) approval by the Listing Committee of the listing of, and permission to deal in, the Shares in issue (including the Shares to be issued pursuant to (1) the Capitalisation Issue and (2) the Global Offering (including the additional Shares which may be issued upon the exercise of the Over-allotment Option)), subject only to allotment and the dispatch of share certificates in respect thereof, is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or
- (ix) a prohibition by a competent authority on the Company for whatever reason from offering, allotting, issuing or selling the Offer Shares (including the Shares allotted or sold under the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (x) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the prospectus, not having been disclosed in this prospectus, constitute a material omission from any of this prospectus, the Application Forms and/or in any notices, announcements, PHIP, advertisements, communications or other documents (including any supplement or amendment thereto) issued by or on behalf of the Company in connection with the Hong Kong Public Offering.

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## UNDERWRITING

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### *Undertakings to the Stock Exchange pursuant to the Listing Rules*

#### *(A) Undertakings by the Company*

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that it will not exercise its power to issue any further Shares, or securities convertible into Shares (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except (a) pursuant to the Global Offering or (b) under any of the circumstances provided under Rule 10.08 of the Listing Rules.

#### *(B) Undertakings by the Controlling Shareholders*

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholder has undertaken to the Stock Exchange and the Company that, except pursuant to any lending of Shares pursuant to the Stock Borrowing Agreement, it will not and will procure that the relevant registered holder(s) will not:

- (i) in the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and
- (ii) in the period of six months commencing on the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder of the Company,

in each case, save as permitted under the Listing Rules.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and the Company that, within the period commencing on the date by reference to which disclosure of its holding of Shares is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will and will procure that the relevant registered holder(s) will:

- (1) when it pledges or charges any Shares beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge or charge together with the number of Shares so pledged or charged; and

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## UNDERWRITING

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- (2) when it receives indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform the Company of such indications.

The Company will inform the Stock Exchange as soon as it has been informed of the matters referred to in paragraphs (1) and (2) above (if any) by any of the Controlling Shareholders and subject to the then applicable requirements of the Listing Rules disclose such matters by way of an announcement.

### *Undertakings Pursuant to the Hong Kong Underwriting Agreement*

#### *(A) Undertakings by the Company*

Pursuant to the Hong Kong Underwriting Agreement, except for the issue, offer or sale of the Offer Shares by the Company pursuant to the Capitalisation Issue and the Global Offering (including pursuant to the Over-Allotment Option and the issue of any Shares pursuant to the Post-IPO Share Option Scheme), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months from the Listing Date (the “**First Six-Month Period**”), the Company hereby undertakes to each of the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors not to, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) offer, allot, issue, sell, accept subscription for, contract or agree to allot, issue or sell, assign, grant or sell any option, warrant, right or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in any Shares or other securities of the Company (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, or any warrants or other rights to purchase any Shares or other securities of the Company); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership (legal or beneficial) of any Shares or other securities of the Company, or any interest therein (including, without limitation, any securities of which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii) above; or

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## UNDERWRITING

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- (iv) offer to or contract to or agree to announce, or publicly disclose that the Company will or may enter into any transaction described in paragraph (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraph (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of the Company in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-month Period). In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), the Company enters into any of the transactions specified in paragraph (i), (ii) or (iii) above or offers to or agrees to or contracts to or announces, or publicly discloses, any intention to, enter into any such transactions, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

The Company agrees and undertakes that it will comply with the minimum public float requirement specified in the Listing Rules or any waiver granted and not revoked by the Stock Exchange (“**Minimum Public Float Requirement**”), and it will not, and the Controlling Shareholders further undertake to procure that the Company will not, effect any repurchase of the Shares, or agree to do so, which may reduce the holdings of the Shares held by the public (as defined in Rule 8.24 of the Listing Rules) to below the Minimum Public Float Requirement on or before the date falling six months after the Listing Date without first having obtained the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters).

*(B) Undertakings by the Controlling Shareholders*

Each Controlling Shareholder jointly and severally undertakes to each of the Company, the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors that, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) save for the transactions contemplated under the Stock Borrowing Agreement, it will not, at any time during the First Six-Month Period and will procure that the relevant registered holder(s) will not, (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other equity securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other equity securities of the Company with a depositary in connection with the issue of depositary receipts, or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other equity securities of the Company or in cash or

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## UNDERWRITING

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otherwise (whether or not the issue of such Shares or other equity securities of the Company will be completed within the First Six-Month Period and Second Six-Month Period;

- (ii) during the Second Six-Month Period, the Controlling Shareholders will not enter into any transactions specified in (a), (b) or (c) above or offer to or agree to or contract to, or announce an intention to effect any such transaction if, immediately following such transaction such that it, directly or indirectly, will cease to be a controlling shareholder (as defined in the Listing Rules) of the Company; and
- (iii) until the expiry of the Second Six-Month Period, in the event that any Controlling Shareholder enters into any of the transactions specified in (a), (b) or (c) of paragraph (i) above or offer to or agrees to or announce any intention to effect any such transaction, that Controlling Shareholder will take all reasonable steps to ensure that it will not create a disorderly or false market in the equity securities of the Company; and
- (iv) at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling 12 months from the Listing Date, it shall:
  - (a) if and when it pledges or charges any securities of the Company beneficially owned by it in favour of an authorized institution (as defined in the Banking Ordinance) for a bona fide commercial loan, immediately inform the Company in writing of such pledge or charge together with the number of Shares or other securities of the Company so pledged or charged, and the Company will forward these information to the Joint Global Coordinator as soon as reasonably practicable upon receipt of such information from the Controlling Shareholders; and
  - (b) if and when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or other securities of the Company will be disposed of, immediately inform the Company in writing of such indications, and the Company will forward these information to the Joint Global Coordinator as soon as reasonably practicable upon receipt of such information from the Controlling Shareholders.

The Company agrees and undertakes that upon receiving such information in writing from any of the Controlling Shareholders, it shall, as soon as practicable and if required pursuant to the Listing Rules and/or the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), notify the Stock Exchange and make a public disclosure in relation to such information by way of an announcement.

Each Controlling Shareholder jointly and severally undertakes to each of the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors to procure that the Company shall comply with its obligations under the undertakings by the Company.

The undertakings in (A) and (B) shall remain in full force and effect notwithstanding the completion of the Global Offering and the matters and arrangements referred to or contemplated in the Hong Kong Underwriting Agreement.

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## UNDERWRITING

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### *Hong Kong Underwriters' Interests in the Company*

Save for their respective obligations under the Hong Kong Underwriting Agreement and, if applicable, the Stock Borrowing Agreement, as of the Latest Practicable Date, none of the Hong Kong Underwriters was interested, legally or beneficially, directly or indirectly, in any Shares or any securities of any member of the Group or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any Shares or any securities of any member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement.

### **International Offering**

#### *International Underwriting Agreement*

In connection with the International Offering, the Company and the Controlling Shareholders expect to enter into the International Underwriting Agreement with the International Underwriters on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See “Structure of the Global Offering – The International Offering.”

#### *Over-allotment Option*

The Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which the Company may be required to allot and issue up to an aggregate of 69,150,000 Shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price, to, among other things, cover over-allocations in the International Offering, if any. See “Structure of the Global Offering – Over-allotment Option.”

### **Commissions and Expenses**

The Underwriters will receive an underwriting commission of 2.50% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees.

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## UNDERWRITING

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The Underwriters may receive a discretionary incentive fee of up to 1.50% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option).

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions payable to the Underwriters in relation to the Global Offering (assuming an Offer Price of HK\$2.51 per Offer Share (which is the mid-point of the Offer Price range), the full payment of the discretionary incentive fee and the exercise of the Over-allotment Option in full) will be approximately HK\$46.6 million.

The aggregate underwriting commissions and fees together with the Stock Exchange listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be approximately RMB119.8 million (assuming an Offer Price of HK\$2.51 per Offer Share (which is the mid-point of the Offer Price range), the full payment of the discretionary incentive fee and the Over-allotment Option is not exercised) and will be paid by the Company.

### Indemnity

The Company has agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer or incur, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by them of the Hong Kong Underwriting Agreement.

### ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group’s loans and other debt.



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## UNDERWRITING

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In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in “Structure of the Global Offering.” Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and each of its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. China International Capital Corporation Hong Kong Securities Limited and BNP Paribas Securities (Asia) Limited are the Joint Global Coordinators of the Global Offering.

The listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. The Joint Sponsors have made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

461,000,000 Offer Shares will initially be made available under the Global Offering comprising:

- (a) the Hong Kong Public Offering of initially 46,100,000 Shares (subject to reallocation) in Hong Kong as described in “– The Hong Kong Public Offering” below; and
- (b) the International Offering of initially 414,900,000 Shares (subject to reallocation and the Over-allotment Option) (i) in the United States solely to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described in “– The International Offering” below.

Investors may either:

- (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or
- (ii) apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 20.39% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 22.75% of the total Shares in issue immediately following the completion of the Global Offering.

References in this prospectus to applications, Application Forms, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE HONG KONG PUBLIC OFFERING

#### Number of Offer Shares initially offered

The Company is initially offering 46,100,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10.00% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 2.04% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in “– Conditions of the Global Offering” below.

#### Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value in pool B.

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## STRUCTURE OF THE GLOBAL OFFERING

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Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 23,050,000 Hong Kong Offer Shares is liable to be rejected.

### **Reallocation**

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times and (c) 100 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 138,300,000 Offer Shares (in the case of (a)), 184,400,000 Offer Shares (in the case of (b)) and 230,500,000 Offer Shares (in the case of (c)), representing 30%, 40% and 50% of the total number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

In addition, the Joint Global Coordinators may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with Guidance Letter HKEx-GL91-18 issued by the Stock Exchange, if such reallocation is done in the circumstances that the Offering Shares under the International Offering are undersubscribed or other than pursuant to the clawback mechanism above, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering will be 46,100,000 Offer Shares (representing 10% of the number of the Offer Shares being offered under the Global Offering), so that the total number of Offer Shares for subscription under the Hong Kong Public Offering will increase up to 92,200,000 Offer Shares, representing two times the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering and approximately 20% of the number of Offer Shares initially available under the Global Offering before any exercise of the Over-allotment Option, and the Offer Price shall be fixed at the low end of the indicative offer price range (i.e., HK\$2.19 per Offer Share) stated in this prospectus or the downward adjusted final Offer Price if a Downward Offer Price Adjustment is made in accordance with Guidance Letter HKEX-GL90-18 issued by the Stock Exchange.

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## STRUCTURE OF THE GLOBAL OFFERING

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If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

### **Applications**

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$2.83 per Offer Share in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$5,717.03 for one board lot of 2,000 Shares. If the Offer Price, as finally determined in the manner described in “– Pricing and Allocation” below, is less than the maximum Offer Price of HK\$2.83 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in “How to Apply for Hong Kong Offer Shares.”

### **THE INTERNATIONAL OFFERING**

#### **Number of Offer Shares initially offered**

The International Offering will consist of an offering of initially 414,900,000 Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering (subject to reallocation and the Over-allotment Option). The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 18.35% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

#### **Allocation**

The International Offering will include selective marketing of Offer Shares to QIBs in the United States as well as institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other

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## STRUCTURE OF THE GLOBAL OFFERING

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securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in “– Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Group and the Shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

### **Reallocation**

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “– The Hong Kong Public Offering-Reallocation” above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

### **OVER-ALLOTMENT OPTION**

In connection with the Global Offering, the Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Company to allot and issue up to an aggregate of 69,150,000 Offer Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to, among other things, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 2.97% of the total Shares in issue immediately following the completion of the Global Offering. If the Over-allotment Option is exercised, an announcement will be made.



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### STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager (or any person acting for it) and in what the Stabilizing Manager reasonably regards as the best interest of the Company, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days after the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (c) purchasing, or agreeing to purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (e) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Shares;
- (b) there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;
- (c) liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Shares;



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## STRUCTURE OF THE GLOBAL OFFERING

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- (d) no stabilizing action can be taken to support the price of the Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Saturday, November 23, 2019, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- (e) the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- (f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

### **Over-Allocation**

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by, among other methods, exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price or through the Stock Borrowing Agreement as detailed below or a combination of these means.

### **STOCK BORROWING AGREEMENT**

In order to facilitate the settlement of over-allocations, if any, in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may choose to borrow up to 69,150,000 Shares (being the maximum number of Shares which may be sold pursuant to the exercise of the Over-allotment Option) from the Zhongshouyou Brothers BVI, pursuant to the Stock Borrowing Agreement, which is expected to be entered into between the Stabilizing Manager (or any person acting for it) and the Zhongshouyou Brothers BVI on or about the Price Determination Date.

If the Stock Borrowing Agreement with the Zhongshouyou Brothers BVI is entered into, the borrowing of Shares will only be effected by the Stabilizing Manager (or any person acting for it) for the settlement of over-allocations in the International Offering and such borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set out in Rule 10.07(3) of the Listing Rules, being that the Stock Borrowing Agreement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering, are complied with.

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## STRUCTURE OF THE GLOBAL OFFERING

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The same number of Shares so borrowed must be returned to the Zhongshouyou Brothers BVI or their nominees, as the case may be, on or before the third business day following the earlier of (a) the last day for exercising the Over-allotment Option and (b) the day on which the Over-allotment Option is exercised in full.

The Shares borrowing arrangement described above will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to the Zhongshouyou Brothers BVI by the Stabilizing Manager (or any person acting for it) in relation to such Shares borrowing arrangement.

### PRICING AND ALLOCATION

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Thursday, October 24, 2019 and, in any event, no later than Wednesday, October 30, 2019, by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$2.83 per Offer Share and is expected to be not less than HK\$2.19 per Offer Share, unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the maximum Offer Price of HK\$2.83 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$5,717.03 for one board lot of 2,000 Shares. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Minimum Offer Price stated in this prospectus (subject to a Downward Offer Price Adjustment).**

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with the consent of the Company, reduce the number of Offer Shares offered and/or the Offer Price Range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Company and the Stock Exchange at [www.cmge.com](http://www.cmge.com) and [www.hkexnews.hk](http://www.hkexnews.hk),

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## STRUCTURE OF THE GLOBAL OFFERING

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respectively, notices of the reduction in the number of the Offer Shares being offered under the Global Offering and/or the indicative Offer Price range and will, as soon as practicable following the decision to make such reduction, issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range, extend the period under which the Hong Kong Public Offering was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Hong Kong Offer Shares the right to withdraw their applications under the Hong Kong Public Offering. Such notice and supplemental prospectus will also include confirmation or revision, as appropriate, of the working capital statement, the offering statistics, and the future plans and use of proceeds as currently set out in this prospectus and any other financial information which may change materially as a result of such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company, will under no circumstances be set outside the Offer Price Range as stated in this prospectus.

Upon the issue of such a notice and supplemental prospectus, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company, will be fixed within such revised Offer Price range.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering.

### **Announcement of Offer Price Reduction**

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective investors during the book-building process, and with the consent of the Company, determine the final Offer Price to be no more than 10% below the HK\$2.19 (bottom end of the indicative Offer Price range), at any time on or prior to the Price Determination Date.

In such situation, the Company will, as soon as practicable following the decision to set the final Offer Price below HK\$2.19 (bottom end of the indicative Offer Price range), publish on the website of the Stock Exchange [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website [www.cmge.com](http://www.cmge.com) an announcement of the final Offer Price after making a Downward Offer Price Adjustment. Such announcement will be issued before and separate from the announcement of the results of allocations expected to be announced on Wednesday, October 30, 2019. The Offer Price announced following making of a Downward Offer Price Adjustment shall be the final Offer Price and shall not be subsequently changed.

In the absence of an announcement that a Downward Offer Price Adjustment has been made, the final Offer Price will not be outside the indicative Offer Price range as disclosed in this prospectus unless the Withdrawal Mechanism is utilised.

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## STRUCTURE OF THE GLOBAL OFFERING

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### Announcement of Final Offer Price

Irrespective of whether a Downward Offer Price Adjustment is made, the final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in “How to Apply for Hong Kong Offer Shares – Publication of Results.”

### UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company agreeing on the Offer Price.

The Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in “Underwriting.”

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue, the Global Offering and the exercise of the Post-IPO Share Options that may be granted under the Post-IPO Share Option Scheme on the Main Board of the Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the Listing Date;
- (b) the Offer Price having been agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company;
- (c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

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## STRUCTURE OF THE GLOBAL OFFERING

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in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company on or before Wednesday, October 30, 2019, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Company and the Stock Exchange at [www.cmge.com](http://www.cmge.com) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares – Refund of Application Monies.” In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Thursday, October 31, 2019, provided that the Global Offering has become unconditional in all respects at or before that time.

### DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, October 31, 2019, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, October 31, 2019.

The Shares will be traded in board lots of 2,000 Shares each and the stock code of the Shares will be 0302.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### A. APPLICATIONS FOR HONG KONG OFFER SHARES

#### 1. How to Apply

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application, in full or in part, for any reason at their discretion.

#### 2. Who Can Apply

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If an application is made by a person under a power of attorney, the Company and the Joint Global Coordinators, as the Company's agent, may accept it at their discretion, and on any conditions they think fit, including requiring evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if:

- you are an existing beneficial owner of Shares and/or a substantial shareholder of any of the Company's subsidiaries;
- you are a director or chief executive of the Company and/or any of the Company's subsidiaries;
- you are a close associate of any of the above persons;
- you are a connected person of the Company or a person who will become a connected person of the Company immediately upon the completion of the Global Offering; or
- you have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3. Applying for Hong Kong Offer Shares

#### *Which Application Channel to Use*

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### *Where to Collect the Application Forms*

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Saturday, October 19, 2019 until 12:00 noon on Thursday, October 24, 2019 from:

(a) **any of the following offices of the below Joint Global Coordinators:**

**China International Capital Corporation Hong Kong Securities Limited**

29th Floor, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

**BNP Paribas Securities (Asia) Limited**

59/F-63/F, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

(b) **any of the following branches of the receiving bank for the Hong Kong Public Offering:**

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

	Branch Name	Address
<b>Hong Kong Island</b>	Des Voeux Road West Branch	111-119 Des Voeux Road West, Hong Kong
	North Point (King's Centre) Branch	193-209 King's Road, North Point, Hong Kong
<b>Kowloon</b>	Ma Tau Kok Road Branch	39-45 Ma Tau Kok Road, To Kwa Wan, Kowloon
<b>New Territories</b>	Tai Wai Branch	74-76 Tai Wai Road, Sha Tin, New Territories
	Luen Wo Market Branch	Shop B, 10-16 Luen Shing Street, Luen Wo Market, Fanling, New Territories
	Safe Box Service Centre	
	Sheung Shui Branch	136 San Fung Avenue, Sheung Shui, New Territories
	Securities Services Centre	

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Saturday, October 19, 2019 until 12:00 noon on Thursday, October 24, 2019 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- your stockbroker.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### *Time for Lodging Application Forms*

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED – CMGE TECHNOLOGY PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above at the following times:

**Saturday, October 19, 2019 – 9:00 a.m. to 1:00 p.m.**  
**Monday, October 21, 2019 – 9:00 a.m. to 5:00 p.m.**  
**Tuesday, October 22, 2019 – 9:00 a.m. to 5:00 p.m.**  
**Wednesday, October 23, 2019 – 9:00 a.m. to 5:00 p.m.**  
**Thursday, October 24, 2019 – 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, October 24, 2019, the last day for applications, or such later time as described in "How to Apply for Hong Kong Offer Shares – Effect of Bad Weather on the Opening and Closing of the Application Lists" below.

#### **4. Terms and Conditions of an Application**

Follow the detailed instructions in the **WHITE** or **YELLOW** Application Form carefully, otherwise your application may be rejected.

By submitting a **WHITE** or **YELLOW** Application Form or applying through the **White Form eIPO** service, among other things, you:

- (a) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or its agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Memorandum of Association and the Articles of Association;
- (b) agree to comply with the Memorandum of Association and the Articles of Association of the Company, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Companies Law;
- (c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (d) confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;
- (e) confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (f) agree that none of the Company, Joint Sponsors, Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering (the “**Relevant Persons**”) and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- (g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- (h) agree to disclose to the Company, the Hong Kong Share Registrar, the receiving banks and the Relevant Persons any personal data which any of them may require about you and the person(s) for whose benefit you have made the application;
- (i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither the Company nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this prospectus and the Application Form;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;
- (l) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- (o) authorize (i) the Company to place your name(s) or the name of HKSCC Nominees on the register of members of the Company as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under the Memorandum of Association and the Articles of Association of the Company and (ii) the Company and/or its agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in “– Personal Collection” below to collect the Share certificate(s) and/or refund cheque(s) in person;

- (p) understand that, where the International Offering are undersubscribed or other than pursuant to the clawback mechanism as described in the section headed “Structure of the Global Offering” in this prospectus, the total number of Offer Shares available under the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 92,200,000 Offer Shares, representing 20% of the total number of Offer Shares initially available under the Global Offering), and the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e., HK\$2.19 per Offer Share) stated in this prospectus or the downward adjusted final Offer Price if a Downward Offer Price Adjustment is made;
- (q) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (r) understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (s) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service or by any one as your agent or by any other person; and
- (t) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as its agent.

### *Additional Instructions for YELLOW Application Forms*

You should refer to the **YELLOW** Application Form for further details.

## 5. Applying Through the White Form eIPO Service

### *General*

Individuals who meet the criteria in “– Who Can Apply” above may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service Provider.

### *Time for Submitting Applications under the White Form eIPO Service*

You may submit your application through the **White Form eIPO** service through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last day for applications) from 9:00 a.m. on Saturday, October 19, 2019 until 11:30 a.m. on Thursday, October 24, 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, October 24, 2019, the last day for applications, or such later time as described in “How to Apply for Hong Kong Offer Shares – Effect of Bad Weather on the Opening and Closing of the Application Lists” below.

### *No Multiple Applications*

If you apply by means of the **White Form eIPO** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application will be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

Only one application may be made for the benefit of any person. If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

### *Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance*

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### *Commitment to Sustainability*

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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contribute HK\$2.0 for each “CMGE Technology Group Limited” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support sustainability.

### 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS

#### *General*

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Centre  
1/F., One & Two Exchange Square,  
8 Connaught Place, Central,  
Hong Kong

and complete an input request form.

You can also collect a prospectus from the above address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and the Hong Kong Share Registrar.

#### *Giving Electronic Application Instructions to HKSCC via CCASS*

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus; and

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(b) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as its agent;
- confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- authorize the Company to place HKSCC Nominees' name on the register of members of the Company as the holder of the Hong Kong Offer Shares allocated to you and such other registers as required under the Memorandum of Association and the Articles of Association, and despatch Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between the Company and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this prospectus;
- agree that neither the Company nor the Relevant Persons is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree to disclose to the Company, the Hong Kong Share Registrar, the receiving banks and the Relevant Persons any personal data which they may require about you;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the Company, and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by the Company;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for the

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Company and on behalf of each Shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Memorandum of Association and the Articles of Association of the Company, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Law; and

- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

### *Effect of Giving Electronic Application Instructions to HKSCC via CCASS*

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### *Minimum Purchase Amount and Permitted Numbers*

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### *Time for Inputting Electronic Application Instructions<sup>(1)</sup>*

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

<b>Saturday, October 19, 2019</b>	<b>– 9:00 a.m. to 1:00 p.m.</b>
<b>Monday, October 21, 2019</b>	<b>– 8:00 a.m. to 8:30 p.m.</b>
<b>Tuesday, October 22, 2019</b>	<b>– 8:00 a.m. to 8:30 p.m.</b>
<b>Wednesday, October 23, 2019</b>	<b>– 8:00 a.m. to 8:30 p.m.</b>
<b>Thursday, October 24, 2019</b>	<b>– 8:00 a.m. to 12:00 noon</b>

*Note:*

- (1) These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Saturday, October 19, 2019 until 12:00 noon on Thursday, October 24, 2019 (24 hours daily, except on Thursday, October 24, 2019 the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, October 24, 2019, the last day for applications, or such later time as described in “How to Apply for Hong Kong Offer Shares – Effect of Bad Weather on the Opening and Closing of the Application Lists” below.

### *No Multiple Applications*

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### *Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance*

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### *Personal Data*

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving banks and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 7. Warning for Electronic Applications

The application for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. The Company, the Relevant Persons and the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System for submission of their **electronic application instructions**, they should either (a) submit a **WHITE** or **YELLOW** Application Form or (b) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, October 24, 2019, the last day for applications, or such later time as described in “How to Apply for Hong Kong Offer Shares – Effect of Bad Weather on the Opening and Closing of the Application Lists” below.

### 8. How Many Applications Can You Make

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees”, you must include:

- an account number; or
- some other identification code,

for **each** beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

**All** of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then

the application will be treated as being made for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange. “**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. How Much Are The Hong Kong Offer Shares

The maximum Offer Price is HK\$2.83 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. This means that for one board lot of 2,000 Hong Kong Offer Shares, you will pay HK\$5,717.03.

You must pay the maximum Offer Price, together with brokerage, SFC transaction levy and Stock Exchange trading fee, in full upon application for Hong Kong Offer Shares under the terms and conditions set out in the Application Forms.

The Application Forms have tables showing the exact amount payable for the numbers of Offer Shares that may be applied for.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering – Pricing and Allocation.”

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 10. Effect of Bad Weather on the Opening and Closing of the Application Lists

The application lists will not open or close if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, October 24, 2019. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, October 24, 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable,” an announcement will be made.

### 11. Publication of Results

The Company expects to announce the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Wednesday, October 30, 2019 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Company at [www.cmge.com](http://www.cmge.com) and the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on the websites of the Company and the Stock Exchange at [www.cmge.com](http://www.cmge.com) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively, by no later than 9:00 a.m. on Wednesday, October 30, 2019;
- from the designated results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID function” on a 24 hour basis from 8:00 a.m. on Wednesday, October 30, 2019 to 12:00 midnight on Tuesday, November 5, 2019;
- from the allocation results telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, October 30, 2019 to Saturday, November 2, 2019; and
- in the special allocation results booklets which will be available for inspection during the opening hours of the individual receiving bank branches referred to above from Wednesday, October 30, 2019 to Friday, November 1, 2019.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. Circumstances in Which You Will Not Be Allocated Hong Kong Offer Shares

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

*(a) If your application is revoked:*

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day in the following circumstances:

- (i) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person’s responsibility for this prospectus; or
- (ii) if any supplement to this prospectus is issued, in which case applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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*(b) If the Company or its agents exercise their discretion to reject your application:*

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

*(c) If the allocation of Hong Kong Offer Shares is void:*

The allocation of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

*(d) If:*

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk);
- you apply for more than 23,050,000 Hong Kong Offer Shares, being 50% of the 46,100,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
- the Company or the Joint Global Coordinators believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- the Underwriting Agreements do not become unconditional or are terminated.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 13. Refund of Application Monies

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in “Structure of the Global Offering – Conditions of the Global Offering” are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, October 30, 2019.

### 14. Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Cheques

You will receive one Share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application.

If you apply by **WHITE** or **YELLOW** Application Form(s), subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) Share certificate(s) for all the Hong Kong Offer Shares allocated to you (for applicants on **YELLOW** Application Forms, Share certificate(s) for the Hong Kong Offer Shares allocated to you will be deposited into CCASS as described below); and
- (b) refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for and/or (ii) the difference between the Offer Price and the maximum Offer Price paid on application in the event that the Offer Price is less than the maximum Offer Price paid on application (including brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% but without interest).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Part of the Hong Kong identity card number/passport number provided by you or the first-named applicant (if you are joint applicants) may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque.

Subject to arrangement on despatch/collection of Share certificates and refund cheques as mentioned below, any refund cheques and Share certificate(s) are expected to be posted on or before Wednesday, October 30, 2019. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, October 31, 2019, provided that the Global Offering has become unconditional in all respects at or before that time. Investors who trade Share on the basis of publicly available allocation details or prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

### ***Personal Collection***

#### *(a) If you apply using a WHITE Application Form:*

- If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) (where applicable) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, October 30, 2019, or any other place or date notified by the Company in the newspapers.
- If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant who is eligible for personal collection, your authorized representative must provide a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.
- If you do not personally collect your refund cheque(s) and/or Share certificate(s) (where applicable) within the time specified for collection, they will be despatched promptly to you to the address specified in your Application Form by ordinary post and at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- If you apply for less than 1,000,000 Hong Kong Offer Shares on a **WHITE** Application Form, your refund cheque(s) and/or Share certificate(s) (where applicable) will be sent to the address specified in your Application Form on or before Wednesday, October 30, 2019 by ordinary post and at your own risk.

*(b) If you apply using a YELLOW Application Form:*

- If you apply for 1,000,000 Hong Kong Offer Shares or more and have provided all information required by your Application Form, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address specified in the Application Form on or before Wednesday, October 30, 2019 by ordinary post and at your own risk.
- If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or your designated CCASS Participant's stock account as stated in your Application Form on Wednesday, October 30, 2019 or, in the event of a contingency, on any other date determined by HKSCC or HKSCC Nominees.
- If you apply through a designated CCASS Participant (other than a CCASS Investor Participant), for Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.
- If you apply as a CCASS Investor Participant, the Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering on Wednesday, October 30, 2019 in the manner as described in "– Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, October 30, 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System. HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(c) *If you apply through **White Form eIPO** service:*

- If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, October 30, 2019, or any other place or date notified by the Company in the newspapers as the date of despatch or collection of Share certificates.
- If you do not personally collect your Share certificate(s) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
- If you apply for less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, October 30, 2019 by ordinary post and at your own risk.
- If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address specified in your application instructions in the form of refund cheque(s) by ordinary post and at your own risk.

(d) *If you apply by giving electronic application instructions to HKSCC via CCASS:*

Allocation of Hong Kong Offer Shares

- For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, October 30, 2019 or on any other date determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in “– Publication of Results” above on Wednesday, October 30, 2019. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, October 30, 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Wednesday, October 30, 2019. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, October 30, 2019.

### **15. Admission of the Shares into CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for further details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made to enable the Shares to be admitted into CCASS.



*The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.*

22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

The Directors

CMGE Technology Group Limited

China International Capital Corporation Hong Kong Securities Limited

BNP Paribas Securities (Asia) Limited

Dear Sirs,

We report on the historical financial information of CMGE Technology Group Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-98, which comprises the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019 (the “Relevant Periods”), and the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018, and 30 June 2019 and the statement of financial position of the Company as at 31 December 2018 and 30 June 2019 and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-98 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 19 October 2019 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

#### **DIRECTORS’ RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION**

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**REPORTING ACCOUNTANTS' RESPONSIBILITY**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 (“HKSIR 200”) *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**OPINION**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 and of the financial position of the Company as at 31 December 2018 and 30 June 2019 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

**Review of interim comparative financial information**

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the six months ended 30 June 2018 and other explanatory information (the “Interim Comparative Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of

presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

**Dividends**

We refer to note 12 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

**No historical financial statements for the Company**

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

*Certified Public Accountants*

Hong Kong

19 October 2019

**I HISTORICAL FINANCIAL INFORMATION****Preparation of the Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		Year ended 31 December			Six months ended 30 June	
	Notes	2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
<b>CONTINUING OPERATIONS</b>						
REVENUE	5	1,001,163	1,012,791	1,596,204	672,508	1,529,118
Cost of sales		(651,773)	(672,336)	(1,063,734)	(434,080)	(1,000,660)
Gross profit		349,390	340,455	532,470	238,428	528,458
Other income and gains	5	156,999	168,345	123,674	45,149	40,127
Selling and distribution expenses		(225,705)	(189,407)	(148,054)	(58,337)	(140,329)
Administrative expenses		(50,040)	(39,046)	(147,672)	(43,731)	(111,435)
Other expenses		(18,539)	(16,078)	(7,948)	(55)	(14,073)
Finance costs	7	(765)	(1,220)	(10,053)	(3,581)	(5,437)
Share of profits and losses of:						
A joint venture		–	–	(4,257)	(1,147)	(1,436)
Associates		(3,278)	2,002	17,887	1,586	(2,946)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	208,062	265,051	356,047	178,312	292,929
Income tax expense	10	(19,563)	(56)	(40,074)	(15,660)	(43,050)
PROFIT FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS		188,499	264,995	315,973	162,652	249,879
<b>DISCONTINUED OPERATION</b>						
Profit for the year/period from a discontinued operation	11	12,074	42,469	–	–	–
PROFIT FOR THE YEAR/PERIOD		200,573	307,464	315,973	162,652	249,879
Attributable to:						
Owners of the parent		200,573	307,464	311,045	162,652	260,387
Non-controlling interests		–	–	4,928	–	(10,508)

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2018 <i>RMB'000</i> <i>(Unaudited)</i>	2019 <i>RMB'000</i>
<b>PROFIT FOR THE YEAR/PERIOD</b>		<u>200,573</u>	<u>307,464</u>	<u>315,973</u>	<u>162,652</u>	<u>249,879</u>
<b>OTHER COMPREHENSIVE INCOME</b>						
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:						
Exchange differences on translation of foreign operations		(14,785)	18,072	2,479	(3,734)	498
Net other comprehensive (loss)/income that maybe reclassified to profit or loss in subsequent periods		(14,785)	18,072	2,479	(3,734)	498
<b>OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR/PERIOD, NET OF TAX</b>		<u>(14,785)</u>	<u>18,072</u>	<u>2,479</u>	<u>(3,734)</u>	<u>498</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD</b>		<u>185,788</u>	<u>325,536</u>	<u>318,452</u>	<u>158,918</u>	<u>250,377</u>
Attributable to:						
Owners of the parent		185,788	325,536	313,524	158,918	260,885
Non-controlling interests		<u>–</u>	<u>–</u>	<u>4,928</u>	<u>–</u>	<u>(10,508)</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>						
Basic and diluted (RMB)	13					
– for profit for the year/period		<u>1.44</u>	<u>2.21</u>	<u>2.27</u>	<u>1.17</u>	<u>1.80</u>
– for profit from continuing operations		<u>1.35</u>	<u>1.90</u>	<u>2.27</u>	<u>1.17</u>	<u>1.80</u>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at
	Notes	2016	2017	2018	30 June
		RMB'000	RMB'000	RMB'000	2019
					RMB'000
NON-CURRENT ASSETS					
Property and equipment	14	7,957	5,313	6,245	5,390
Right-of-use assets	15	15,619	18,768	21,095	31,637
Goodwill	16	324,842	324,842	1,118,617	1,118,617
Other intangible assets	17	28,608	35,102	117,545	119,331
Investment in a joint venture	18	–	–	4,124	2,688
Investments in associates	19	32,722	58,002	167,804	158,857
Financial assets at fair value through profit or loss	20	203,176	85,788	538,701	478,050
Deferred tax assets	27	5,014	6,153	10,651	8,279
Prepayments	22	21,514	46,945	68,381	63,980
Total non-current assets		639,452	580,913	2,053,163	1,986,829
CURRENT ASSETS					
Trade receivables	21	282,227	164,478	472,431	643,656
Prepayments, other receivables and other assets	22	52,796	124,369	332,648	351,277
Due from related parties	36	194,291	5	10,517	11,903
Pledged deposits	23	–	–	–	100,000
Cash and cash equivalents	23	120,460	245,762	144,445	173,927
Total current assets		649,774	534,614	960,041	1,280,763
CURRENT LIABILITIES					
Trade payables	24	71,072	101,210	111,230	147,909
Other payables and accruals	25	82,697	45,327	463,645	286,605
Interest-bearing bank borrowings	26	–	10,000	51,422	179,368
Tax payable		20,777	18,215	41,212	80,075
Due to related parties	36	405,508	11,715	71,277	48,156
Lease liabilities	15	5,741	16,695	16,424	13,704
Total current liabilities		585,795	203,162	755,210	755,817
NET CURRENT ASSETS		63,979	331,452	204,831	524,946
TOTAL ASSETS LESS CURRENT LIABILITIES		703,431	912,365	2,257,994	2,511,775



		As at 31 December			As at
	Notes	2016	2017	2018	30 June
		RMB'000	RMB'000	RMB'000	2019
					RMB'000
NON-CURRENT LIABILITIES					
Deferred tax liabilities	27	3,934	2,639	30,081	27,055
Payable for business combination	25	–	–	92,324	94,559
Contingent consideration for business combination	25	–	–	268,189	258,842
Lease liabilities	15	9,878	2,073	4,671	18,213
		<u>13,812</u>	<u>4,712</u>	<u>395,265</u>	<u>398,669</u>
Total non-current liabilities		<u>13,812</u>	<u>4,712</u>	<u>395,265</u>	<u>398,669</u>
Net assets		<u>689,619</u>	<u>907,653</u>	<u>1,862,729</u>	<u>2,113,106</u>
EQUITY					
Equity attributable to owners of the parent					
Issued capital		–	–	–	–
Reserves	29	689,619	907,653	1,750,058	2,010,943
		<u>689,619</u>	<u>907,653</u>	<u>1,750,058</u>	<u>2,010,943</u>
Non-controlling interests		<u>–</u>	<u>–</u>	<u>112,671</u>	<u>102,163</u>
Total equity		<u>689,619</u>	<u>907,653</u>	<u>1,862,729</u>	<u>2,113,106</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to owners of the parent					Total RMB'000
		Share capital RMB'000 (Note 28)	Capital reserve RMB'000 (Note 29)	Statutory surplus reserve RMB'000 (Note 29)	Share incentive reserve RMB'000 (Note 29)	Exchange fluctuation reserve RMB'000 (Note 29)	Retained profits/ (accumulated losses) RMB'000
At 1 January 2016		–	466,322	2,265	316,321	(6,972)	474,731
Profit for the year		–	–	–	–	–	200,573
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations		–	–	–	–	(14,785)	(14,785)
Total comprehensive income for the year		–	–	–	–	(14,785)	185,788
Contribution from the shareholders		–	29,100	–	–	–	29,100
Transfer from retained profits		–	–	10,112	–	–	–
At 31 December 2016 and 1 January 2017		–	495,422*	12,377*	316,321*	(21,757)*	689,619
Profit for the year		–	–	–	–	–	307,464
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations		–	–	–	–	18,072	18,072
Total comprehensive income for the year		–	–	–	–	18,072	325,536
Contribution from the shareholders		–	254,084	–	–	–	254,084
Dividends declared by the subsidiaries	12	–	–	–	–	–	(361,586)
Transfer from retained profits		–	–	725	–	–	–
At 31 December 2017 and 1 January 2018		–	749,506*	13,102*	316,321*	(3,685)*	907,653

	Attributable to owners of the parent						Non-controlling interests RMB'000	Total Equity RMB'000
	Share capital RMB'000 (Note 28)	Capital reserve RMB'000 (Note 29)	Statutory surplus reserve RMB'000 (Note 29)	Share incentive reserve RMB'000 (Note 29)	Exchange fluctuation reserve RMB'000 (Note 29)	Retained Profits/ (accumulated losses) RMB'000		
At 31 December 2017 and 1 January 2018	–	749,506	13,102	316,321	(3,685)	(167,591)	907,653	907,653
Profit for the year	–	–	–	–	–	315,973	–	315,973
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	–	–	–	–	2,479	–	–	2,479
Total comprehensive income for the year	–	–	–	–	2,479	315,973	–	318,452
Acquisition of subsidiaries under common control	–	(40,100)	–	–	–	–	–	(40,100)
Contribution from the shareholders	–	564,053	–	–	–	564,053	–	564,053
Transfer from retained profits	–	–	2,364	–	–	(2,364)	–	–
Acquisition of a subsidiary which previously was a joint venture (note 30)	–	–	–	–	–	–	112,671	112,671
At 31 December 2018	–	1,273,459*	15,466*	316,321*	(1,206)*	146,018*	1,750,058	1,862,729
	Attributable to owners of the parent						Non-controlling interests RMB'000	Total Equity RMB'000
	Share capital RMB'000 (Note 28)	Capital reserve RMB'000 (Note 29)	Statutory surplus reserve RMB'000 (Note 29)	Share incentive reserve RMB'000 (Note 29)	Exchange fluctuation reserve RMB'000 (Note 29)	Retained Profits/ (accumulated losses) RMB'000		
At 31 December 2018 and 1 January 2019	–	1,273,459*	15,466*	316,321*	(1,206)*	146,018*	112,671	1,862,729
Profit for the period	–	–	–	–	–	260,387	(10,508)	249,879
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	–	–	–	–	498	–	–	498
Total comprehensive income for the period	–	–	–	–	498	260,387	(10,508)	250,377
At 30 June 2019	–	1,273,459*	15,466*	316,321*	(708)*	406,405*	102,163	2,113,106
At 31 December 2017 and 1 January 2018	–	749,506	13,102	316,321	(3,685)	(167,591)	–	907,653
Profit for the period (unaudited)	–	–	–	–	–	162,652	–	162,652
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations (unaudited)	–	–	–	–	(3,734)	–	–	(3,734)
Total comprehensive income for the period (unaudited)	–	–	–	–	(3,734)	162,652	–	158,918
Acquisition of subsidiaries under common control (unaudited)	–	(40,100)	–	–	–	–	–	(40,100)
Contribution from the shareholders (unaudited)	–	558,628	–	–	–	558,628	–	558,628
At 30 June 2018 (unaudited)	–	1,268,034	13,102	316,321	(7,419)	(4,939)	–	1,585,099

\* These reserve accounts comprise the consolidated reserves of RMB689,619,000, RMB907,653,000, RMB1,750,058,000 and RMB2,010,943,000 in the consolidated statements of financial position as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Six months ended 30 June	
	Notes	2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax:		220,136	307,520	356,047	178,312	292,929
From continuing operations		208,062	265,051	356,047	178,312	292,929
From discontinued operation		12,074	42,469	–	–	–
Adjustments for:						
Finance costs	7	765	1,220	10,053	3,581	5,437
Share of profits and losses of a joint venture and associates		3,278	(2,002)	(13,630)	(439)	4,382
Gain on disposal of subsidiaries	5	(115,135)	–	–	–	–
Loss on liquidation of investment in associates	6	–	5,822	–	–	–
(Gain)/Loss on disposal of financial assets at fair value through profit or loss	5&6	–	(124,889)	(2,308)	(2,308)	1,858
Dividend income from financial assets at fair value through profit or loss	5	–	–	–	–	(8,898)
Fair value gains on financial assets at fair value through profit or loss	5	(32,597)	(40,546)	(86,055)	(37,861)	(11,734)
Fair value adjustment of contingent consideration	5	–	–	(17,498)	–	(737)
Remeasurement loss of previously-held investment in a joint venture	6	–	–	7,679	–	–
Impairment of trade receivables	6	1,895	2,561	5,177	–	6,271
Write-off of prepayments	6	13,078	5,698	4,733	–	–
Loss on disposal of items of property and equipment	6	289	74	300	26	544
Gain on disposal of items of other intangible assets	5	–	–	–	–	(3,062)
Depreciation of property and equipment	6	5,615	3,176	2,653	1,255	1,927
Depreciation of right-of-use assets	6	4,409	6,659	15,326	7,663	9,908
Amortisation of other intangible assets	6	36,730	22,999	32,956	11,157	27,144
Impairment of other intangible assets	6&17	–	–	–	–	4,193
(Increase)/decrease in trade receivables		(26,602)	79,623	(175,787)	(142,214)	(177,496)
Decrease/(increase) in prepayments, other receivables and other assets		26,606	(27,549)	(114,902)	(10,158)	(3,492)
Increase in amounts due from related parties		(87,703)	(52,251)	(4,420)	(12,335)	(1,386)
(Decrease)/increase in trade payables		(69,565)	36,971	10,020	(3,116)	36,679
Increase/(decrease) in other payables and accruals		39,276	(14,918)	23,824	20,100	19,715
Increase/(decrease) in amounts due to related parties		13,762	(41,431)	16,428	56,263	(23,121)
Cash generated from operations		34,237	168,737	70,596	69,926	181,061
Income tax paid		(8,615)	(4,662)	(10,965)	(717)	(9,637)
Net cash flows from operating activities		25,622	164,075	59,631	69,209	171,424

# APPENDIX I

# ACCOUNTANTS' REPORT

		Year ended 31 December			Six months ended	
	Notes	2016	2017	2018	30 June	2019
		RMB'000	RMB'000	RMB'000	2018	2019
					RMB'000	RMB'000
					(Unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Dividends received from associates		–	–	–	–	6,000
Dividends received from financial assets at fair value through profit or loss		–	–	–	–	8,898
Purchases of items of property and equipment	14	(593)	(686)	(1,279)	(436)	(1,617)
Additions to other intangible assets		(37,674)	(46,323)	(42,536)	(16,662)	(42,391)
Proceeds from disposal of items of other intangible assets		–	–	–	–	5,837
Acquisition of subsidiaries	30	–	–	(63,483)	(24,891)	(179,901)
Acquisition of subsidiaries under common control		–	–	(40,100)	(40,100)	–
Disposal of subsidiaries	31	70,174	–	–	–	–
Purchases of an investment in a joint venture		–	–	(6,800)	(10,650)	(20,000)
Purchases of investments in associates		(30,080)	(35,500)	(76,414)	(51,414)	–
Purchases of financial assets at fair value through profit or loss		(23,750)	(6,900)	(280,616)	(126,265)	–
Disposal of financial assets at fair value through profit or loss		–	231,831	82,865	82,865	67,500
Disposal of discontinued operation	11	–	(13,117)	–	–	–
Increase in pledged time deposits	23	–	–	–	–	(100,000)
Net cash flows (used in)/from investing activities		(21,923)	129,305	(428,363)	(187,553)	(255,674)
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loans		–	10,000	69,577	20,000	142,775
Repayment of bank loans		–	–	(30,000)	(30,000)	(14,829)
Dividends paid		–	(170,000)	(20,876)	(20,876)	–
Principal portion of lease payment		(4,409)	(6,659)	(15,326)	(7,663)	(9,629)
Interest paid		(765)	(1,220)	(1,459)	(625)	(3,402)
Contribution from the shareholders		29,100	1,000	262,972	264,398	–
Net cash flows from/(used in) financing activities		23,926	(166,879)	264,888	225,234	114,915
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS						
		27,625	126,501	(103,844)	106,890	30,665
Cash and cash equivalents at beginning of year/period		90,815	120,460	245,762	245,762	144,445
Effect of foreign exchange rate changes, net		2,020	(1,199)	2,527	1,615	(1,183)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD						
		120,460	245,762	144,445	354,267	173,927

		Year ended 31 December			Six months ended	
	Notes	2016	2017	2018	30 June	
		RMB'000	RMB'000	RMB'000	2018	2019
					RMB'000	RMB'000
					(Unaudited)	
ANALYSIS OF BALANCES OF						
CASH AND CASH EQUIVALENTS						
Cash and bank balances	23	120,460	244,463	144,445	351,290	173,927
Non-pledged time deposits with original maturity of less than three months when acquired	23	—	1,299	—	2,977	—
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS						
	23	120,460	245,762	144,445	354,267	173,927

## STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December 2018 <i>RMB'000</i>	As at 30 June 2019 <i>RMB'000</i>
NON-CURRENT ASSETS		
Investments in subsidiaries	219,742	220,619
Total non-current assets	219,742	220,619
CURRENT ASSETS		
Cash and cash equivalents	341	821
Due from subsidiaries	–	7,956
Prepayments, deposits and other receivables	103,059	103,471
Total current assets	103,400	112,248
CURRENT LIABILITIES		
Due to subsidiaries	316,526	326,180
Total current liabilities	316,526	326,180
NET CURRENT LIABILITIES	(213,126)	(213,932)
NET ASSETS	6,616	6,687
EQUITY		
Issued capital	–	–
Reserves	6,616	6,687
TOTAL EQUITY	6,616	6,687



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

## 1. CORPORATE INFORMATION AND REORGANIZATION

The Company was incorporated in the Cayman Islands on 20 March 2018 as an exempted company with limited liability under the Companies Law, Chapter 22 of the Cayman Islands. The registered address of the office of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in mobile game publishing and game development in the People's Republic of China (hereafter, the "PRC"), Hong Kong, Taiwan and Korea, and investment business in the PRC (hereafter, the "Listing Businesses").

The Company and its subsidiaries now comprising the Group underwent the Reorganization as set out in the paragraph headed "Corporate Reorganization" in the section headed "Our History, Reorganization and Corporate Structure" in the Prospectus. The Company became the holding company of the subsidiaries now comprising the Group upon completion of the reorganization on 22 August 2018 (hereafter, the "Reorganization"). Apart from the Reorganization and acquiring 51% interest in Softstar Technology (Beijing) Company Limited, the Company has not commenced any business or operation since its incorporation.

Prior to the incorporation of the Company and the completion of the Reorganization, the Listing Businesses were mainly carried out by the subsidiaries located in the PRC, Hong Kong, Taiwan and Korea.

As of the date of this report, the Company has direct and indirect interests in its subsidiaries, all of which are private limited liability companies or have substantially similar characteristics to a private company incorporated in Hong Kong, the particulars of which are set out below:

Name	Date and place of incorporation/ registration and place of operations	Issued ordinary share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Chengdu Zhuoxing Technology Company Limited (成都卓星科技有限公司) (hereafter, the "Chengdu Zhuoxing")* (b)	24 June 2013 Mainland China	RMB10,000,000	–	100	Mobile game publishing
Tianjin Suiyue Technology Company Limited (天津隨悅科技有限公司) (hereafter, the "Tianjin Suiyue")* (c)	16 July 2014 Mainland China	RMB10,000,000	–	100	Mobile game publishing
Shenzhen Zhongshouyou Internet Technology Company Limited (深圳市中手遊網絡科技有限公司) (hereafter, the "Shenzhen Zhongshouyou")* (d)	10 July 2015 Mainland China	RMB10,000,000	–	100	Mobile game publishing
Shenzhen Douyue Internet Technology Company Limited (深圳市豆悅網絡科技有限公司) (hereafter, the "Shenzhen Douyue")* (d)	21 November 2014 Mainland China	RMB10,000,000	–	100	Mobile game publishing
Shenzhen Shengli Huyu Internet Technology Company Limited (深圳市勝利互娛網絡科技有限公司) (hereafter, the "Shengli Huyu")* (d)	1 July 2015 Mainland China	RMB15,000,000	–	100	Mobile game publishing
Tibet Jichuang Internet Technology Co., Ltd. (西藏極創網絡科技有限公司)* (a)	24 March 2016 Mainland China	RMB30,000,000	–	100	Investment holding
China Mobile Games and Entertainment Group (HK) Limited (e)	11 October 2012 Hong Kong	HK\$100	–	100	Mobile game publishing
CMGE International Limited (a)	3 December 2013 British Virgin Islands	US\$1	–	100	Investment holding
Parkinson Enterprises Limited (f)	28 October 2013 Hong Kong	HK\$1	–	100	Mobile game publishing
CMGE Korea Corporation (a)	28 February 2014 Korea	KRW274,456,000	–	100	Mobile game publishing

Name	Date and place of incorporation/ registration and place of operations	Issued ordinary share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Majesty Enterprises Limited (Hong Kong) <i>(e)</i>	22 November 2013 Hong Kong	HK\$1	–	100	Mobile game publishing
SuperNova Overseas Limited (Hong Kong) <i>(e)</i>	31 July 2014 Hong Kong	HK\$1	–	100	Mobile game publishing
Blooming City Holding Limited (Republic of Seychelles) <i>(a)</i>	8 January 2015 Republic of Seychelles	US\$1	–	100	Mobile game publishing
CMGE Group Limited <i>(a)</i>	23 October 2017 Hong Kong	HK\$1	–	100	Investment holding
CMGE Group Limited <i>(a)</i>	21 December 2017 British Virgin Islands	US\$1	–	100	Investment holding
Shengyue Software(Shenzhen) Company Limited (盛悅軟件(深圳)有限公司) (hereafter, the “Shengyue Software”)* <i>(a)</i>	5 March 2018 Mainland China	HK\$150,000,000	–	100	Investment holding
Tianhu Software Technology (Shenzhen) Company Limited (天互軟件科技(深圳)有限公司)* <i>(a)</i>	7 March 2018 Mainland China	HK\$150,000,000	–	100	Investment holding
Rocket Parade Investment Limited <i>(a)</i>	21 March 2018 British Virgin Islands	US\$0.01	100	–	Investment holding
Beijing Wenmai Hudong Technology Company Limited (北京文脈互動科技有限公司) (hereafter, the “Wenmai Hudong”)* <i>(a)</i>	12 December 2014 Mainland China	RMB1,000,000	–	100	Game development
Horgos Zhongsheng Huyu Entertainment Technology Company Limited (霍爾果斯鐘聲互娛科技有限公司) (hereafter, the “Zhongsheng Huyu”)* <i>(a)</i>	21 June 2016 Mainland China	RMB1,000,000	–	100	Game development
Softstar Technology (Beijing) Company Limited (軟星科技(北京)有限公司) (hereafter, the “Beijing Softstar”)* <i>(g)</i>	19 September 2000 Mainland China	RMB16,873,388	51	–	Game development
Softstar Technology (Shanghai) Company Limited (軟星科技(上海)有限公司) (hereafter, the “Shanghai Softstar”)* <i>(h)</i>	14 June 2001 Mainland China	RMB35,375,625	51	–	Game development
Shanghai Wenmai Technology Company Limited (上海聞脈科技有限公司)* <i>(a)</i>	3 August 2018 Mainland China	RMB1,000,000	–	100	Game development

\* The English names of these subsidiaries registered in mainland China represent the translated names of these companies as no English names have been registered.

*Notes:*

- (a) As at the date of this report, no audit financial statements have been prepared since the date of incorporation/registration as these entities were newly established in 2017 and 2018 or in the jurisdictions where statutory audit was not required under the relevant rules and regulations in the jurisdictions of incorporation.
- (b) The statutory financial statements of Chengdu Zhuoxing for the years ended 31 December 2016, 2017 and 2018 prepared in accordance with PRC generally accepted accounting principles (the “PRC GAAP”) were audited by Chengdu Benxin Certified Public Accountants LLP, certified public accountants registered in the mainland China.

- (c) The statutory financial statements of Tianjin Suiyue for the years ended 31 December 2016, 2017 and 2018 prepared in accordance with the PRC GAAP were audited by Tianjin Unitax Certified Public Accountants Co., Ltd, certified public accountants registered in PRC.
- (d) The statutory financial statements of Shenzhen Zhongshouyou, Shenzhen Douyue and Shengli Huyu for the years ended 31 December 2016, 2017 and 2018 prepared in accordance with the PRC GAAP were audited by Shenzhen Huashuo Certified Public Accountants (General Partnership), certified public accountants registered in PRC.
- (e) The statutory financial statements of these entities for the years ended 31 December 2016 and 2017 prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) were audited by Global Vision CPA Limited, certified public accountants registered in Hong Kong.
- (f) The statutory financial statements of this entity for the year ended 31 December 2016 prepared in accordance with HKFRS were audited by Global Vision CPA Limited, certified public accountants registered in Hong Kong and the statutory financial statements for the year ended 31 December 2017 prepared in accordance with HKFRS were audited by Wise Diligent CPA Company Limited, certified public accountants registered in Hong Kong.
- (g) The statutory financial statements of Beijing Softstar for the years ended 31 December 2016, 2017 and 2018 prepared in accordance with the PRC GAAP were audited by Beijing Tianping Certified Public Accountants LTD, certified public accountants registered in the mainland China.
- (h) The statutory financial statements of Shanghai Softstar for the years ended 31 December 2016, 2017 and 2018 prepared in accordance with the PRC GAAP were audited by Shanghai Jinrui Certified Public Accountants Co., LTD., certified public accountants registered in the mainland China.

The changes in the Group’s subsidiaries during the Relevant Periods are as follows:

The following companies were disposed of by the Group in July 2016. Details in relation to the disposal are set out in note 31 to the Historical Financial Information. The financial results of these companies were included in the Group’s consolidated financial statements until the date of disposal.

Name	Date and place of incorporation/ registration and place of operations	Issued ordinary share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shenzhen Qi Le Wu Xian Software Develop Co., Ltd. (深圳奇樂無限軟件開發有限公司) (hereafter, the “Qi Le Wu Xian”)*	19 April 2010 Mainland China	RMB2,000,000	–	100	Mobile game publishing
Beijing Zhuoyue Chenxing Co., Limited (北京卓越晨星科技有限公司) (hereafter, the “Beijing Zhuoyue Chenxing”)*	7 July 2014 Mainland China	RMB20,000,000	–	100	Mobile game publishing
Tianjin Zhuoyue Chenxing Co., Limited (天津卓越晨星科技有限公司) (hereafter, the “Tianjin Zhuoyue Chenxing”)*	2 April 2015 Mainland China	RMB1,000,000	–	100	Mobile game publishing
HK Zhuoyue Chenxing Co., Limited (hereafter, the “HK Zhuoyue Chenxing”)	14 April 2015 Hong Kong	HK\$10,000	–	100	Mobile game publishing

\* The English names of these subsidiaries registered in mainland China represent the translated names of these companies as no English names have been registered.

Wenmai Hudong and Zhongsheng Huyu were acquired by the Group in May 2018. Beijing Softstar and Shanghai Softstar were acquired by the Group in August 2018. Details in relation to the acquisitions are set out in note 30 to the Historical Financial Information. The financial results of these companies were included in the Group’s consolidated financial statements since the date of acquisition.

## 2.1 BASIS OF PRESENTATION

Pursuant to the Reorganization, as more fully explained in the paragraph headed “Corporate Reorganization” in the section headed “Our History, Reorganization and Corporate Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group on 28 May 2018. The companies now comprising the Group were under the common control of China Mobile Game Technology Company Limited (hereafter the “CMGE Mobile Tech”) before and after the Reorganization. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Relevant Periods.

Due to regulatory prohibitions and restrictions on foreign ownership in online publication business, network culture operation business and value-added telecommunication business in the PRC, the mobile game publishing businesses in the PRC were mainly carried out by Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou (collectively, the “PRC Operating Entities”) during the Relevant Periods. Pursuant to the Reorganization, Shengyue Software, the Company’s wholly-owned subsidiary, has entered into the structured contracts with, among others, the PRC Operating Entities and their respective equity holders (the “Contractual Arrangements”). The Contractual Arrangements enable Shengyue Software to exercise effective control over the PRC Operating Entities and obtain substantially all economic benefits of the PRC Operating Entities. Details of the Contractual Arrangements are disclosed in the section headed “Contractual Arrangements” in the Prospectus.

The Group does not have any equity interest in the PRC Operating Entities. However, Shengyue Software and the PRC Operating Entities were ultimately under control of CMGE Mobile Tech and through the Contractual Arrangements as detailed in note 2.4 “Subsidiaries arising from the Reorganization” below, the PRC Operating Entities and the business carried out by them are under the effective control of CMGE Mobile Tech. Consequently, the Company regards the PRC Operating Entities as indirect subsidiaries for the purpose of the Historical Financial Information.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of CMGE Mobile Tech where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from CMGE Mobile Tech’s perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganization.

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

## 2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong.

All HKFRSs effective for the accounting period commencing from 1 January 2019, including HKFRS 9 *Financial Instruments*, HKFRS 15 *Revenue from Contracts with Customers*, and HKFRS 16 *Leases*, together with the relevant transitional provisions, have been consistently applied by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value.

### 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	<i>Definition of a Business<sup>1</sup></i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i>
HKFRS 17	<i>Insurance Contracts<sup>3</sup></i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material<sup>2</sup></i>

<sup>1</sup> Effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group has expected that these standards will not have significant effect on the Group's financial performance and financial position.

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-current Asset Held For Sale and Discontinued operation* are stated at cost less any impairment losses.

#### Subsidiaries arising from the Reorganization

The PRC Operating Entities have entered into Contractual Arrangements with, among others, Shengyue Software and Shenzhen Lanyue Internet Technology Company Limited (hereafter, the "Shenzhen Lanyue"), the legal equity holder of the PRC Operating Entities. The Contractual Arrangements became effective on 30 May 2018. In particular, Shengyue Software undertakes to provide the PRC Operating Entities with certain technical services as required to support their operations. In return, Shengyue Software is entitled to substantially all of the operating profits and residual benefits generated by the PRC Operating Entities through intercompany charges levied on these services rendered. Shenzhen Lanyue is also required to transfer its interests in the PRC Operating Entities to Shengyue Software or the designee appointed by Shengyue Software upon a request made by Shengyue Software when permitted by the PRC laws for a consideration. The ownership interests in the PRC Operating Entities have also been pledged by Shenzhen Lanyue to Shengyue Software in respect of the continuing obligations of the PRC

Operating Entities. Shengyue Software has not provided any financial support that it was not previously contractually required to do so to the PRC Operating Entities during the Relevant Periods. Shengyue Software intends continuously to provide to or assist the PRC Operating Entities in obtaining financial support when deemed necessary. Accordingly, the Group has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power, and thus control over the PRC Operating Entities.

#### **Investments in associates and a joint venture**

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint venture are stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint venture is included in the consolidated statements of profit or loss and consolidated statements of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint venture are eliminated to the extent of the Group's investments in the associates or joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint venture is included as part of the Group's investments in associates or joint venture.

Upon loss of significant influence over the associates or loss of joint control over the joint ventures, the Group measures and recognises any retained investments at their fair values. Any difference between the carrying amounts and the fair values of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued operation*.

#### **Business combination and goodwill**

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value either recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

#### **Fair value measurement**

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Relevant Periods.



**Impairment of non-financial assets**

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

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

**Related parties**

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group of a parent of the Group;
- or
- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personal services to the Group or to the parent of the Group.

**Property and equipment and depreciation**

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Motor vehicles	20%
Electronic devices	33%
Leasehold improvement	Shorter of estimated useful lives or remaining lease terms

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the profit or loss in the year the asset is derecognized is the difference between the net sale proceeds and the carrying amount of the relevant asset.

**Other intangible assets (other than goodwill)**

Other intangible assets acquired separately are measured on initial recognition at cost. The cost of other intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of other intangible assets are assessed to be either finite or indefinite. Other intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the other intangible assets may be impaired. The amortisation period and the amortisation method for other intangible assets with a finite useful life are reviewed at least at each financial year end.

***IP Licenses***

Under IP licensing arrangements entered between the Group and the IP owners, the Group pays loyalty fees to the IP owners as the Group is entitled to develop, publish and operate mobile games based upon the IP. The Group then engages third-party game developers to develop the licensed IPs into mobile games. The Group recognizes the IP loyalty fees as an intangible asset. These intangible assets are amortized on a straight-line basis over the shorter of the expected economic life and license period, from 2 to 3 years. The amortization is recorded in cost of revenues (where the games are commercially launched) or general administrative expenses (where the games are not yet commercially launched).

***CP licenses***

Under the exclusive games arrangements entered between the Group and the game developers, the Group pays upfront loyalty fees to the game developers as the Group is entitled to an exclusive right to operate the developed games. The Group recognizes the upfront loyalty fees as an intangible asset. These intangible assets are amortized on a straight-line basis over the expected economic life, from 3 to 5 years. The amortization is recorded in cost of revenues (where the games are commercially launched) or general and administrative expenses (where the games are not yet commercially launched).

***Computer software***

Acquired computer software stated at historical cost less amortization. Acquired computer software are capitalized on the basis of the costs incurred to acquire and bring to use the specific software, and are amortized on a straight-line basis over the useful life of 5 years.

***Copyrights***

Under the buyout arrangements for copyrights entered between the Group and the IP owners, the Group pays a sum of copyright fees to the IP owners as the Group is entitled to buy out the copyrights upon which the Group can further develop, publish and operate mobile games with an indefinite period. The Group recognizes the copyrights brought out as an intangible asset. These intangible assets are initially recorded at cost and amortized on a straight-line basis over their expected economic lives of 3 to 10 years.

The Group recognizes copyrights acquired through business combinations as intangible asset. These intangible assets are initially recognised and measured at estimated fair value. Copyrights acquired through business combinations are amortised using a straight-line method which reflects the estimated consumption patterns and expected economic lives.

The Group develops its estimation on the expected economic lives of the copy right based on a number of factors such as typical product life cycles, public information on estimation of useful lives of similar assets, technical, commercial or other types of obsolescence, legal expiry dates etc.

***Trademarks***

Trademarks are initially recognized and measured at costs incurred to register. The costs are amortised on the straight-line basis over their estimated useful lives of 5 years.

***Domain names***

Domain names are initially recognized and measured at costs incurred to acquire and bring to use them. The costs are amortized on a straight-line basis over the domain names' estimated useful lives.

**Research and development costs**

All research costs are charged to the statement of profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the Group's ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding contract periods, commencing from the date when the products are put into commercial production.

**Leases*****Right-of-use assets***

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

***Lease liabilities***

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

***Short-term leases and leases of low-value assets***

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the low-value assets lease recognition exemption to leases that are considered of low value (i.e., below US\$5,000). Lease payments on short-term leases and of low-value assets leases are recognised as expense on a straight-line basis over the lease terms.

***Determining the lease term of contracts with renewal options***

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

***The Group also applied the following available practical expedients wherein it:***

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics,
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease,
- Elected to not to apply the requirements to leases for which the lease term ends within 12 months of the date of initial application and account for those leases in the same way as short-term leases, and
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

**Financial assets**

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### ***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

#### ***Financial assets at amortised cost (debt instruments)***

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

#### ***Financial assets designated at fair value through other comprehensive income (equity investments)***

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

#### ***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired
- or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

***General approach***

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

For other receivables, including loans to employees, loans to third parties and related parties and other receivables, the Group applies a general approach in calculating ECLs. The Group considers a financial asset in default when contractual payments are 12 months past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### ***Simplified approach***

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

### **Financial liabilities**

#### ***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related parties interest-bearing loans and borrowings and lease liabilities.

#### ***Subsequent measurement***

The subsequent measurement of financial liabilities depends on their classification as follows:

(i) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded



derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

(ii) *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

***Derecognition of financial liabilities***

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

***Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

***Contract balances***

***Contract costs***

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

***Trade receivables***

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

***Contract liabilities***

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

**Cash and cash equivalents**

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

**Government grants**

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the profit or loss by way of a reduced depreciation charge.

**Revenue from contracts with customers**

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

**(a) Mobile game publishing**

The Group is primarily engaged in providing services of publishing third-party developed mobile games to the various publishing channels including application stores and software websites.

Most of the mobile games are operated under free-to-play basis whereby players can play the games free of charge and are charged for purchase of virtual currency that can exchange for virtual items in the games. Most of the mobile games are developed and operated by the third-party game developers ("CPs"), and the Group is responsible for publishing the games to the players through third-party publishing channels. Game players pay for the virtual items through the publishing channels. Such payments are generally non-refundable and non-cancellable. The publishing channels are entitled to withhold and deduct prescribed fixed percentages of the gross proceeds collected from the players as their channel service fee, and remit the remaining amounts to the Group. The Group is entitled to withheld and deduct prescribed percentage of the proceeds collected from the publishing channels as its publishing service fee, and remit the remaining amounts to the CPs and intellectual property ("IPs") owners, if any IPs involved.

*Gross Versus Net Consideration*

The Group evaluates agreements with the CPs, publishing channels and IPs if any in order to determine whether the Group acts as the principal or as an agent in the arrangement with each party respectively. The Group identified the specified service to be provided to the customers and assessed whether it controls each specified service before that is transferred to the customers. The indicators that the Group controls the specified service include but are not limited to whether the Group (i) is primarily responsible for fulfilling the promise to provide the specified service; (ii) has inventory risk before the specified service has been transferred to a customer; (iii) has discretion in establishing prices for the specified services. The assessment is performed for all of the Group's mobile game publishing revenue.

With respect to the Group's game publishing arrangements entered during the Relevant Periods, the Group views the CPs as its customers and the Group provides game publishing services to CPs. The Group is responsible for identifying, contracting with and maintaining the relationships of the publishing channels and IPs if any, accordingly, the Group records the amount collected from publishing channels net of the amounts shared by the CPs as the revenue on a gross basis and commission fees paid to the publishing channels and IPs if any are included in cost of sales.

*Timing of revenue recognition*

The Group's publishing services are provided over the whole publishing periods, and the publishing revenue is recognized when the services are provided and the revenue amounts are determinable.

**(b) Self-developed games**

The Group is also engaged in developing online games including web-based and mobile games. The self-developed games are licensed to the Group or other publishers under various game distribution arrangements.

The online games are operated under free-to-play basis whereby players can play the games free of charge and are charged for purchase of virtual currency that can exchange for virtual items in the games. The gross payments from players are collected as revenue. The payment received to purchase of virtual items is non-refundable and the related contracts are non-cancellable.

The Group has determined that it is obligated to provide on-going services to the game players who purchased virtual items to gain an enhanced game-playing experience over the playing period of the paying players, and accordingly, the Group recognizes the revenues ratably over the estimated average playing period of these paying players ("Player Relation Period"), starting from the point in time when virtual items are delivered to the players' accounts, and all other revenues recognition criteria are met.

The Group estimates the Player Relation Period and re-assesses such period semi-annually. If a new game is launched and only a limited period of paying player data is available, then the Group considers other qualitative factors, such as the playing patterns for paying players for other games with similar characteristics.

#### *Gross Versus Net Consideration*

The Group considered itself as a principal in self-developed games as the Group takes primary responsibilities of game operation, providing customer services, hosting game servers, controlling games and services specifications and pricing. Accordingly, the revenue derived from self-developed games are recorded on a gross basis and the amounts withhold by the publishing channels and other publishers are recorded as cost of sales.

#### *Timing of revenue recognition*

Revenue from provision of outsourcing game development services are recognized over time if the Group's performance 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, otherwise at the point in time.

#### **(c) Licensing of intellectual property**

The Group also generates revenue from licensing intellectual property originated from self-owned PC games to third parties for certain periods. Third Parties can further develop and launch pan-entertainment products based on the proprietary IPs. The revenue from licensing agreements is recognised over the licence period (for a right to access) or at the point in time the customer can first use the licensed intellectual property (for a right to use). Sales-based royalties on licences of IPs is recognised only upon the later of when the sale or usage occurs or the satisfaction of related performance obligation.

#### **(d) Card and board games revenue**

The Group recognizes (i) card and board games revenue when the goods are delivered based on download of games or consumption of in-game premium features by mobile game players and (ii) deferred revenue on card and board games upon delivery of game points to mobile game players. Deferred revenue is recognized as card and board gaming revenue ratably over the estimated average playing period of the paying mobile game players, which normally takes one month, starting from the point in time when game points are delivered to the mobile game players. The difference between the estimated proceeds and the actual amounts confirmed by the mobile network operators, third-party payment platforms or mobile service providers is recognized in the consolidated statements of profit or loss when billing confirmations are received by the Group.

The businesses of card and board games were disposed in 2017 and revenue from card and board games were presented in discontinued operation.

#### **(e) Interest income**

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

#### **Other employee benefits**

##### *Pension scheme*

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities in various areas other than Mainland China. The Group's liability in respect of these plans is limited to the contributions payable at the end of each period. Contributions to these plans are expensed as incurred.

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary operating in Mainland China is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

***Housing fund – Mainland China***

The Group contributes on a monthly basis to a defined contribution housing fund plan operated by the local municipal government. Contributions to this plan by the Group are expensed as incurred.

***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

***Foreign currencies***

These financial statements are presented in RMB. The Company's functional currency is Hong Kong Dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the reporting period.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

***Dividends***

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting.

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

**Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the Historical Financial Information:

***Contractual Arrangements***

The PRC Operating Entities are mainly engaged in the provision of mobile game publishing in the PRC, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" that foreign investors are prohibited to invest.

As disclosed in note 2.1 to the Historical Financial Information, the Group exercises control over the PRC Operating Entities and enjoys all economic benefits of the PRC Operating Entities through the Contractual Arrangements.

The Group considers that it controls the PRC Operating Entities, notwithstanding the fact that it does not hold direct equity interest in the PRC Operating Entities, as it has power over the financial and operating policies of the PRC Operating Entities and receives substantially all of the economic benefits from the business activities of the PRC Operating Entities through the Contractual Arrangements. Accordingly, the PRC Operating Entities have been accounted as subsidiaries during the Relevant Periods.

***Withholding tax arising from the distribution of dividends***

The Group's determination, as to whether to accrue deferred tax liabilities in respect of withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

***Impairment of goodwill***

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill at 31 December 2016, 2017, 2018 and 30 June 2019 were RMB324,842,000, RMB324,842,000, RMB1,118,617,000, and RMB1,118,617,000, respectively. Further details are given in note 16 to the Historical Financial Information.

***Provision for expected credit losses of trade and other receivables***

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and other receivables is disclosed in notes 21 and 22 to the Historical Financial Information, respectively.

***Valuation of financial assets at fair value through profit or loss***

Where fair values of financial assets cannot be derived directly from active markets, it is determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of estimation is required in establishing fair values. The estimations include considerations of inputs such as liquidity risk, credit risk and volatility changes in assumptions about these factors could affect the reported fair value of financial instruments. Further details are disclosed in note 20 to the Historical Financial Information.

***Fair value of NEEQ quoted equity investments***

The National Equities Exchange and Quotations ("NEEQ") quoted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The fair value of NEEQ quoted equity investments at 31 December 2016, 2017, 2018 and 30 June 2019 were RMB181,472,000, RMB57,300,000, RMB71,682,000 and RMB72,275,000, respectively. Further details are included in note 20 to the Historical Financial Information.

***Estimates of Player Relation Period in the Group's game development services***

The Group recognizes the revenues ratably over the estimated average Player Relation Period for self-developed games and card and board games whereas the Group acts as principal. The determination of Player Relation Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Future paying player usage patterns and behavior may differ from the historical usage patterns and therefore the estimated average Player Relation Period may change in the future. The Group will continue to monitor the estimated average Player Relation Period, which may differ from the historical period, and any change in the estimate may result in the revenue being recognised on a different basis to that in prior periods. Any adjustments arising from changes in the Player Relation Period as a result of new information will be accounted for as a change in accounting estimate.

***Fair value of contingent consideration***

The contingent consideration arising from business combination was estimated using the discounted cash flow model and Monte Carlo simulation model. These models require the Group to make estimations about the expected future profits, discount rate and volatility, and hence they are subject to uncertainty. Further details are included in note 30 to the Historical Financial Information.

**4. OPERATING SEGMENT INFORMATION**

The Group is principally engaged in the mobile game publishing, game development and investment business.

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.



# APPENDIX I

# ACCOUNTANTS' REPORT

## Revenue segment

*For the six months ended 30 June 2019*

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
<b>Type of goods or services</b>				
Sales to external customers	1,307,087	218,431	3,600	1,529,118
Intersegment sales	–	634,704	–	634,704
Elimination of intersegment sales	–	(634,704)	–	(634,704)
Total revenue from contracts with customers	<u>1,307,087</u>	<u>218,431</u>	<u>3,600</u>	<u>1,529,118</u>

*For the six months ended 30 June 2018*

Segments	Game Publishing RMB'000 (Unaudited)	Game Development RMB'000 (Unaudited)	Licensing of Intellectual Property RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>Type of goods or services</b>				
Sales to external customers	623,592	48,916	–	672,508
Intersegment sales	–	–	–	–
Elimination of intersegment sales	–	–	–	–
Total revenue from contracts with customers	<u>623,592</u>	<u>48,916</u>	<u>–</u>	<u>672,508</u>

*For the year ended 31 December 2018*

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
<b>Type of goods or services</b>				
Sales to external customers	1,400,454	177,946	17,804	1,596,204
Intersegment sales	–	68,112	–	68,112
Elimination of intersegment sales	–	(68,112)	–	(68,112)
Total revenue from contracts with customers	<u>1,400,454</u>	<u>177,946</u>	<u>17,804</u>	<u>1,596,204</u>

*For the year ended 31 December 2017*

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
<b>Type of goods or services</b>				
Sales to external customers	<u>1,012,791</u>	–	–	1,012,791
Total revenue from contracts with customers	<u>1,012,791</u>	<u>–</u>	<u>–</u>	<u>1,012,791</u>

*For the year ended 31 December 2016*

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
<b>Type of goods or services</b>				
Sales to external customers	1,001,163	—	—	1,001,163
Total revenue from contracts with customers	1,001,163	—	—	1,001,163

#### Geographical information

##### (a) Revenue from external customers

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Mainland China	951,564	997,819	1,585,667	665,435	1,526,971
Other countries and areas	49,599	14,972	10,537	7,073	2,147
	1,001,163	1,012,791	1,596,204	672,508	1,529,118

The revenue information above is based on the locations of the game publishing, game development and licensing of intellectual property.

##### (b) Non-current assets

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Mainland China	429,504	477,564	1,491,138	1,483,550
Other countries and areas	1,758	11,409	12,673	16,950
	431,262	488,973	1,503,811	1,500,500

The non-current assets information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

#### Information about major customers

During the year ended 31 December 2016, revenues of approximately RMB292,399,000, RMB235,324,000 and RMB132,709,000 were derived from respective single external customers each accounted for more than 10% of total revenue.

During the year ended 31 December 2017, revenues of approximately RMB190,569,000, RMB146,202,000 and RMB130,152,000 were derived from respective single external customers each accounted for more than 10% of total revenue.

During the year ended 31 December 2018, revenues of approximately RMB392,823,000 and RMB201,040,000 were derived from respective single external customers each accounted for more than 10% of total revenue.

During the six months ended 30 June 2018, revenues of approximately RMB168,238,000 (unaudited) and RMB132,874,000 (unaudited) were derived from respective single external customers each accounted for more than 10% of total revenue.

During the six months ended 30 June 2019, there was no revenue derived from respective single external customer each accounted for more than 10% of total revenue.

## 5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

## Revenue from contracts with customers

## (i) Disaggregated revenue information

For the six months ended 30 June 2019

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
<b>Type of goods or services</b>				
Mobile game publishing services	1,307,087	–	–	1,307,087
Game development related services	–	218,431	–	218,431
Licensing of intellectual property	–	–	3,600	3,600
Total revenue from contracts with customers	<u>1,307,087</u>	<u>218,431</u>	<u>3,600</u>	<u>1,529,118</u>
<b>Geographical markets</b>				
Mainland China	1,304,940	218,431	3,600	1,526,971
Other countries and areas	<u>2,147</u>	<u>–</u>	<u>–</u>	<u>2,147</u>
Total revenue from contracts with customers	<u>1,307,087</u>	<u>218,431</u>	<u>3,600</u>	<u>1,529,118</u>
<b>Timing of revenue recognition</b>				
Services transferred over time	1,307,087	208,997	–	1,516,084
Services transferred at a point in time	<u>–</u>	<u>9,434</u>	<u>3,600</u>	<u>13,034</u>
Total revenue from contracts with customers	<u>1,307,087</u>	<u>218,431</u>	<u>3,600</u>	<u>1,529,118</u>

For the six months ended 30 June 2018

Segments	Game Publishing RMB'000 (Unaudited)	Game Development RMB'000 (Unaudited)	Licensing of Intellectual Property RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>Type of goods or services</b>				
Mobile game publishing services	623,592	–	–	623,592
Game development related services	–	48,916	–	48,916
Licensing of intellectual property	–	–	–	–
Total revenue from contracts with customers	<u>623,592</u>	<u>48,916</u>	<u>–</u>	<u>672,508</u>
<b>Geographical markets</b>				
Mainland China	616,519	48,916	–	665,435
Other countries and areas	<u>7,073</u>	<u>–</u>	<u>–</u>	<u>7,073</u>
Total revenue from contracts with customers	<u>623,592</u>	<u>48,916</u>	<u>–</u>	<u>672,508</u>

Segments	Game Publishing RMB'000 (Unaudited)	Game Development RMB'000 (Unaudited)	Licensing of Intellectual Property RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>Timing of revenue recognition</b>				
Services transferred over time	623,592	25,331	–	648,923
Services transferred at a point in time	–	23,585	–	23,585
Total revenue from contracts with customers	<u>623,592</u>	<u>48,916</u>	<u>–</u>	<u>672,508</u>

*For the year ended 31 December 2018*

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
<b>Type of goods or services</b>				
Mobile game publishing services	1,400,454	–	–	1,400,454
Game development related services	–	177,946	–	177,946
Licensing of intellectual property	–	–	17,804	17,804
Total revenue from contracts with customers	<u>1,400,454</u>	<u>177,946</u>	<u>17,804</u>	<u>1,596,204</u>
<b>Geographical markets</b>				
Mainland China	1,389,917	177,946	17,804	1,585,667
Other countries and areas	10,537	–	–	10,537
Total revenue from contracts with customers	<u>1,400,454</u>	<u>177,946</u>	<u>17,804</u>	<u>1,596,204</u>
<b>Timing of revenue recognition</b>				
Services transferred over time	1,400,454	154,361	–	1,554,815
Services transferred at a point in time	–	23,585	17,804	41,389
Total revenue from contracts with customers	<u>1,400,454</u>	<u>177,946</u>	<u>17,804</u>	<u>1,596,204</u>

*For the year ended 31 December 2017*

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
<b>Type of goods or services</b>				
Mobile game publishing services	1,012,791	—	—	1,012,791
Total revenue from contracts with customers	<u>1,012,791</u>	<u>—</u>	<u>—</u>	<u>1,012,791</u>
<b>Geographical markets</b>				
Mainland China	997,819	—	—	997,819
Other countries and areas	<u>14,972</u>	<u>—</u>	<u>—</u>	<u>14,972</u>
Total revenue from contracts with customers	<u>1,012,791</u>	<u>—</u>	<u>—</u>	<u>1,012,791</u>
<b>Timing of revenue recognition</b>				
Services transferred over time	1,012,791	—	—	1,012,791
Services transferred at a point in time	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total revenue from contracts with customers	<u>1,012,791</u>	<u>—</u>	<u>—</u>	<u>1,012,791</u>

*For the year ended 31 December 2016*

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
<b>Type of goods or services</b>				
Mobile game publishing services	1,001,163	—	—	1,001,163
Total revenue from contracts with customers	<u>1,001,163</u>	<u>—</u>	<u>—</u>	<u>1,001,163</u>
<b>Geographical markets</b>				
Mainland China	951,564	—	—	951,564
Other countries and areas	<u>49,599</u>	<u>—</u>	<u>—</u>	<u>49,599</u>
Total revenue from contracts with customers	<u>1,001,163</u>	<u>—</u>	<u>—</u>	<u>1,001,163</u>
<b>Timing of revenue recognition</b>				
Services transferred over time	1,001,163	—	—	1,001,163
Services transferred at a point in time	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total revenue from contracts with customers	<u>1,001,163</u>	<u>—</u>	<u>—</u>	<u>1,001,163</u>

The following table shows the amounts of revenue recognized during the Relevant Periods and six months ended 30 June 2018 that were included in the contract liabilities at the beginning of each reporting period and recognised from performance obligations satisfied in previous periods:

	Year ended 31 December			Six months ended	
	2016	2017	2018	30 June	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue recognised that was included in the contract liabilities balance at the beginning of year/period:					
Short-term advances received from publishing channel	3,209	3,095	18,010	18,010	10,607
Sales of game points in self-developed games	—	—	—	—	8,240
Sale of game points in card and board games	962	16,599	—	—	—
	<u>4,171</u>	<u>19,694</u>	<u>18,010</u>	<u>18,010</u>	<u>18,847</u>

(ii) *Performance obligations*

Information about the Group's performance obligations is summarised below:

*Publishing services*

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 to 90 days from the date of billing.

*Game development related services*

The performance obligation from operation of self-developed games is satisfied over the estimated Player Relation Period. The performance obligation from game research and development services is satisfied over time if the Group's performance 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, otherwise at the point in time.

*IP licensing services*

The performance obligation is satisfied over the license period (for a right to access) or at the point in time the customer can first use the licensed intellectual property (for a right to use). Payment is generally due within 45 days from delivery.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the end of each of the Relevant Periods are as follows:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Within one year	19,694	18,010	57,112	71,005
More than one year	—	—	—	—

All the performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

	Notes	Year ended 31 December			Six months ended 30 June	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Other income						
Bank interest income	6	460	687	1,228	952	277
Government grants – related to income*		8,542	2,203	4,241	3,483	7,053
Foreign exchange differences, net		–	–	6,739	518	–
Others		265	20	5,605	27	8,366
		<u>9,267</u>	<u>2,910</u>	<u>17,813</u>	<u>4,980</u>	<u>15,696</u>
<u>Gains</u>						
Gains on disposal of financial assets at fair value through profit or loss	20	–	124,889	2,308	2,308	–
Dividend income from financial assets at fair value through profit or loss	20	–	–	–	–	8,898
Fair value gains on financial assets at fair value through profit or loss	20	32,597	40,546	86,055	37,861	11,734
Fair value adjustment of contingent consideration	38	–	–	17,498	–	737
Gain on disposal of subsidiaries	6&31	115,135	–	–	–	–
Gain on disposal of other intangible assets		–	–	–	–	3,062
		<u>147,732</u>	<u>165,435</u>	<u>105,861</u>	<u>40,169</u>	<u>24,431</u>
		<u>156,999</u>	<u>168,345</u>	<u>123,674</u>	<u>45,149</u>	<u>40,127</u>

\* Various government grants have been received from local government authorities in the PRC. There are no unfulfilled conditions and other contingencies relating to these grants.

## 6. PROFIT BEFORE TAX

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Commissions charged by channels	531,051	608,950	985,714	397,087	940,429
Commissions charged by IPs	75,016	35,648	28,206	16,185	12,794
Game development cost	–	–	13,328	11,792	15,672
Promotion expenses	203,463	173,080	109,988	48,997	127,576
Employee benefit expense (excluding directors' and chief executives' remuneration (note 8)):					
Wages and salaries	33,253	25,596	73,488	19,359	50,575
Pension scheme contributions (defined contribution scheme)	5,653	4,351	12,493	3,291	8,680
	<u>38,906</u>	<u>29,947</u>	<u>85,981</u>	<u>22,650</u>	<u>59,255</u>



		Year ended 31 December			Six months ended 30 June	
	Notes	2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Depreciation of property and equipment	14	5,615	3,176	2,653	1,255	1,927
Depreciation of right-of-use assets	15	4,409	6,659	15,326	7,663	9,908
Amortisation of other intangible assets	17	36,730	22,999	32,956	11,157	27,144
Research and development costs		20,264	14,616	59,719	9,853	66,264
Rental expenses from short-term leases		355	14	18	9	85
Foreign exchange differences, net		5,007	1,560	(6,739)	(518)	1,036
Impairment of trade receivables, net*	21	1,895	2,561	5,177	–	6,271
Write-off of prepayments, net**		13,078	5,698	4,733	–	–
Impairment of other intangible assets***	17	–	–	–	–	4,193
Loss on liquidation of investment in associates		–	5,822	–	–	–
Bank interest income	5	(460)	(687)	(1,228)	(952)	(277)
Loss on disposal of items of property and equipment	14	289	74	300	26	544
Gain on disposal of subsidiaries	5&31	(115,135)	–	–	–	–
Remeasurement loss of previously-held investment in a joint venture	30	–	–	7,679	–	–
Auditor's remuneration		118	145	200	162	132
Listing expenses		–	–	24,420	8,691	7,402
Loss/(gain) on disposal of financial assets at fair value through profit or loss		–	(124,889)	(2,308)	(2,308)	1,858

\* Impairment of trade receivables is included in other expenses in the consolidated statements of profit or loss.

\*\* Write-off of prepayments is included in other expenses in the consolidated statements of profit or loss.

\*\*\* Impairment of other intangible assets is included in other expenses in the consolidated statements of profit or loss.

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest expenses on:					
bank borrowings	–	526	482	136	2,152
payable for business combination	–	–	8,594	2,956	2,035
lease liabilities	765	694	977	489	1,250
	765	1,220	10,053	3,581	5,437

## 8. DIRECTORS' REMUNERATION

Mr. XIAO Jian (肖健) and Mr. Hendrick SIN (洗漢迪) were appointed as executive directors of the Company in April 2018. Mr. MA Yuntao (馬雲濤) was appointed as a non-executive director of the Company in June 2018. Mr. TANG Yanwen (唐彥文) was appointed as a non-executive director of the Company in August 2018. Ms. NG Yi Kum (伍綺琴), Mr. HO Orlando Yau Kai (何猷啟) and Mr. TANG Liang (唐亮) were appointed as independent non-executive directors of the Company in September 2019, and Mr. XIAO Jian (肖健) was appointed as the chief executive director of the Company in April 2018.

Certain of the directors received remuneration from subsidiaries now comprising the Group for their appointment as directors or senior management of this subsidiary. The remuneration of each of these directors as recorded in the financial statements of the subsidiaries is set out below:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, allowances and benefits in kind	1,031	888	1,200	632	688
Pension scheme contributions	39	40	60	35	35
	<u>1,070</u>	<u>928</u>	<u>1,260</u>	<u>667</u>	<u>723</u>

## (a) Executive directors and non-executive directors

Year ended 31 December 2016	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:			
Mr. XIAO Jian (肖健)	411	24	435
Mr. Hendrick SIN (洗漢迪)	<u>620</u>	<u>15</u>	<u>635</u>
	1,031	39	1,070
Non-executive director:			
Mr. MA Yuntao (馬雲濤)	<u>—</u>	<u>—</u>	<u>—</u>
	<u>1,031</u>	<u>39</u>	<u>1,070</u>

Year ended 31 December 2017	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:			
Mr. XIAO Jian (肖健)	416	24	440
Mr. Hendrick SIN (洗漢迪)	<u>472</u>	<u>16</u>	<u>488</u>
	888	40	928
Non-executive director:			
Mr. MA Yuntao (馬雲濤)	<u>—</u>	<u>—</u>	<u>—</u>
	<u>888</u>	<u>40</u>	<u>928</u>

<b>Year ended 31 December 2018</b>	<b>Salaries, allowances and benefits in kind <i>RMB'000</i></b>	<b>Pension scheme contributions <i>RMB'000</i></b>	<b>Total remuneration <i>RMB'000</i></b>
Executive directors:			
Mr. XIAO Jian (肖健)	406	45	451
Mr. Hendrick SIN (洗漢迪)	794	15	809
	<u>1,200</u>	<u>60</u>	<u>1,260</u>
Non-executive directors:			
Mr. MA Yuntao (馬雲濤)	—	—	—
Mr. TANG Yanwen (唐彥文)	—	—	—
	<u>1,200</u>	<u>60</u>	<u>1,260</u>
	<b><u>1,200</u></b>	<b><u>60</u></b>	<b><u>1,260</u></b>
<b>Six months ended 30 June 2018</b>	<b>Salaries, allowances and benefits in kind <i>RMB'000</i> (Unaudited)</b>	<b>Pension scheme contributions <i>RMB'000</i> (Unaudited)</b>	<b>Total remuneration <i>RMB'000</i> (Unaudited)</b>
Executive directors:			
Mr. XIAO Jian (肖健)	195	28	223
Mr. Hendrick SIN (洗漢迪)	437	7	444
	<u>632</u>	<u>35</u>	<u>667</u>
Non-executive directors:			
Mr. MA Yuntao (馬雲濤)	—	—	—
Mr. TANG Yanwen (唐彥文)	—	—	—
	<u>632</u>	<u>35</u>	<u>667</u>
	<b><u>632</u></b>	<b><u>35</u></b>	<b><u>667</u></b>
<b>Six months ended 30 June 2019</b>	<b>Salaries, allowances and benefits in kind <i>RMB'000</i></b>	<b>Pension scheme contributions <i>RMB'000</i></b>	<b>Total remuneration <i>RMB'000</i></b>
Executive directors:			
Mr. XIAO Jian (肖健)	207	27	234
Mr. Hendrick SIN (洗漢迪)	481	8	489
	<u>688</u>	<u>35</u>	<u>723</u>
Non-executive directors:			
Mr. MA Yuntao (馬雲濤)	—	—	—
Mr. TANG Yanwen (唐彥文)	—	—	—
	<u>688</u>	<u>35</u>	<u>723</u>
	<b><u>688</u></b>	<b><u>35</u></b>	<b><u>723</u></b>

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods and six months ended 30 June 2018..

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the Relevant Periods and six months ended 30 June 2018 included 1, 0, 1, 1 and 1 director, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration of the 4, 5, 4, 4 and 4 highest paid employees who are neither a director nor chief executive of the Group during the Relevant Periods and six months ended 30 June 2018 are as follows:

	Year ended 31 December			Six months ended	
	2016	2017	2018	30 June 2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, allowances and benefits in kind	2,033	2,970	2,931	1,596	1,957
Pension scheme contributions	40	52	115	33	68
	<u>2,073</u>	<u>3,022</u>	<u>3,046</u>	<u>1,629</u>	<u>2,025</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December			Six months ended	
	2016	2017	2018	30 June 2018	2019
				(Unaudited)	
Nil to HK\$1,000,000	<u>4</u>	<u>5</u>	<u>4</u>	<u>4</u>	<u>4</u>

During the Relevant Periods and six months ended 30 June 2018, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

## 10. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the BVI, the Group is not subject to any income tax in the BVI.

Hong Kong profits tax has been provided at the rate of 16.5% on the Group's assembled profit derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in Mainland China during the Relevant Periods was 25% of their taxable profits.

Chengdu Zhuoxing was accredited a "software enterprise" in 2014 under relevant PRC laws and regulations. Accordingly, Chengdu Zhuoxing was entitled to a preferential Corporate Income Tax ("CIT") rate of 12.5% for the years ended 31 December 2016, 2017 and 2018. For the six months ended 30 June 2019, Chengdu Zhuoxing was subjected to CIT at the standard rate of 25%.

Shenzhen Douyue and Shenzhen Zhongshouyou were accredited “software enterprises” in 2016 under relevant PRC laws and regulations. Accordingly, Shenzhen Douyue and Shenzhen Zhongshouyou were entitled to a preferential CIT rate of 0% for the years ended 31 December 2016 and 2017. For the year ended 31 December 2018 and for the six months ended 30 June 2019, Shenzhen Douyue and Shenzhen Zhongshouyou were subjected to CIT at a preferential CIT rate of 12.5%.

Wenmai Hudong was accredited as high and new technology enterprise (“HNTE”) since 2016 and the certificate is valid for three years. For the year ended 31 December 2018 and for the six months ended 30 June 2019, Wenmai Hudong was entitled to a tax rate of 15%. The HNTE certificates need to be renewed every three years so as to enable Wenmai Hudong to enjoy the reduced tax rate of 15%.

Beijing Softstar was accredited as HNTE since 2009 and the certificate is valid for three years since its renewal in 2018. For the year ended 31 December 2018 and for the six months ended 30 June 2019, Beijing Softstar was entitled to a tax rate of 15%.

Zhongsheng Huyu was established in Horgos Development Zone of Xinjiang and was exempt from PRC Tax Law from the first year of operation which was 2016 for five-year period according to the applicable regulations promulgated by the State Council and relevant authorities. The applicable tax rate for Zhongsheng Huyu was 0% for the year ended 31 December 2018 and for the six months ended 30 June 2019.

The major components of the income tax expense for the year/period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current Tax Expense					
HK	956	807	–	652	–
PRC	16,134	1,527	36,880	11,668	43,704
Elsewhere	884	156	–	–	–
Total	17,974	2,490	36,880	12,320	43,704
Deferred Tax Expense					
HK	(1,472)	–	–	(595)	2,184
PRC	3,061	(2,434)	3,194	3,935	(2,838)
Total	1,589	(2,434)	3,194	3,340	(654)
Total tax charge for the year/period from continuing operations	19,563	56	40,074	15,660	43,050
Total tax charge for the year/period from a discontinued operation	–	–	–	–	–

A reconciliation of the tax expense applicable to profit before tax at the statutory rate of Mainland China (i.e., 25%) where the main operating entity is domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	Year ended 31 December						Six months ended 30 June			
	2016 RMB'000	%	2017 RMB'000	%	2018 RMB'000	%	2018 RMB'000 (Unaudited)	%	2019 RMB'000	%
Profit before tax from continuing operations	<u>208,062</u>		<u>265,051</u>		<u>356,047</u>		<u>178,312</u>		<u>292,929</u>	
Profit before tax from a discontinued operation	<u>12,074</u>		<u>42,469</u>		<u>–</u>		<u>–</u>		<u>–</u>	
Tax at the statutory tax rate	52,016	25	66,263	25	89,012	25	44,578	25	73,232	25
Effect of different applicable tax rates for specific jurisdictions or enacted by local authority	(56,961)	(27)	(70,896)	(27)	(48,450)	(14)	(28,830)	(16)	(43,056)	(15)
Profits and losses attributable to a joint venture and associates	820	0	766	0	(2,663)	(1)	(397)	(0)	1,300	(0)
Super deduction for research and development expenses	(1,326)	(1)	(1,305)	(0)	(5,341)	(2)	(1,731)	(1)	(4,137)	(1)
Expenses not deductible for tax	709	0	1,238	0	5,602	2	340	0	552	0
Utilization of previously unrecognized tax losses	(1,373)	(1)	(778)	(0)	(4,555)	(1)	(4,080)	(2)	–	–
Tax losses and temporary difference not recognized	<u>25,678</u>	12	<u>4,768</u>	2	<u>6,469</u>	2	<u>5,780</u>	3	<u>15,159</u>	5
Tax charge at the Group's effective rate	<u>19,563</u>	9	<u>56</u>	0	<u>40,074</u>	11	<u>15,660</u>	9	<u>43,050</u>	15
Tax charge from continuing operations at the effective rate	<u>19,563</u>	9	<u>56</u>	0	<u>40,074</u>	11	<u>15,660</u>	9	<u>43,050</u>	15
Tax charge from a discontinued operation at the effective rate	<u>–</u>	–	<u>–</u>	–	<u>–</u>	–	<u>–</u>	–	<u>–</u>	–

The share of tax attributable to a joint venture and associates amounting to nil, RMB160,000, RMB1,523,000 and RMB7,012,000 for the three years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2019, respectively, is included in “Share of profits and losses of a joint venture and associates” in the consolidated statement of profit or loss.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10% and may be reduced to 5% if certain criteria could be met under the Double Taxation Arrangement (Hong Kong). The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totally approximately RMB50,267,000, RMB59,418,000, RMB86,064,000 and RMB112,266,000 as at 31 December 2016, 2017, 2018 and 30 June 2019, respectively.

# 11. DISCONTINUED OPERATION

On 2 December 2017, the board of directors of the Group determined to dispose the businesses of card and board games, which were operated under three operating subsidiaries, namely Tianjin Suiyue, Shenzhen Douyue and Shenzhen Zhongshouyou, to Shenzhen Lanyue at a consideration for RMB43,513,000, as the Group plans to focus its resources on mobile game publishing businesses. The disposal of the businesses of card and board games was completed on 31 December 2017.

The results of discontinued operation for the Relevant Periods are presented below:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue	78,296	112,244	N/A	N/A	N/A
Expenses	(66,222)	(69,775)	N/A	N/A	N/A
Profit before tax from the discontinued operation	12,074	42,469	N/A	N/A	N/A
Income tax	–	–	N/A	N/A	N/A
Profit for the year/period from the discontinued operation	12,074	42,469	N/A	N/A	N/A

The net cash flows incurred by businesses of card and board games are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Operating activities	3,294	(1,948)	N/A	N/A	N/A
Investing activities	–	–	N/A	N/A	N/A
Financing activities	–	10,000	N/A	N/A	N/A
Net cash inflow	3,294	8,052	N/A	N/A	N/A



The disposal of discontinued operation is as follows:

	As at 31 December 2017 RMB'000
Net assets disposed of:	
Property and equipment ( <i>note 14</i> )	128
Other intangible assets ( <i>note 17</i> )	641
Trade receivables	35,565
Prepayments, other receivables and other assets	3,803
Due from related parties	16,964
Cash and bank balances	13,117
Interest-bearing bank borrowings	(10,000)
Trade payables	(6,833)
Accruals and other payables	(5,084)
Deferred income-current	(4,788)
	<u>43,513</u>
Gain on disposal	<u>—</u>
Satisfied by:	
Due from a related party	<u>43,513</u>

An analysis of the net outflow of cash and cash equivalents in respect of the disposal is as follows:

	As at 31 December 2017 RMB'000
Cash consideration	—
Cash and bank balances disposed of	<u>(13,117)</u>
Net outflow of cash and cash equivalents in respect of the disposal of discontinued operation	<u>(13,117)</u>

## 12. DIVIDENDS

No dividends have been paid by the Company during the Relevant Periods and the six months ended 30 June 2018. The dividends declared by Chengdu Zhuoxing, Shenzhen Douyue and Shenzhen Zhongshouyou to their then shareholders during the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 were nil, RMB361,586,000, nil and nil, respectively.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the Relevant Periods and the six months ended 30 June 2018 as adjusted to reflect the subsequent changes in capital at nil consideration.

The Group had no potentially dilutive ordinary shares in issue during the Relevant Periods and the six months ended 30 June 2018.

The calculation of basic and diluted earnings per share is based on:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
<u>Earnings</u>					
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation:					
From continuing operations	188,499	264,995	315,973	162,652	249,879
From a discontinued operation	12,074	42,469	–	–	–

	Number of shares			Six months ended 30 June	
	2016	2017	2018	2018	2019
				(Unaudited)	
<u>Shares</u>					
Weighted average number of ordinary shares in issue during the year/period used in the basic and diluted earnings per share calculation	139,157,814	139,157,814	139,157,814	139,157,814	139,157,814

#### 14. PROPERTY AND EQUIPMENT

	Electronic devices RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
<b>31 December 2016</b>					
At 1 January 2016:					
Cost	5,806	330	15,701	7,101	28,938
Accumulated depreciation	(2,488)	(25)	(7,132)	–	(9,645)
Net carrying amount	3,318	305	8,569	7,101	19,293
At 1 January 2016, net of accumulated depreciation	3,318	305	8,569	7,101	19,293
Additions	406	–	187	–	593
Disposals (note 6)	(11)	–	–	(278)	(289)
Disposals of subsidiaries (note 31)	(431)	–	(5,557)	–	(5,988)
Depreciation provided during the year (note 6)	(1,832)	(59)	(3,724)	–	(5,615)
Transfer	–	–	6,823	(6,823)	–
Exchange realignment	(37)	–	–	–	(37)
At 31 December 2016, net of accumulated depreciation	1,413	246	6,298	–	7,957
At 31 December 2016:					
Cost	5,326	330	15,784	–	21,440
Accumulated depreciation	(3,913)	(84)	(9,486)	–	(13,483)
Net carrying amount	1,413	246	6,298	–	7,957

	Electronic devices <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Leasehold improvement <i>RMB'000</i>	Total <i>RMB'000</i>
<b>31 December 2017</b>				
At 1 January 2017:				
Cost	5,326	330	15,784	21,440
Accumulated depreciation	(3,913)	(84)	(9,486)	(13,483)
Net carrying amount	1,413	246	6,298	7,957
At 1 January 2017, net of accumulated depreciation	1,413	246	6,298	7,957
Additions	347	–	339	686
Disposals ( <i>note 6</i> )	(36)	–	(38)	(74)
Disposal of discontinued operation ( <i>note 11</i> )	(128)	–	–	(128)
Depreciation provided during the year ( <i>note 6</i> )	(794)	(59)	(2,323)	(3,176)
Exchange realignment	50	–	(2)	48
At 31 December 2017, net of accumulated depreciation	852	187	4,274	5,313
At 31 December 2017:				
Cost	5,285	330	16,080	21,695
Accumulated depreciation	(4,433)	(143)	(11,806)	(16,382)
Net carrying amount	852	187	4,274	5,313
<b>31 December 2018</b>				
At 1 January 2018:				
Cost	5,285	330	16,080	21,695
Accumulated depreciation	(4,433)	(143)	(11,806)	(16,382)
Net carrying amount	852	187	4,274	5,313
At 1 January 2018, net of accumulated depreciation	852	187	4,274	5,313
Additions	906	311	62	1,279
Acquisition of subsidiaries ( <i>note 30</i> )	2,017	–	612	2,629
Disposals ( <i>note 6</i> )	(163)	(137)	–	(300)
Depreciation provided during the year ( <i>note 6</i> )	(318)	(248)	(2,087)	(2,653)
Exchange realignment	(26)	(1)	4	(23)
At 31 December 2018, net of accumulated depreciation	3,268	112	2,865	6,245
At 31 December 2018:				
Cost	6,733	311	16,758	23,802
Accumulated depreciation	(3,465)	(199)	(13,893)	(17,557)
Net carrying amount	3,268	112	2,865	6,245

	Electronic devices <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Leasehold improvement <i>RMB'000</i>	Total <i>RMB'000</i>
<b>30 June 2019</b>				
At 1 January 2019:				
Cost	6,733	311	16,758	23,802
Accumulated depreciation	(3,465)	(199)	(13,893)	(17,557)
Net carrying amount	<u>3,268</u>	<u>112</u>	<u>2,865</u>	<u>6,245</u>
At 1 January 2019, net of accumulated depreciation	3,268	112	2,865	6,245
Additions	1,607	–	10	1,617
Disposals ( <i>note 6</i> )	(227)	–	(317)	(544)
Depreciation provided during the period ( <i>note 6</i> )	(782)	(31)	(1,114)	(1,927)
Exchange realignment	(1)	–	–	(1)
At 30 June 2019, net of accumulated depreciation	<u>3,865</u>	<u>81</u>	<u>1,444</u>	<u>5,390</u>
At 30 June 2019:				
Cost	5,963	311	16,452	22,726
Accumulated depreciation	(2,098)	(230)	(15,008)	(17,336)
Net carrying amount	<u>3,865</u>	<u>81</u>	<u>1,444</u>	<u>5,390</u>

## 15. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Right-of-use assets Properties <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>
As at 1 January 2016	11,960	11,960
Additions	8,068	8,068
Depreciation expense ( <i>note 6</i> )	(4,409)	–
Interest expense ( <i>note 7</i> )	–	765
Payment	–	(5,174)
As at 31 December 2016 and 1 January 2017	15,619	15,619
Additions	9,808	9,808
Depreciation expense ( <i>note 6</i> )	(6,659)	–
Interest expense ( <i>note 7</i> )	–	694
Payment	–	(7,353)
As at 31 December 2017 and 1 January 2018	18,768	18,768
Additions	2,953	2,953
Acquisition of subsidiaries ( <i>note 30</i> )	14,700	14,700
Depreciation expense ( <i>note 6</i> )	(15,326)	–
Interest expense ( <i>note 7</i> )	–	977
Payment	–	(16,303)

	<b>Right-of-use assets Properties RMB'000</b>	<b>Lease liabilities RMB'000</b>
As at 31 December 2018 and 1 January 2019	21,095	21,095
Additions	20,450	20,450
Depreciation expense ( <i>note 6</i> )	(9,908)	–
Interest expense ( <i>note 7</i> )	–	1,250
Payment	–	(10,878)
	<u>31,637</u>	<u>31,917</u>
As at 30 June 2019	<u>31,637</u>	<u>31,917</u>

The carrying amounts of lease liabilities are repayable:

	<b>As at 31 December</b>			<b>As at 30 June</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Less than 3 months	1,384	3,167	5,263	4,525
3 to less than 12 months	4,357	13,528	11,161	9,179
1 to 3 years	9,878	2,073	4,671	18,213
	<u>15,619</u>	<u>18,768</u>	<u>21,095</u>	<u>31,917</u>
Current	5,741	16,695	16,424	13,704
Non-current	9,878	2,073	4,671	18,213

During the Relevant Periods, the Group entered into certain long-term lease contracts for office premises.

During the Relevant Periods, the Group also leased certain office premises under short-term (i.e. within 12 months) lease arrangement. The Group has elected not to recognise right-of-use assets on these short-term lease contracts. There is no restrictions or covenants imposed and no sale and leaseback transactions.

The following future cash outflows of the Group is potentially exposed to that are not reflected in the measurement of lease liabilities:

	<b>As at 31 December</b>			<b>As at 30 June</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Future cash outflows for short-term leases	14	–	6	98

## 16. GOODWILL

	<i>Notes</i>	<i>RMB'000</i>
<b>At 1 January 2016:</b>		
Cost		470,275
Accumulated impairment		—
Net carrying amount		470,275
Cost at 1 January 2016, net of accumulated impairment		470,275
Disposal of subsidiaries	31	(145,433)
Impairment during the year		—
Cost and net carrying amount at 31 December 2016		324,842
<b>At 31 December 2016:</b>		
Cost		324,842
Accumulated impairment		—
Net carrying amount		324,842
Cost at 31 December 2016, net of accumulated impairment		324,842
Impairment during the year		—
Cost and net carrying amount at 31 December 2017		324,842
<b>At 31 December 2017:</b>		
Cost		324,842
Accumulated impairment		—
Net carrying amount		324,842
Cost at 31 December 2017, net of accumulated impairment		324,842
Acquisition of subsidiaries	30	793,775
Impairment during the year		—
Cost and net carrying amount at 31 December 2018		1,118,617
<b>At 31 December 2018:</b>		
Cost		1,118,617
Accumulated impairment		—
Net carrying amount		1,118,617
Cost at 31 December 2018, net of accumulated impairment		1,118,617
Impairment during the period		—
Cost and net carrying amount at 30 June 2019		1,118,617

On 23 November 2015, RMB470,275,000 of goodwill related to the Listing Businesses was arisen from the acquisition of China Mobile Games and Entertainment Group Limited (“CMGE Group”) by CMGE Mobile Tech.

Goodwill associated with the operation disposed of amounting to RMB145,433,000 in July 2016 was included in the carrying amount of the operation when determining the gain or loss on the disposal (note 31). Goodwill disposed of is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

On 31 May 2018, goodwill arisen from the acquisition of Wenmai Hudong amounted to RMB698,045,000 (note 30).

On 28 August 2018, goodwill arisen from the acquisition of Beijing Softstar amounted to RMB95,730,000 (note 30).

Goodwill is allocated to mobile game publishing cash-generating unit, game development of Wenmai Hudong cash-generating unit and game development of Beijing Softstar cash-generating unit (collectively of the three above, the "CGUs") for impairment testing. The recoverable amount of the CGUs have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The growth rate beyond the five-year period had been projected as 3.0%.

The respective recoverable amount and the carrying value of the CGUs as at 31 December 2016, 2017 and 2018 and 30 June 2019 are as follows:

**Mobile game publishing CGU:**

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Recoverable amount	867,176	1,247,599	1,570,000	1,830,000
Carrying value including allocated goodwill	382,921	412,202	424,888	412,945

**Game development of Wenmai Hudong CGU:**

	As at	As at
	31 December	30 June
	2018	2019
	RMB'000	RMB'000
Recoverable amount	881,791	887,781
Carrying value including allocated goodwill	731,312	730,519

**Game development of Beijing Softstar CGU:**

	As at	As at
	31 December	30 June
	2018	2019
	RMB'000	RMB'000
Recoverable amount	266,183	283,334
Carrying value including allocated goodwill	246,563	255,827

The pre-tax discount rates applied to the cash flow projections, the forecasted growth rates and gross margin used to extrapolate cash flow projections and terminal growth rates are follows:

**Mobile game publishing CGU:**

	As at 31 December			As at
	2016	2017	2018	30 June
				2019
Growth rates (during the five-year period)*	5%-10%	5%-10%	3%-10%	3%-79%
Gross margin	36%-38%	35%-36%	35%-36%	35%
Pre-tax discount rate	18%	17%	17%	17%
Terminal growth rate	3%	3%	3%	3%

**Game development of Wenmai Hudong CGU:**

	As at	As at
	31 December	30 June
	2018	2019
Growth rates (during the five-year period)**	3%-136%	3%-201%
Gross margin	16%-18%	16%
Pre-tax discount rate	19%	19%
Terminal growth rate	3%	3%



**Game development of Beijing Softstar CGU:**

	<b>As at 31 December 2018</b>	<b>As at 30 June 2019</b>
Growth rates (during the five-year period)***	3%-1,001%	3%-225%
Gross margin	17%-19%	14%-17%
Pre-tax discount rate	21%	21%
Terminal growth rate	3%	3%

Assumptions were used in the value in use calculation of the CGUs for 31 December 2016, 2017, 2018 and 30 June 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Revenue growth rate* – The revenue growth rate is based on the average growth achieved in the past years and the expected revenue from newly launched games.

\* The expected growth rates during the five-year period as at 30 June 2019 were 79%, 5%, 4%, 3% and 3%, respectively. Certain mobile games generated significant amount of revenue in the first half of 2019, which was out of the original expectation in 2018. The Group expected continuous increase in revenue from this game leading to a high growth rate in the first year. Revenue from the second to fifth years were expected to increase gradually and the growth rate returned to a lower range.

\*\* The expected growth rates during the five-year period as at 31 December 2018 were 136%, 18%, 12%, 10% and 3%, respectively. The Group expected significant growth in the first year due to the expected revenue from developed mobile game and the synergy arising from the acquisition. Revenue in the second to fifth years were expected to increase gradually and therefore the growth rate returned to a lower range. The expected growth rates during the five-year period as at 30 June 2019 were 201%, 9%, 6%, 4% and 3%, respectively. The Group expected higher revenue growth in the first year mainly due to one developed mobile game which generated significant amount of revenue in the first half of 2019 expected to contribute more revenue in the following year.

\*\*\* The expected growth rates during the five-year period as at 31 December 2018 were 1,001%, 12%, 10%, 8% and 3%, respectively. The Group expected significant growth in the first year due to the expected revenue from new launched mobile games and the synergy arising from the acquisition. Beijing Softstar had no revenue from self-developed games in 2018 and therefore the new launched mobile games expected in 2019 will lead to a dramatic increase in revenue. Revenue in the second to fifth years were expected to increase gradually and therefore the growth rate returned to a lower range.

*Budgeted gross margins* – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the past years and the expectation for market development.

*Discount rate* – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on market development and discount rate are consistent with external information sources.

**Sensitivity analysis**

For game publishing CGU, the estimated recoverable amounts exceeded its carrying values by RMB484,255,000, RMB835,397,000, RMB1,145,112,000 and RMB1,417,055,000 as at 31 December 2016, 2017, 2018 and 30 June 2019, respectively. The directors of the Company believed that no reasonably possible change in any of the above key assumptions would cause the carrying value of the game publishing CGU to exceed its recoverable amount.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the game publishing CGU's recoverable amount to be equal to its carrying value as at 31 December 2016, 2017, 2018 and 30 June 2019:

	Change required for carrying value to equal recoverable amount			As at
	As at 31 December 2016	2017	2018	30 June 2019
Growth rates (during the five-year period)	(3%)	(4%)	(4%)	(2%)
Gross margin	(5%)	(8%)	(9%)	(7%)
Pre-tax discount rate	8%	19%	19%	19%

For game development of Wenmai Hudong CGU, the estimated recoverable amounts exceeded its carrying values by RMB150,479,000 and RMB157,262,000 as at 31 December 2018 and 30 June 2019 respectively, any significant adverse change in key assumptions would, in isolation, cause an impairment loss to be recognised.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the game development of Wenmai Hudong CGU's recoverable amount to be equal to its carrying value as at 31 December 2018 and 30 June 2019:

	Change required for carrying value to equal recoverable amount	
	As at 31 December 2018	As at 30 June 2019
Growth rates (during the five-year period)	(3%)	(4%)
Gross margin	(2%)	(2%)
Pre-tax discount rate	3%	4%

For game development of Beijing Softstar CGU, the estimated recoverable amounts exceeded its carrying values by RMB19,620,000 as at 31 December 2018 and by RMB27,507,000 as at 30 June 2019, any significant adverse change in key assumptions would, in isolation, cause an impairment loss to be recognised.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the game development of Beijing Softstar CGU's recoverable amount to be equal to its carrying value as at 31 December 2018 and 30 June 2019:

	Change required for carrying value to equal recoverable amount	
	As at 31 December 2018	As at 30 June 2019
Growth rates (during the five-year period)	(2%)	(2%)
Gross margin	(1%)	(1%)
Pre-tax discount rate	1%	2%

## 17. OTHER INTANGIBLE ASSETS

	IP licenses RMB'000	CP licenses RMB'000	Computer software RMB'000	Trademarks RMB'000	Copyrights RMB'000	Total RMB'000
<b>31 December 2016</b>						
Cost at 1 January 2016, net of accumulated amortisation	2,916	28,939	229	13	–	32,097
Additions	8,139	25,144	20	–	–	33,303
Disposals of subsidiaries (note 31)	–	–	(218)	–	–	(218)
Amortisation provided during the year (note 6)	(3,357)	(33,351)	(19)	(3)	–	(36,730)
Exchange realignment	–	154	1	1	–	156
At 31 December 2016	<u>7,698</u>	<u>20,886</u>	<u>13</u>	<u>11</u>	<u>–</u>	<u>28,608</u>
At 31 December 2016:						
Cost	12,177	61,152	32	16	–	73,377
Accumulated amortisation	<u>(4,479)</u>	<u>(40,266)</u>	<u>(19)</u>	<u>(5)</u>	<u>–</u>	<u>(44,769)</u>
Net carrying amount	<u>7,698</u>	<u>20,886</u>	<u>13</u>	<u>11</u>	<u>–</u>	<u>28,608</u>
	IP licenses RMB'000	CP licenses RMB'000	Computer software RMB'000	Trademarks RMB'000	Copyrights RMB'000	Total RMB'000
<b>31 December 2017</b>						
Cost at 1 January 2017, net of accumulated amortisation	7,698	20,886	13	11	–	28,608
Additions	–	14,151	–	–	16,038	30,189
Disposal of discontinued operation (note 11)	–	(641)	–	–	–	(641)
Amortisation provided during the year (note 6)	(4,180)	(18,613)	(6)	(3)	(197)	(22,999)
Exchange realignment	–	(55)	–	–	–	(55)
At 31 December 2017	<u>3,518</u>	<u>15,728</u>	<u>7</u>	<u>8</u>	<u>15,841</u>	<u>35,102</u>
At 31 December 2017:						
Cost	12,177	69,733	33	17	16,038	97,998
Accumulated amortisation	<u>(8,659)</u>	<u>(54,005)</u>	<u>(26)</u>	<u>(9)</u>	<u>(197)</u>	<u>(62,896)</u>
Net carrying amount	<u>3,518</u>	<u>15,728</u>	<u>7</u>	<u>8</u>	<u>15,841</u>	<u>35,102</u>

	IP licenses RMB'000	CP licenses RMB'000	Computer software RMB'000	Trademarks RMB'000	Copyrights RMB'000	Development Expenditure RMB'000	Total RMB'000
<b>31 December 2018</b>							
Cost at 1 January 2018, net of accumulated amortisation	3,518	15,728	7	8	15,841	–	35,102
Acquisition of subsidiaries (note 30)	–	–	638	–	86,210	14,038	100,886
Additions	9,434	3,183	104	–	–	9,011	21,732
Disposal	–	–	–	–	(7,210)	–	(7,210)
Amortisation provided during the year (note 6)	(4,660)	(13,495)	(6)	–	(14,795)	–	(32,956)
Exchange realignment	–	–	(6)	(3)	–	–	(9)
At 31 December 2018	<u>8,292</u>	<u>5,416</u>	<u>737</u>	<u>5</u>	<u>80,046</u>	<u>23,049</u>	<u>117,545</u>
At 31 December 2018:							
Cost	21,611	73,154	1,009	17	95,038	23,049	213,878
Accumulated amortisation	(13,319)	(67,738)	(272)	(12)	(14,992)	–	(96,333)
Net carrying amount	<u>8,292</u>	<u>5,416</u>	<u>737</u>	<u>5</u>	<u>80,046</u>	<u>23,049</u>	<u>117,545</u>
	IP licenses RMB'000	CP licenses RMB'000	Computer software RMB'000	Trademarks RMB'000	Copyrights RMB'000	Development Expenditure RMB'000	Total RMB'000
<b>30 June 2019</b>							
Cost at 1 January 2019, net of accumulated amortisation	8,292	5,416	737	5	80,046	23,049	117,545
Additions	9,434	21,872	18	–	–	15,709	47,033
Disposal	–	–	–	–	(13,907)	–	(13,907)
Amortisation provided during the period (note 6)	(5,835)	(6,850)	(106)	(2)	(14,351)	–	(27,144)
Impairment during the period (note 6)	–	(4,193)	–	–	–	–	(4,193)
Exchange realignment	–	(3)	1	(1)	–	–	(3)
At 30 June 2019	<u>11,891</u>	<u>16,242</u>	<u>650</u>	<u>2</u>	<u>51,788</u>	<u>38,758</u>	<u>119,331</u>
At 30 June 2019:							
Cost	31,045	94,500	1,026	16	81,131	38,758	246,476
Accumulated amortisation	(19,154)	(74,065)	(376)	(14)	(29,343)	–	(122,952)
Impairment*	–	(4,193)	–	–	–	–	(4,193)
Net carrying amount	<u>11,891</u>	<u>16,242</u>	<u>650</u>	<u>2</u>	<u>51,788</u>	<u>38,758</u>	<u>119,331</u>

\* During the six months ended 30 June 2019, an agreement of CP license was terminated and the intangible assets amounted to RMB4,193,000 was impaired.

The development expenditure refers to the development costs incurred for a PC game with respect to a license agreement with a third party. Under the license agreement, the Group is entitled to a guaranteed license fee and a monthly sales-based loyalty. The capitalised development costs will be amortised to cost of sales when the right to use the license is transferred to a third party.

The recoverable amount of the development expenditure has been determined based on the amount of consideration that the Group expects to receive in exchange for the right to use the license to which the development costs relates, less the future costs that relate directly to providing the right to use the license that have not been incurred.

The respective recoverable amount and the carrying value of the development expenditure as at 31 December 2018 and 30 June 2019 are as follows:

	<b>As at 31 December 2018 RMB'000</b>	<b>As at 30 June 2019 RMB'000</b>
Recoverable amount	25,170	40,594
Carrying value	23,049	38,758

The pre-tax discount rates applied to the cash flow projections, the estimated future cash inflows and estimated future cash outflows used to extrapolate cash flow projections are as follows:

	<b>As at 31 December 2018 RMB'000</b>	<b>As at 30 June 2019 RMB'000</b>
Estimated future cash inflows	50,943	50,943
Estimated future cash outflows	24,948	9,239
Pre-tax discount rate	18%	18%

#### Sensitivity analysis

For the development expenditure, the estimated recoverable amounts exceeded its carrying values by RMB2,121,000 and RMB1,836,000 as at 31 December 2018 and 30 June 2019, respectively. The directors of the Company believed that no reasonably possible change in any of the above key assumptions would cause the carrying value of the development expenditure to exceed its recoverable amount.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the development expenditure's recoverable amount to be equal to its carrying value as at 31 December 2018 and 30 June 2019.

	<b>Change required for carrying value to equal recoverable amount</b>	
	<b>As at 31 December 2018 RMB'000</b>	<b>As at 30 June 2019 RMB'000</b>
Estimated future cash inflows	(3,512)	(2,835)
Estimated future cash outflows	2,639	2,207

## 18. INVESTMENT IN A JOINT VENTURE

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Share of net assets	–	–	2,287	851
Goodwill on acquisition	–	–	1,837	1,837
	–	–	4,124	2,688
Provision for impairment	–	–	–	–
	–	–	4,124	2,688

Particulars of the Group's joint venture are as follows:

Name	Particulars of registered capital held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Shenzhen Boliang Technology Co., Ltd. (深圳博良科技有限公司)	RMB850,000 as registered capital	Mainland China	60.00%	Mobile game development

Shenzhen Boliang Technology Co., Ltd., which is considered a material joint venture of the Group, acts as the Group's developer of mobile game in Mainland China and is accounted for using the equity method. According to the articles of association of Shenzhen Boliang Technology Co., Ltd., shareholders' resolution requires unanimous consent of all shareholders. Thus, the Group does not have control over Shenzhen Boliang Technology Co., Ltd. which was accounted for as a joint venture.

On 30 May 2018, the Group acquired 51% equity interests in Beijing Softstar by cash injection of RMB213,000,000 into Beijing Softstar. Beijing Softstar is engaged in the mobile game development. Beijing Softstar became a subsidiary of the Group since 28 August 2018 (note 30).

## 19. INVESTMENTS IN ASSOCIATES

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Share of net assets	15,867	7,832	62,222	60,312
Goodwill on acquisition	16,855	50,170	105,582	98,545
	32,722	58,002	167,804	158,857
Provision for impairment	–	–	–	–
	32,722	58,002	167,804	158,857

Particulars of the Group's associates are as follows:

Name	Particulars of registered capital held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司) <sup>#</sup>	RMB1,551,254 as registered capital	Mainland China	43.47%	Mobile game development
Guangzhou Leiyu Information Technology Co., Ltd. (廣州市雷娛信息科技有限公司) <sup>*</sup>	RMB2,500,000 as registered capital	Mainland China	20.00%	Mobile game development
Shenzhen Haituo Shidai Technology Co., Ltd. (深圳海拓時代科技有限公司) <sup>*</sup>	RMB30,769,230 as registered capital	Mainland China	25.00%	Mobile game development
Tianjin Fenzhi Huyu Technology Co., Ltd. (天津紛至互娛科技有限公司) <sup>#</sup>	RMB3,125,000 as registered capital	Mainland China	32.00%	Mobile game development
Shenzhen Bahamute Technology Co., Ltd. (深圳巴哈姆特科技有限公司) <sup>&amp;</sup>	RMB1,666,667 as registered capital	Mainland China	35.00%	Mobile game development
Beijing Yingyou Technology Co., Ltd. (北京影遊科技有限公司) <sup>&amp;</sup>	RMB153,800 as registered capital	Mainland China	35.00%	Mobile game development
Shanghai Langkun Digital Technology Co., Ltd. (上海朗鵬數碼科技有限公司) <sup>*</sup>	RMB12,764,706 as registered capital	Mainland China	23.50%	Mobile game development
Beijing Qiwen Internet Technology Co., Ltd. (北京奇文網絡科技有限公司) <sup>^</sup>	RMB5,000,000 as registered capital	Mainland China	32.50%	IP licensing and mobile game development
Shenzhen Zhichengqianli Investment Enterprise (Limited Partnership) (深圳市志成千里投資企業(有限合伙)) <sup>^</sup>	RMB101,500,000 as registered capital	Mainland China	49.26%	Investment

<sup>#</sup> Investments in Shanghai Fengguo Network Information, Shenzhen Bahamute Technology Co., Ltd., Beijing Yingyou Technology Co., Ltd. and Tianjin Fenzhi Huyu Technology Co., Ltd. were acquired in 2016 at a consideration of RMB36,000,000. In June 2018, the Group acquired additional 23.47% interests in Shanghai Fengguo Network Information at a consideration of RMB50,000,000, of which, RMB30,000,000 was paid in 2018 and RMB20,000,000 was paid in April 2019. In May 2019, the Group received dividend of RMB6,000,000 from Shanghai Fengguo Network Information.

<sup>\*</sup> Investments in Guangzhou Leiyu Information Technology Co., Ltd., Shanghai Langkun Digital Technology Co., Ltd. and Shenzhen Haituo Shidai Technology Co., Ltd. were acquired in 2017 at a consideration of RMB35,000,000. In January 2018, the Group invested RMB5,290,000 in Shanghai Langkun Digital Technology Co., Ltd..



^ Investment in Beijing Qiwen Internet Technology Co., Ltd. was acquired in 2018 at a consideration of RMB1,625,000. Investments in Shenzhen Zhichengqianli Investment Enterprise (Limited Partnership) was acquired in 2018 at a consideration of RMB35,000,000.

& These two associate companies were liquidated in 2017 and the relevant disposal losses amounting to RMB5,822,000 were recognized in the Other Expenses of the consolidated statement of profit or loss.

Shanghai Fengguo Network Information, Shenzhen Haituo Shidai Technology Co., Ltd., Shanghai Langkun Digital Technology Co., Ltd. and Shenzhen Zhichengqianli Investment Enterprise (Limited Partnership), which are considered material associates of the Group, are strategic partners of the Group and are accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Shanghai Fengguo Network Information adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	16,041	11,224	48,559	41,876
Non-current assets, excluding goodwill	256	382	1,758	1,588
Current liabilities	(574)	(2,637)	(20,368)	(19,747)
Net assets	<u>15,723</u>	<u>8,969</u>	<u>29,949</u>	<u>23,717</u>
Reconciliation to the Group's interest in the associate:				
Proportion of the Group's ownership	20.00%	20.00%	43.47%	43.47%
Group's share of net assets of the associate, excluding goodwill	3,145	1,794	13,019	8,657
Goodwill on acquisition (less cumulative impairment)	<u>16,855</u>	<u>16,855</u>	<u>64,750</u>	<u>64,750</u>
Carrying amount of the investment	<u>20,000</u>	<u>18,649</u>	<u>77,769</u>	<u>73,407</u>
				Six months ended
	For the year ended 31 December			30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	73,740	72,759	97,753	34,285
(Loss)/profit for the year/period	(2,110)	(6,754)	20,980	3,768
Total comprehensive (loss)/profit for the year/period	(2,110)	(6,754)	20,980	3,768
Dividend paid	<u>—</u>	<u>—</u>	<u>—</u>	<u>(10,000)</u>

## APPENDIX I

## ACCOUNTANTS' REPORT

The following table illustrates the summarised financial information in respect of Shenzhen Haituo Shidai Technology Co., Ltd. adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2017</b>	<b>2018</b>	<b>30 June</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets	9,614	56,768	78,046
Non-current assets, excluding goodwill	170	641	711
Current liabilities	(4,183)	(9,107)	(18,149)
Net assets	<u>5,601</u>	<u>48,302</u>	<u>60,608</u>
Reconciliation to the Group's interest in the associate:			
Proportion of the Group's ownership	25.00%	25.00%	25.00%
Group's share of net assets of the associate, excluding goodwill	1,400	12,076	15,152
Goodwill on acquisition (less cumulative impairment)	14,536	14,535	14,536
Carrying amount of the investment	<u>15,936</u>	<u>26,611</u>	<u>29,688</u>
			<b>Six months ended</b>
	<b>For the year ended 31 December</b>		<b>30 June</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	7,445	62,323	33,375
(Loss)/profit for the year/period	(3,588)	42,701	12,306
Total comprehensive (loss)/profit for the year/period	(3,588)	42,701	12,306
Dividend received	—	—	—

The following table illustrates the summarised financial information in respect of Shanghai Langkun Digital Technology Co., Ltd. adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2017</b>	<b>2018</b>	<b>30 June</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets	15,803	60,734	34,740
Non-current assets, excluding goodwill	1,535	2,221	1,234
Current liabilities	(74,046)	(89,941)	(92,904)
Net liabilities	<u>(56,708)</u>	<u>(26,986)</u>	<u>(56,930)</u>
Reconciliation to the Group's interest in the associate:			
Proportion of the Group's ownership	23.50%	23.50%	23.50%
Group's share of net assets of the associate, excluding goodwill	—	—	—
Goodwill on acquisition (less cumulative impairment)	9,000	13,987	6,950
Carrying amount of the investment	<u>9,000</u>	<u>13,987</u>	<u>6,950</u>

	For the year ended 31 December		Six months ended
	2017	2018	30 June
	RMB'000	RMB'000	2019
			RMB'000
Revenue	–	64,403	3,361
Loss for the year/period	(67,404)	(1,286)	(29,944)
Total comprehensive loss for the year/period	(67,404)	(1,286)	(29,944)
Dividend received	–	–	–

Shanghai Langkun Digital Technology Co., Ltd. incurred operating losses during the Relevant Periods but is expected to generate significant amount of revenue and profits when two of its newly developed mobile games are published in the market. Based on the impairment test performed at the end of each reporting period, the estimated recoverable amounts have exceeded the carrying values and therefore no impairment was provided for the investment in Shanghai Langkun Digital Technology Co., Ltd..

The following table illustrates the summarised financial information in respect of Shenzhen Zhichengqianli Investment Enterprise (Limited Partnership) adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	As at 31 December 2018 RMB'000	As at 30 June 2019 RMB'000
Current assets	62,261	61,507
Non-current assets, excluding goodwill	–	–
Current liabilities	(137)	(137)
Net assets	62,124	61,370
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	49.26%	49.26%
Group's share of net assets of the associate, excluding goodwill	30,602	30,231
Goodwill on acquisition (less cumulative impairment)	4,205	4,205
Carrying amount of the investment	34,807	34,436
	For the year ended 31 December 2018 RMB'000	Six months ended 30 June 2019 RMB'000
Revenue	–	–
Loss for the year/period	(391)	(756)
Total comprehensive loss for the year/period	(391)	(756)
Dividend received	–	–

The Group's trade payable balances with the associates are disclosed in note 36 to the Historical Financial Information. The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Share of the associates' (loss)/profit for the year/period	(3,278)	3,417	7,618	(253)
Share of the associates' total comprehensive (loss)/income	(3,278)	3,417	7,618	(253)
Aggregate carrying amount of the Group's investments in the associates	12,722	14,417	14,630	14,376

The Group tested its investment in associates for impairment by comparing the recoverable amounts with the carrying amounts. In determining the recoverable amount of the investments in the associates, the Group estimates its shares of present value of estimated future cash flows expected to generate from the operations of the associates. The associates invested by the Group are mostly start-up mobile game companies which may incur operating losses in their business developing stages but are expected to expand their businesses at relatively higher growth rates. The Group tested its investment in associates for impairment annually or more frequently if events or changes in circumstance indicated that they might be impaired. During the Relevant Periods, the estimated recoverable amounts of the investment in associates were greater than its carrying values and therefore no impairment was recorded.

## 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Listed equity investment	—	—	64,700	52,681
NEEQ quoted equity investments, at fair value	181,472	57,300	71,682	72,275
Unlisted equity investments, at fair value	21,704	23,188	342,497	336,840
Convertible loans	—	5,300	59,822	16,254
	203,176	85,788	538,701	478,050

As at 31 December 2016, 2017, 2018 and 30 June 2019, the fair value gains in respect of the Group's financial assets at fair value through profit or loss recognised amounted to RMB32,597,000, RMB40,546,000, RMB86,055,000 and RMB11,734,000 (note 5), respectively.

### (1) Listed equity investment

In May 2018, the Group acquired 26% of the issued shares of Angel Fund (Asia) Investments Limited ("Angel Fund") from Angel (Partners) Investments Limited with the consideration of 1,270,963 issued shares of Ridgeview Well Investment Limited ("Ridgeview Well"), the then sole shareholder of the Company. Angel Fund held 9,740,562 shares, representing 20.368% of the total issued shares of Softstar Entertainment Inc, which is a company listed on the Taiwan Stock Exchange (TAIPEI: 6111). The fair value of the investment in Angel Fund was RMB64,700,000 as at 31 December 2018 and RMB52,681,000 as at 30 June 2019.

In June 2018, the Group entered into a conditional share purchase agreement with Angel (Partners) Investments Limited pursuant to which the Group agreed to acquire the additional 25% of the issued shares of Angel Fund, subject to the satisfaction of certain conditions. In September 2018, the Group entered into a conditional share purchase agreement with Future Kemy Limited pursuant to which the Group agreed to acquire the additional 49% of the issued shares of Angel Fund, subject to the satisfaction of certain conditions. The Group paid RMB100,000,000 (note 22) as prepayment to the conditional share purchase. As at 30 June 2019, the directors considered the fair value of the purchase option was insignificant.

**(2) NEEQ quoted equity investments, at fair value**

NEEQ quoted equity investments represent the Group's shareholding in Beijing Hero Entertainment Co., Ltd. ("Hero Entertainment"), a third-party company listed in NEEQ of China. As described in note 31 to the Historical Financial Information, on 25 July 2016, the Group disposed Qi Le Wu Xian in exchange for 48,780,480 shares or 3.40% shareholding of Hero Entertainment, and a cash consideration of RMB94,500,000. The fair values of each share of Hero Entertainment as at 25 July 2016, 31 December 2016, 2017, 2018 and 30 June 2019 were estimated to RMB3.08, RMB3.72, RMB4.52, RMB7.58 and RMB7.64, respectively based on the valuation result of a third-party professional value. In the years ended 31 December 2017 and 2018, the Group sold 36,112,000 shares and 3,208,000 shares out of the total 48,780,480 shares to third-party investors, resulting in gains on disposal of RMB124,889,000 and RMB2,308,000, respectively (note 5).

**(3) Unlisted equity investments, at fair value**

Unlisted equity investments represented the Group's certain minority interests in private companies. The Group elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. The balance of the Group's unlisted equity investments comprised a number of individual investments, of which the following investments are material to the Group:

- (a) In April 2018, CMGE Group transferred the investment in China Prosperity Capital Mobile Internet Fund L.P. ("CPC Fund") to the Group at nil consideration. In June 2018, the Group injected cash of US\$8,300,000 (equivalent to RMB54,442,000) to CPC Fund. The Group acted as a limited partner and held 25.65% of its limited partnership interests. The fair value of the investment in CPC Fund was RMB223,229,000 as at 31 December 2018 and RMB233,931,000 as at 30 June 2019.

The Group holds 25.65% and 26% limited partnership interests in CPC Fund and Angel Fund, respectively. Pursuant to the relevant partnership agreements of these two funds, the Group is entitled to investment return, but has no right or power to participate in the management or control of the funds. Therefore, the Group has neither control nor significant influence on CPC Fund and Angel Fund and they are treated as financial instruments at fair value through profit or loss.

During the six months ended 30 June 2019, the Group received dividend in the amount of RMB8,898,000 from CPC Fund (note 5).

- (b) In April 2018, CMGE Group transferred the investment in Fontaine Capital Fund, L.P. ("Fontaine Fund") to the Group for nil consideration. The fair value of the investment in Fontaine Fund was RMB27,872,000 as at 31 December 2018 and RMB35,790,000 as at 30 June 2019.
- (c) In January 2018, the Group acquired a 10% equity interest in Shanghai Yuanjia Digital Technology Co., Ltd. at a consideration of RMB30,000,000. The fair value of the investment in Shanghai Yuanjia Digital Technology Co., Ltd. was RMB29,100,000 as at 31 December 2018. In February 2019, the Group disposed the 10% equity in Shanghai Yuanjia Digital Technology Co., Ltd. at consideration of RMB30,000,000, resulting in gains on disposal of RMB900,000.
- (d) In June 2018, the Group acquired 9% equity interest in Shenzhen Yunwa Technology Co., Ltd. at a consideration of RMB8,000,000. The difference of fair value as at acquisition date and the consideration of the investment in Shenzhen Yunwa Technology Co., Ltd. amounted to RMB11,530,000 was recorded as contribution from the shareholders. The fair value of the investment in Shenzhen Yunwa Technology Co., Ltd. was RMB33,480,000 as at 31 December 2018 and RMB39,600,000 as at 30 June 2019.

**(4) Convertible loans**

According to the terms and conditions of the convertible loans, the company is entitled to convert the convertible loans into equity capital of the relevant game developing companies at its own discretion before the maturity of the convertible loans. The convertible loans were classified as financial assets at fair value through profit or loss. In February 2019, the Group disposed the convertible loans invested in Shanghai Yuanjia Digital Technology Co., Ltd. at a consideration of RMB37,500,000, resulting in loss on disposal of RMB2,758,000. During the six months ended 30 June 2019, the Company did not exercise convertible options in the loans invested in Xizang Huanzhong, which was transferred to prepayments, other receivables and other assets at the fair value of RMB4,248,000.

## 21. TRADE RECEIVABLES

	As at 31 December			As at 30 June 2019
	2016	2017	2018	
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	284,122	168,904	481,478	658,302
Allowance for expected credit losses	(1,895)	(4,426)	(9,047)	(14,646)
	<u>282,227</u>	<u>164,478</u>	<u>472,431</u>	<u>643,656</u>

Trade receivables mainly represent amounts receivable from third-party publishing channels. The Group normally allows credit terms of 30-90 days to established channels and extends credit terms up to 270 days for major channels. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aging analysis of the trade receivables as at the end of each of the Relevant Periods, based on the billing date and net of the allowance for expected credit losses, is as follows:

	As at 31 December			As at 30 June 2019
	2016	2017	2018	
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	284,122	168,904	481,478	658,302
Allowance for expected credit loss	(1,895)	(4,426)	(9,047)	(14,646)
Total trade and lease receivables, net	<u>282,227</u>	<u>164,478</u>	<u>472,431</u>	<u>643,656</u>
Within 90 days	142,467	108,364	224,150	348,710
90 to 180 days	76,797	31,175	148,963	182,071
180 days to 1 year	40,977	23,343	85,603	103,395
1 year to 2 years	21,986	1,596	13,715	9,480
	<u>282,227</u>	<u>164,478</u>	<u>472,431</u>	<u>643,656</u>

The movements in the allowance for expected credit losses of trade receivables are as follows:

	As at 31 December			As at 30 June 2019
	2016	2017	2018	
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	–	1,895	4,426	9,047
Provision for expected credit losses (note 6)	1,895	2,561	5,177	6,271
Amount written off as uncollectible	–	(30)	(556)	(672)
	<u>1,895</u>	<u>4,426</u>	<u>9,047</u>	<u>14,646</u>

The Group applies the simplified approach to provide for expected credit losses under HKFRS 9, the provision rates are based on days past due for groupings of various customer segments with similar loss patterns. For certain trade receivables for which the counterparty failed to make demanded repayment, the Group has made 100% provision ("default receivables"). Except for default receivables, the Group used a calculation which reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Given there were no significant changes in the historical and forecasts of future conditions, the expected loss rate remained substantially the same during the Relevant Periods.

Set out below is the information during the Relevant Periods about the credit risk exposure on the Group's trade receivables using a provision matrix:

<b>As at 30 June 2019</b>			
	<b>Amount</b>	<b>Expected</b>	<b>Impairment</b>
	<i>RMB'000</i>	<i>loss rate</i>	<i>RMB'000</i>
Default receivables	5,690	100%	5,690
Other trade receivables aged:			
Current	520,177	0.5%	2,602
Past due less than 3 months	78,144	3%	2,344
Past due 3 to 6 months	43,729	5%	2,186
Past due 6 to 12 months	9,709	10%	971
Past due 1 to 2 years	853	100%	853
	<u>658,302</u>		<u>14,646</u>

<b>As at 31 December 2018</b>			
	<b>Amount</b>	<b>Expected</b>	<b>Impairment</b>
	<i>RMB'000</i>	<i>loss rate</i>	<i>RMB'000</i>
Default receivables	4,146	100%	4,146
Other trade receivables aged:			
Current	418,574	0.5%	2,093
Past due less than 3 months	44,648	3%	1,340
Past due 3 to 6 months	3,461	5%	173
Past due 6 to 12 months	10,393	10%	1,039
Past due 1 to 2 years	256	100%	256
	<u>481,478</u>		<u>9,047</u>

<b>As at 31 December 2017</b>			
	<b>Amount</b>	<b>Expected</b>	<b>Impairment</b>
	<i>RMB'000</i>	<i>loss rate</i>	<i>RMB'000</i>
Default receivables	3,359	100%	3,359
Other trade receivables aged:			
Current	159,005	0.5%	795
Past due less than 3 months	5,062	3%	151
Past due 3 to 6 months	852	5%	43
Past due 6 to 12 months	609	10%	61
Past due 1 to 2 years	17	100%	17
	<u>168,904</u>		<u>4,426</u>



	As at 31 December 2016		
	Amount RMB'000	Expected loss rate	Impairment RMB'000
Default receivables	–	100%	–
Other trade receivables aged:			
Current	272,740	0.5%	1,364
Past due less than 3 months	7,585	3%	228
Past due 3 to 6 months	1,769	5%	88
Past due 6 to 12 months	2,014	10%	201
Past due 1 to 2 years	14	100%	14
	<u>284,122</u>		<u>1,895</u>

## 22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December			As at 30 June
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Non-current portion				
Prepayments	<u>21,514</u>	<u>46,945</u>	<u>68,381</u>	<u>63,980</u>
Current portion				
Prepayments*	43,876	49,924	272,115	289,966
Receivables from disposal of financial assets at fair value through profit or loss**	–	66,623	–	–
Deposits and other receivables	8,920	7,822	48,066	38,205
Prepaid listing expenses	–	–	6,484	12,230
Contract costs***	–	–	5,983	10,876
	<u>52,796</u>	<u>124,369</u>	<u>332,648</u>	<u>351,277</u>
	<u>74,310</u>	<u>171,314</u>	<u>401,029</u>	<u>415,257</u>

\* Prepayments as at 31 December 2018 and 30 June 2019 included RMB100,000,000 paid for the conditional share purchase of Angel Fund (note 20). The conditional share purchase agreement will expire in December 2019.

\*\* The receivables from disposal of financial assets at fair value through profit or loss represents receivables from disposal of financial assets at fair value through profit or loss investments in 2017 (note 20). The amount was collected in April 2018.

\*\*\* Contract costs relate to commissions charged by the platforms which meet contract acquisition cost criteria. They are capitalized as contract acquisition costs and amortised over the Player Relation Period, which is consistent with the pattern of recognition of the associated revenue. The Group had no impairment losses recognised on contract costs.

As at the end of the Relevant Periods, the amounts due from non-trade debtors were unsecured and interest-free. None of the above assets was either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Since majority of the above balances were settled within 12 months and had no historical default, the financial assets included in the above balances were categorized in stage 1 at the end of each reporting period. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward looking macroeconomic data. During the Relevant Periods, the Group estimated the expected loss rate for the above receivables is insignificant.

## 23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December			As at 30 June 2019
	2016	2017	2018	
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	120,460	244,463	144,445	173,927
Time deposits	—	1,299	—	100,000
	120,460	245,762	144,445	273,927
Less: Pledged time deposits:				
Pledged for Interest-bearing bank borrowings	—	—	—	100,000
	120,460	245,762	144,445	173,927

At the end of each of the Relevant Periods, most of the cash and bank balances of the Group were denominated in RMB. The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

## 24. TRADE PAYABLES

An aging analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December			As at 30 June 2019
	2016	2017	2018	
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	40,523	50,850	55,020	75,052
3 to 6 months	14,550	18,816	29,060	47,302
6 months to 1 year	12,608	27,603	15,384	18,282
1 year to 2 years	3,387	2,263	7,094	3,738
2 years to 3 years	4	1,674	3,756	840
over 3 years	—	4	916	2,695
Total	71,072	101,210	111,230	147,909

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

## 25. OTHER PAYABLES AND ACCRUALS AND CONTINGENT CONSIDERATION FOR BUSINESS COMBINATION

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Non-current portion				
Contingent consideration for business combination (note 30)	–	–	268,189	258,842
Payable for business combination (note 30)	–	–	92,324	94,559
Current portion				
Contingent consideration for business combination (note 30)	–	–	90,583	99,193
Payable for business combination (note 30)	–	–	220,000	39,899
Payable for the acquisition of an associate	–	–	20,000	–
Contract liabilities*	19,694	18,010	57,112	71,005
Salary and welfare payables	10,610	5,699	23,062	15,971
Other tax payables	4,843	2,163	20,756	26,390
Accruals	42,918	13,692	16,511	23,226
Other payables**	4,632	5,763	15,621	10,921
	82,697	45,327	463,645	286,605

\* Contract liabilities consist of the unamortized revenue from sales of game points for card and board games and the self-development games and receipts in advances from publishing channels. Card and board games business was disposed in December 2017 (note 11).

Details of contract liabilities as at 31 December 2016, 2017 and 2018 and 30 June 2019 are as follows:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Short-term advances received from publishing channel	3,095	18,010	48,599	51,286
Sale of game points in card and board games	16,599	–	–	–
Sales of game points in self-developed games	–	–	8,513	19,719
	19,694	18,010	57,112	71,005

The increase in contract liabilities in 2018 and in the six months ended 30 June 2019 was mainly due to the increase in short-term advances received from publishing channel and sale of game points in self-developed games at the end of the period.

**Revenue recognised in relation to contract liabilities:**

The following table shows the revenue recognised during the Relevant Periods related to carried-forward contract liabilities.

	Year ended 31 December			Six months ended
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of year/period	4,171	19,694	18,010	18,847

**Unsatisfied performance obligations:**

The following table shows the unsatisfied performance obligations as at 31 December 2016, 2017 and 2018 and 30 June 2019.

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Current	19,694	18,010	57,112	71,005

\*\* Other payables are non-interest-bearing and repayable on demand.

**26. INTEREST-BEARING BANK BORROWINGS****31 December 2017**

	As at 31 December 2017		
	Effective interest rate per annum (%)	Maturity	RMB'000
<b>Current</b>			
Bank loans – secured	5.66	2018	10,000

The above bank loans are denominated in RMB and repayable on 24 January 2018. Shenzhen Lanyue, Mr. XIAO Jian and the spouse of Mr. XIAO Jian provided a guarantee for the Group's bank loans amounted to RMB10,000,000 as at 31 December 2017.

## 31 December 2018

	As at 31 December 2018		
	Effective interest rate per annum (%)	Maturity	RMB'000
<b>Current</b>			
Bank loans – secured	5.44-5.66	2019	7,254
Bank loans – unsecured	6.53-7.00	2019	44,168
			<u>51,422</u>

In March 2018, the Group obtained an unsecured bank loan of RMB20,000,000 and repaid the loan in June 2018. This loan is denominated in RMB and repayable in three months.

In 2018, the Group obtained bank loans of RMB51,422,000, of which RMB1,845,000 was obtained from the acquisition of Beijing Softstar (note 30). Softstar Entertainment Inc., the minority shareholder of a subsidiary, provided a guarantee for the Group's bank loans of RMB7,254,000 as at 31 December 2018.

## 30 June 2019

	As at 30 June 2019		
	Effective interest rate per annum (%)	Maturity	RMB'000
<b>Current</b>			
Bank loans – secured	4.79-6.09	2020	135,200
Bank loans – unsecured	6.53-7.00	2020	44,168
			<u>179,368</u>

In 2019, the Group obtained bank loans of RMB142,775,000 and repaid loans of RMB14,829,000. Mr. XIAO Jian provided a guarantee for the Group's bank loans amounted to RMB40,000,000 as at 30 June 2019. Certain of the Group's interest-bearing bank borrowings with the carrying amount of RMB95,200,000 as at 30 June 2019, were secured by the pledge of the Group's time deposits amounting to RMB100,000,000.

## 27. DEFERRED TAX

	As at 31 December			As at 30 June
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Deferred tax assets	<u>5,014</u>	<u>6,153</u>	<u>10,651</u>	<u>8,279</u>
Deferred tax liabilities	<u>3,934</u>	<u>2,639</u>	<u>30,081</u>	<u>27,055</u>

The movements in deferred tax assets during the Relevant Periods are as follows:

	Deferred Tax Assets				
	Impairment of trade receivables RMB'000	Write-off of prepayments RMB'000	Impairment of other intangible assets RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2016:	–	2,669	–	–	2,669
Deferred tax credited to the consolidated statement of profit or loss during the year	288	2,057	–	–	2,345
At 31 December 2016:	288	4,726	–	–	5,014
At 1 January 2017:	288	4,726	–	–	5,014
Deferred tax credited to the consolidated statement of profit or loss during the year	479	660	–	–	1,139
At 31 December 2017:	767	5,386	–	–	6,153
At 1 January 2018:	767	5,386	–	–	6,153
Deferred tax credited to the consolidated statement of profit or loss during the year	1,261	623	–	2,614	4,498
At 31 December 2018:	2,028	6,009	–	2,614	10,651
At 1 January 2019:	2,028	6,009	–	2,614	10,651
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the period	125	(3,027)	524	6	(2,372)
At 30 June 2019:	2,153	2,982	524	2,620	8,279

The movements in deferred tax liabilities during the Relevant Periods are as follows:

	<b>Deferred Tax Liabilities</b>		
	<b>Revaluation of financial assets at fair value through profit or loss RMB'000</b>	<b>Fair value adjustments arising from acquisition of subsidiaries RMB'000</b>	<b>Total RMB'000</b>
At 1 January 2016:	–	–	–
Deferred tax charged to the consolidated statements of profit or loss during the year	3,934	–	3,934
At 31 December 2016	3,934	–	3,934
At 1 January 2017:	3,934	–	3,934
Deferred tax credited to the consolidated statements of profit or loss during the year	(1,295)	–	(1,295)
At 31 December 2017	2,639	–	2,639
At 1 January 2018:	2,639	–	2,639
Acquisition of subsidiaries ( <i>note 30</i> )	–	19,750	19,750
Deferred tax charged/(credited) to the consolidated statements of profit or loss during the year	10,990	(3,298)	7,692
At 31 December 2018	13,629	16,452	30,081
At 1 January 2019:	13,629	16,452	30,081
Deferred tax charged/(credited) to the consolidated statements of profit or loss during the period	479	(3,505)	(3,026)
At 30 June 2019	14,108	12,947	27,055

Deferred tax assets have not been recognised in respect of the following item:

	<b>As at 31 December</b>			<b>As at 30 June</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Tax losses	177,288	209,993	237,613	280,201

The tax losses are available in five years, in ten years and indefinitely for offsetting against future taxable profits arising from Mainland China, Taiwan and Hong Kong respectively. Deferred tax assets have not been recognised in respect of the above item as it is not considered probable that taxable profits will be available against which the above item can be utilised.

## 28. SHARE CAPITAL

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 20 March 2018 with an authorised share capital of US\$50,000 divided into 500,000,000 shares of US\$0.0001 each.

Save for the aforesaid and the Reorganization as more fully explained in the prospectus, the Company has not conducted any business since the date of its incorporation.



**29. RESERVES**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity on pages I-9 and I-10 of this report.

**(a) Capital reserve**

The capital reserve of the Group represents the difference between the aggregate of the paid-up share capital of the subsidiaries, the consideration paid by the Group for the business combination under common control and contribution from the shareholders.

**(b) Statutory surplus reserve**

In accordance with the Company Law of the PRC and the respective articles of association of the group companies, each of the companies that is domiciled in the PRC is required to allocate 10% of its profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

Statutory surplus reserve is non-distributable except in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as paid-up capital.

**(c) Share incentive reserve**

The share incentive reserve comprises the fair value of equity-settled share-based payment granted and exercised in 2015.

**(d) Exchange fluctuation reserve**

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in note 2.4 to the Historical Financial Information.

**30. BUSINESS COMBINATION****(a) Wenmai Hudong**

On 31 May 2018, the Group acquired a 100% interest in Wenmai Hudong from two independent third parties ("the Sellers"). Wenmai Hudong is engaged in the mobile game development. The acquisition was made as part of the Group's strategy to expand its market share and influence in mobile game industry.

The purchase consideration for the acquisition of Wenmai Hudong was in the form of cash, with RMB30,000,000 paid on 21 May 2018, RMB50,000,000 paid on 29 September 2018, RMB220,000,000 payable before 31 December 2018, RMB100,000,000 payable after two years of the acquisition date and a contingent consideration of RMB400,000,000 which is payable dependent on the amount of net profit of Wenmai Hudong during the three years subsequent to the acquisition. The fair value of contingent consideration recognised on the acquisition date was RMB376,270,000 which was determined using the discounted cash flow model and Monte Carlo simulation model and is within level 3 fair value measurement. The fair value change of contingent consideration from the acquisition date to 31 December 2018 was RMB17,498,000, which was recognised in profit or loss in 2018. The fair value change of contingent consideration in the six months ended 30 June 2019 amounted to RMB737,000.

On 7 March 2019, the Group signed a supplementary agreement with the Sellers, pursuant to which the payment of RMB220,000,000 which was previously due on 31 December 2018 was rescheduled to be RMB115,000,000 payable after 10 days of the supplementary agreement and RMB105,000,000 payable after 30 days of completion of the registration of share transfer. The Group paid RMB179,901,000 in the six months ended 30 June 2019.

The fair values of the identifiable assets and liabilities of Wenmai Hudong as at the date of acquisition were as follows:

	<i>Notes</i>	<b>Fair value recognised at acquisition Wenmai Hudong RMB'000</b>
Property and equipment	14	1,126
Right-of-use assets	15	8,435
Other intangible assets	17	48,210
Cash and bank balances		5,109
Trade receivables		36,232
Prepayments, other receivables and other assets		25,872
Other payables and accruals		(44,344)
Lease liabilities	15	(8,435)
Deferred tax liabilities		(10,250)
Total identifiable net assets at fair value		61,955
Goodwill on acquisition	16	698,045
Fair value of consideration which will be satisfied by cash		80,000
payable for business combination		303,730
contingent consideration	36	376,270
		760,000

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	<b>Wenmai Hudong RMB'000</b>
Cash consideration	(80,000)
Cash and bank balances acquired	5,109
Net outflow of cash and cash equivalents included in cash flows from investing activities	(74,891)

Since the acquisition, the Wenmai Hudong contributed RMB174,588,000 to the Group's revenue and RMB11,201,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB1,798,590,000 and RMB322,344,000, respectively.

**(b) Beijing Softstar**

On 30 May 2018, the Group acquired 51% equity interests in Beijing Softstar by a cash injection of RMB213,000,000 into Beijing Softstar. Beijing Softstar is engaged in the mobile game development. The acquisition was made as part of the Group's strategy to expand its market share and influence in mobile game industry.

According to the articles of association of Beijing Softstar, shareholders' resolution requires unanimous consent of two-thirds majority or all shareholders. Thus, the Group does not have control and Beijing Softstar was accounted for as a joint venture. Subsequently on 28 August 2018, the articles of association of Beijing Softstar were modified which resulted in the Group obtaining control over Beijing Softstar which became a subsidiary since then.

On 30 January 2019, the Company signed a supplementary agreement with Beijing Softstar, pursuant to which, the capital injection of RMB213,000,000 will be paid to Beijing Softstar on or before 31 March 2019. On 30 April 2019, the Company signed a supplementary agreement with Beijing Softstar, pursuant to which, the capital injection of RMB213,000,000 will be paid to Beijing Softstar on or before 31 October 2019. The Company procured its subsidiary, Shenzhen Zhongshouyou, to pay a deposit of RMB213,000,000 to Beijing Softstar, which deposit had been paid before 6 June 2019. If the Company is not able to settle the relevant capital contribution under the agreements by October 31, 2019, Beijing Softstar is entitled to use the deposits held by Beijing Softstar to settle the relevant capital contribution payable by the Company.

The fair value of the investment in the joint venture on the acquisition date was RMB213,000,000, resulting in a remeasurement loss of RMB7,679,000 recognised in profit or loss (note 6). The fair values of the identifiable assets and liabilities of Beijing Softstar as at the date of acquisition were as follows:

	<i>Notes</i>	<b>Fair value recognised at acquisition Beijing Softstar RMB'000</b>
Property and equipment	14	1,502
Right-of-use assets	15	6,265
Other intangible assets	17	52,676
Cash and bank balances		11,408
Trade receivables		1,111
Prepayments, other receivables and other assets		220,600
Due from related parties		4,592
Interest-bearing bank borrowings	32(b)	(1,845)
Other payables and accruals		(49,524)
Due to related parties		(1,079)
Lease liabilities	15	(6,265)
Deferred tax liabilities		(9,500)
		<hr/>
Total identifiable net assets at fair value		229,941
		<hr/>
Non-controlling interests		(112,671)
		<hr/>
Goodwill on acquisition	16	95,730
		<hr/>
Fair value of consideration which will be satisfied by Investment in a joint venture		213,000
		<hr/>
		213,000
		<hr/> <hr/>

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	<b>Beijing Softstar RMB'000</b>
Cash consideration	–
Cash and bank balances acquired	11,408
	<hr/>
Net outflow of cash and cash equivalents included in cash flows from investing activities	11,408
	<hr/> <hr/>

Since the acquisition, the Beijing Softstar contributed RMB21,162,000 to the Group's revenue and RMB10,057,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB1,614,940,000 and RMB303,269,000, respectively.

## 31. DISPOSAL OF SUBSIDIARIES

In July 2016, the Group disposed of the entire interests in Qi Le Wu Xian, Beijing Zhuoyue Chenxing, Tianjin Zhuoyue Chenxing, and HK Zhuoyue Chenxing.

Qi Le Wu Xian was acquired by Hero Entertainment for a consideration of RMB244,500,000, among which, RMB94,500,000 was settled in cash and RMB150,000,000 was settled by the issue of 48,780,480 new shares of Hero Entertainment. The share consideration was determined based on the fair value of shares on the date of disposal of RMB150,000,000. Upon the completion of the disposal, the Group held 3.40% of shares of Hero Entertainment, which was accounted for as financial assets at fair value through profit or loss by the Group (note 20).

Beijing Zhuoyue Chenxing, Tianjin Zhuoyue Chenxing and HK Zhuoyue Chenxing (collectively, the “Zhuoyue Chenxing”) were sold to Shenzhen Douyou Network Technology Co., Ltd. (hereafter, the “Shenzhen Douyou”), an independent third party, for a consideration of cash of RMB35,500,000. Shenzhen Douyou subsequently sold Zhuoyue Chenxing to Hero Entertainment.

All disposals were completed on 25 July 2016.

	<i>Notes</i>	<b>As at 25 July 2016 RMB'000</b>
Net assets disposed of:		
Property and equipment	14	5,988
Other intangible assets	17	218
Cash and bank balances		39,826
Trade receivables		18,926
Prepayments, other receivables and other assets		24,910
Goodwill	16	145,433
Trade payables		(47,107)
Accruals and other payables		(21,391)
Tax payable		(1,938)
		<hr/>
		164,865
Gain on disposal of subsidiaries	5&6	<hr/> 115,135
		<hr/> <hr/> 280,000
Satisfied by:		
Cash		130,000
Financial assets at fair value through profit or loss	32(a)	<hr/> 150,000
		<hr/> <hr/> 280,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiaries is as follows:

	<b>Year ended 31 December 2016 RMB'000</b>
Cash consideration	130,000
Cash and bank balances disposed of	(39,826)
Cash received in advance before 1 January 2016	<hr/> (20,000)
Net inflow of cash and cash equivalents in respect of the disposal of the subsidiaries	<hr/> <hr/> 70,174

**32. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS****(a) Major non-cash transactions**

In July 2016, the Group disposed of the entire interests in Qi Le Wu Xian to Hero Entertainment in exchange for considerations of cash of RMB94,500,000 and 48,780,480 shares of Hero Entertainment. The share consideration was determined based on the fair value of shares on the date of disposal of RMB150,000,000 (note 31).

In December 2017, the businesses of card and board games were disposed to Shenzhen Lanyue at a consideration of RMB43,513,000. The consideration for the disposal has been included in the balance of due from related parties and offset by due to related parties. Further details are included in note 11 to the financial statements.

In 2017, dividend payables amounting to RMB170,000,000 were offset with equivalent amount due from related parties. In 2017, unsettled liabilities amounting to RMB253,084,000 waived by the related parties, pursuant to the instruction note from the shareholders, and were derecognised and recorded as contribution from the shareholder in the capital reserve.

In April 2018, CMGE Group, a fellow subsidiary of the Group, transferred the investment in CPC Fund to the Group for nil consideration. The fair value of the investment in CPC Fund amounting to RMB187,205,000 was recorded as contribution from the shareholders.

In April 2018, CMGE Group transferred the investment in Fontaine Capital Fund, L.P. ("Fontaine Fund") to the Group for nil consideration. The fair value of the investment in Fontaine Fund amounting to RMB24,629,000 was recorded as contribution from the shareholders.

In May 2018, the Group acquired 26% of the issued shares of Angel Fund from Angel (Partners) Investments Limited with the consideration of 1,270,963 issued shares of Ridgeview Well, the then sole shareholder of the Company. The fair value of the investment in Angel Fund at acquisition date amounting to RMB66,058,000 was recorded as contribution from the shareholders.

In June 2018, the Group received two pre-IPO investments amounting to RMB262,972,000 from Shengqu Technology Korean Limited ("Shengqu Technology") and Big Achieve Cayman LP ("Big Achieve"), two independent third-party investors, by way of entering into a share purchase agreement between Ridgeview Well, the then sole shareholder of the Company, and each of them pursuant to which 1,985,535 shares of Ridgeview Well were issued to Shengqu Technology and Big Achieve with an anticipation that the shareholdings would be flipped down to the Company. The pre-IPO investments amounting to RMB262,972,000 was recorded as contribution from the shareholders.

In 2018, unsettled liabilities amounting to RMB66,101,000 waived by the related parties, pursuant to the instruction note from the shareholders, and were derecognised and recorded as contribution from the shareholder in the capital reserve.

Other than the above-mentioned transaction, there were no material non-cash investing and financing transactions during the year presented.

## (b) Changes in liabilities arising from financing activities

	Bank loans RMB'000	Lease liabilities RMB'000
At 1 January 2016	—	11,960
Proceeds from loans and borrowings	—	—
Additions to lease liabilities	—	8,068
Accretion of interest expenses	—	765
Repayment of interest expenses	—	(765)
Principal elements of lease payments	—	(4,409)
At 31 December 2016	—	15,619
At 1 January 2017	—	15,619
Proceeds from loans and borrowings	10,000	—
Additions to lease liabilities	—	9,808
Accretion of interest expenses	526	694
Repayment of interest expenses	(526)	(694)
Principal elements of lease payments	—	(6,659)
At 31 December 2017	10,000	18,768
At 1 January 2018	10,000	18,768
Acquisition of subsidiaries (note 30)	1,845	14,700
Proceeds from loans and borrowings	69,577	—
Additions to lease liabilities	—	2,953
Accretion of interest expenses	482	977
Repayment of interest expenses	(482)	(977)
Repayment of loans and borrowings	(30,000)	—
Principal elements of lease payments	—	(15,326)
At 31 December 2018	51,422	21,095
At 1 January 2019	51,422	21,095
Change from financing cash flows	—	—
Proceeds from loans and borrowings	142,775	—
Additions to lease liabilities	—	20,450
Accretion of interest expenses (note 7)	2,152	1,250
Repayment of interest expenses	(2,152)	(1,250)
Repayment of loans and borrowings	(14,829)	—
Principal elements of lease payments	—	(9,628)
At 30 June 2019	179,368	31,917
At 1 January 2018	10,000	18,768
Acquisition of subsidiaries (note 30)	—	8,435
Proceeds from loans and borrowings	20,000	—
Additions to lease liabilities	—	—
Accretion of interest expenses	136	489
Repayment of interest expenses	(136)	(489)
Repayment of loans and borrowings	(30,000)	—
Principal elements of lease payments	—	(7,663)
At 30 June 2018 (unaudited)	—	19,540

## 33. COMMITMENTS

The Group had the following capital commitments at the end of each reporting period:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
Purchase of IP and games licenses	12,600	9,000	10,059	55,151
Capital contributions payable to an associate	–	9,789	–	–
Capital contributions payable to an investment included in financial assets at fair value through profit or loss	–	5,000	–	–
	<u>12,600</u>	<u>23,789</u>	<u>10,059</u>	<u>55,151</u>

## 34. CONTINGENT LIABILITIES

In March 2019, two claimants filed a civil litigation before the Shanghai Intellectual Property Court, alleging that the Group's game, The Attack-Advanced Version (攻沙加强版), infringed their copyright and that by marketing the game, the two game publishers (both independent third parties) and Wenmai Hudong (the Group's subsidiary and the developer of the aforementioned game), had also engaged in unfair competition (the "First Litigation"). The claimants demanded damages of RMB10,000,000 and that the Group take the game offline. Wenmai Hudong developed the game before the Group acquired Wenmai Hudong from its shareholders (the "Sellers") pursuant to an equity transfer agreement dated May 31, 2018, as supplemented on March 7, 2019 (the "Wenmai ETA") for RMB800,000,000. Pursuant to the Wenmai ETA, (i) one of the Sellers, as indemnitor, has agreed to indemnify the Group for any liabilities and losses associated to a fact or event existed before acquisition of Wenmai Hudong, and (ii) the Group had paid RMB259,901,000 as of the 30 June 2019, and the remaining consideration of RMB540,000,000 is payable to the indemnitor by installments with a price adjustment mechanism with reference to the profits achieved by Wenmai Hudong. As advised by the Group's PRC Legal Advisers, the Group are entitled to claim indemnity from the indemnitor pursuant to the Wenmai ETA if Wenmai Hudong incurs any loss associated with the First Litigation, and to adjust the consideration payable to the indemnitor if Wenmai Hudong fails to meet the target profit because of any loss incurred of the First Litigation. In the opinion of the directors, the First Litigation will not have a material impact on the financial statements of the Group.

In April 2019, two claimants filed a civil litigation before the Intermediate People's Court of Wuhan City, alleging that the game, the World of Legend-Thunder Empire (傳奇世界之雷霆霸業), infringed their copyright and that by marketing the game, the Group had engaged in unfair competition (the "Second Litigation"). The maximum exposures in respect of the Second Litigation consisted of taking the aforementioned game offline, paying damages in the maximum sum of RMB10,000,000, eliminating any negative impact by making a declaration on the Group's websites and reimbursing all litigation expenses incurred by the claimants. As the game was developed with the appropriate authorization of Shengqu Information Technology (Shanghai) Company Limited ("Shengqu"), the owner of the underlying copyright, in the opinion of the directors, the Group has sufficient and valid legal grounds to defend the allegations in the Second Litigation, and that the likelihood of an unfavorable court ruling is low.

## 35. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's interest-bearing bank borrowings, factoring and letters of guarantee are included in notes 23 and 26, respectively, to the Historical Financial Information.



## 36. RELATED PARTY TRANSACTIONS

(a) Name of related party	Relationship with the Group
Beijing Zhongshouyou Technology Co., Ltd.	Fellow subsidiary
Shenzhen Lanyue	Fellow subsidiary
Tibet Quyou Network Technology Co., Ltd.	Fellow subsidiary
Softstar Entertainment Inc.	Minority Shareholder of a subsidiary and equity invested by the Group
Softstar International Inc.	Equity invested by the Group
Chengdu Jumeng Tianxia Technology Co., Ltd.	Equity invested by the Group
China Perfect Investments Limited	Fellow subsidiary
CMGE Group	Fellow subsidiary
Tianjin Fenzhi Huyu Technology Co., Ltd.	Associate
Beijing Yingyou Technology Co., Ltd.	Associate
Shanghai Fengguo Network Information	Associate
Guangzhou Leiyu Information Technology Co., Ltd.	Associate
Shanghai Langkun Digital Technology Co., Ltd.	Associate
Shenzhen Haituo Shidai Technology Co., Ltd.	Associate
Zhuhai Tianlang Interactive Technology Co., Ltd.	Associate
Shanghai X-idea Information Technology Co., Ltd.	Associate
Shenzhen Boliang Technology Co., Ltd.	Joint venture
Mr. Fan Yingjie	The key management of a subsidiary
Mr. XIAO Jian	The chief executive director
Mr. Hendrick SIN	The director of the company

In addition to the transactions detailed elsewhere in the Historical Financial Information, the Group had the following material related party transactions during the Relevant Periods:

(b) Transactions with related parties	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Publishing services provided to Shanghai Fengguo Network Information	67,915	63,818	63,476	29,684	37,690
Publishing services provided to Tianjin Fenzhi Huyu Technology Co., Ltd.	—	11,322	—	—	—
Publishing services provided to Shenzhen Haituo Shidai Technology Co., Ltd.	—	—	154,271	26,920	99,843
Publishing services provided to Chengdu Jumeng Tianxia Technology Co., Ltd.	—	—	64,695	54,838	10,091
Publishing services provided to Shanghai Langkun Digital Technology Co., Ltd.	—	—	49,608	42,323	4,771
Publishing services provided to Softstar Entertainment Inc.	—	—	2,578	—	—
Publishing services provided to Zhuhai Tianlang Interactive Technology Co., Ltd.	—	—	918	—	—
Publishing services provided to Shanghai X-idea Information Technology Co., Ltd.	—	—	673	—	4,409
Development services provided to Softstar Entertainment Inc.	—	—	3,358	—	227
	<u>67,915</u>	<u>75,140</u>	<u>339,577</u>	<u>153,765</u>	<u>157,031</u>

## (c) Outstanding balances with related parties

As disclosed in the statements of financial position, the Group had outstanding balances with related parties at 31 December 2016, 2017, 2018 and 30 June 2019.

## Amounts due from related parties

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Beijing Zhongshouyou Technology Co., Ltd.**	21	5	—	—
Shenzhen Lanyue**	194,240	—	—	—
Tibet Quyou Network Technology Co., Ltd.**	30	—	—	—
Softstar Entertainment Inc.*	—	—	9,717	9,353
Mr. Fan Yingjie**	—	—	800	1,350
Shenzhen Boliang Technology Co., Ltd.*	—	—	—	1,200
	<u>194,291</u>	<u>5</u>	<u>10,517</u>	<u>11,903</u>

\* These balances are trade in nature.

\*\* These balances are non-trade in nature.

## Amounts due to related parties

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
China Perfect Investments Limited**	216,584	—	—	—
CMGE Group**	169,771	—	—	—
Tianjin Fenzhi Huyu Technology Co., Ltd.**	1,000	363	—	—
Beijing Yingyou Technology Co., Ltd.**	5,900	—	—	—
Shanghai Fengguo Network Information*	12,223	1,852	1,872	3,410
Guangzhou Leiyu Information Technology Co., Ltd.**	—	5,000	5,000	5,000
Shanghai Langkun Digital Technology Co., Ltd.*	—	4,500	30,067	4,836
Chengdu Jumeng Tianxia Technology Co., Ltd.*	—	—	7,667	7,751
Shenzhen Haituo Shidai Technology Co., Ltd.*	—	—	21,418	20,828
Mr. XIAO Jian**	30	—	—	—
Zhuhai Tianlang Interactive Technology Co., Ltd.*	—	—	37	9
Softstar Entertainment Inc.**	—	—	4,137	4,633
Softstar International Inc.**	—	—	1,079	1,079
Shanghai X-idea Information Technology Co., Ltd.*	—	—	—	610
	<u>405,508</u>	<u>11,715</u>	<u>71,277</u>	<u>48,156</u>

\* These balances are trade in nature.

\*\* These balances are non-trade in nature.

The amounts due to related parties are unsecured, interest-free and repayable on demand.

**(d) Compensation of key management personnel of the Group:**

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Salaries, allowances and benefits in kind	3,691	4,669	5,776	3,098	3,837
Pension scheme contributions	102	109	263	172	159
	<u>3,793</u>	<u>4,778</u>	<u>6,039</u>	<u>3,270</u>	<u>3,996</u>

Further details of directors' and the chief executive's emoluments are included in note 8 to the Historical Financial Information.

**(e) Other transactions with related parties:**

- (i) On 2 December 2017, the board of directors of the Group determined to dispose of the businesses of card and board games, which were operated under three operating subsidiaries to Shenzhen Lanyue at a consideration for RMB43,513,000. The disposal of the businesses of card and board games was completed on 31 December 2017. Further details are included in note 11 to the Historical Financial Information.
- (ii) Shenzhen Lanyue, Mr. XIAO Jian and the spouse of Mr. XIAO Jian provided a guarantee for certain bank loans made to the Group of up to RMB10,000,000 as at 31 December 2017. Softstar Entertainment Inc. provided a guarantee for certain bank loans made to the Group of RMB7,254,000 as at 31 December 2018. Mr. XIAO Jian provided a guarantee for the Group's bank loans amounted to RMB40,000,000 as at 30 June 2019. Further details are included in note 26 to the Historical Financial Information.
- (iii) In April 2018, CMGE Group, a fellow subsidiary of the Group, transferred the investment in CPC Fund to the Group for nil consideration. Mr. XIAO Jian and Mr. Hendrick SIN jointly hold the entire equity interest in the general partner of CPC Fund.
- (iv) In April 2018, CMGE Group transferred the investment in Fontaine Fund to the Group for nil consideration.
- (v) In January 2018, Horgos Mobile Games Venture Capital Co., Ltd. a fellow subsidiary of the Group, transferred the investment in Beijing Qiwen Internet Technology Co., Ltd. to the Group for a consideration of RMB1,625,000.
- (vi) In June 2018, Shenzhen Lanyue, a fellow subsidiary of the Group, transferred the investment in Shenzhen Yunwa Technology Co., Ltd. to the Group for a consideration of RMB8,000,000.
- (vii) In September 2018, Shenzhen Lanyue, a fellow subsidiary of the Group, transferred the domain name of VClub, a publishing platform, to the Group for nil consideration.

## 37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of each of the Relevant Periods are as follows:

Financial assets	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Financial assets at fair value through profit or loss:				
Financial assets at fair value through profit or loss	203,176	85,788	538,701	478,050
At amortised cost:				
Trade receivables	282,227	164,478	472,431	643,656
Due from related parties	194,291	5	10,517	11,903
Financial assets included in prepayments, other receivables and other assets	8,920	74,445	48,066	38,205
Pledged deposits	–	–	–	100,000
Cash and cash equivalents	120,460	245,762	144,445	173,927
	605,898	484,690	675,459	967,691
	809,074	570,478	1,214,160	1,445,741
<b>Financial liabilities</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities at fair value through profit or loss:				
Contingent consideration for business combination	–	–	358,772	358,035
At amortised cost:				
Trade payables	71,072	101,210	111,230	147,909
Due to related parties	405,508	11,715	71,277	48,156
Financial liabilities included in other payables and accruals	47,550	19,455	364,456	168,605
Interest-bearing bank borrowings	–	10,000	51,422	179,368
Lease liabilities	15,619	18,768	21,095	31,917
	539,749	161,148	619,480	575,955
	539,749	161,148	978,252	933,990

**38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS**

As at 31 December 2016, 2017, 2018 and 30 June 2019, the fair values of the Group's financial assets or liabilities approximated to their respective carrying amounts.

Management has determined that the carrying amounts of cash and cash equivalents, trade receivables, amounts due from related parties, financial assets included in prepayments, other receivables and other assets, trade payables, amounts due to related parties, financial liabilities included in other payables and accruals and interest-bearing bank borrowings reasonably approximate to their fair values because these financial instruments are mostly short term in nature.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyzes the movements in the values of financial instruments and determines the major inputs applied in the valuation. The directors review the results of the fair value measurement of financial instruments periodically for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the unlisted equity investments have been estimated by using various applicable valuation techniques, including discounted cash flow approach, comparable transactions approach, and other option pricing models. The fair value of contingent consideration payable is estimated by using the discounted cash flow model and Monte Carlo simulation model.

**Fair value hierarchy**

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

*As at 31 December 2016*

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	–	181,472	21,704	203,176

*As at 31 December 2017*

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	–	57,300	28,488	85,788

*As at 31 December 2018*

	Fair value measurement using			Total RMB'000
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active markets (Level 1) RMB'000	inputs (Level 2) RMB'000	inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	64,700	322,783	151,218	538,701

*As at 30 June 2019*

	Fair value measurement using			Total RMB'000
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active markets (Level 1) RMB'000	inputs (Level 2) RMB'000	inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	52,681	341,996	83,373	478,050

The movements in fair value measurements with Level 3 during the year/period are as follows:

	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Financial assets at fair value through profit or loss:				
At 1 January	–	21,704	28,488	151,218
Total gains recognised in the statement of profit or loss included in other income	1,125	1,383	20,190	5,801
Purchases	20,579	12,200	91,010	–
Contribution from the shareholders	–	–	11,530	–
Disposals	–	(6,799)	–	(73,646)
At 31 December/At 30 June	21,704	28,488	151,218	83,373

Liabilities measured at fair value:

*As at 31 December 2018*

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Contingent consideration for business combination	–	–	358,772	358,772

Liabilities measured at fair value:

*As at 30 June 2019*

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Contingent consideration for business combination	–	–	358,035	358,035

The movements in fair value measurements with Level 3 during the year/period are as follows:

	2018 RMB'000
Financial liabilities at fair value through profit or loss:	
At 1 January	–
Business combination ( <i>note 30</i> )	376,270
Fair value adjustment of contingent consideration ( <i>note 5</i> )	(17,498)
At 31 December	358,772
	2019 RMB'000
Financial liabilities at fair value through profit or loss:	
At 1 January	358,772
Fair value adjustment of contingent consideration ( <i>note 5</i> )	(737)
At 30 June	358,035



Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2016, 2017, 2018 and 30 June 2019:

**31 December 2016**

	<b>Valuation technique</b>	<b>Significant observable inputs</b>	<b>Range</b>	<b>Sensitivity of fair value to the input</b>
Financial assets at fair value through profit or loss	Discounted cash flow method	Long term growth rate	3%	1% increase/(decrease) in growth rate would result in increase/(decrease) in fair value by RMB125,000
		Long term operating margin	40%	1% increase/(decrease) in operating margin would result in increase/(decrease) in fair value by RMB63,000
		Weighted average cost of capital (WACC)	23%	1% increase/(decrease) in WACC would result in (decrease)/increase in fair value by RMB313,000

**31 December 2017**

	<b>Valuation technique</b>	<b>Significant observable inputs</b>	<b>Range</b>	<b>Sensitivity of fair value to the input</b>
Financial assets at fair value through profit or loss	Discounted cash flow method	Long term growth rate	3%	1% increase/(decrease) in growth rate would result in increase/(decrease) in fair value by RMB559,000
		Long term operating margin	20%-69%	1% increase/(decrease) in operating margin would result in increase/(decrease) in fair value by RMB148,000
		Weighted average cost of capital (WACC)	22%-23%	1% increase/(decrease) in WACC would result in (decrease)/increase in fair value by RMB1,506,000

31 December 2018

	<b>Valuation technique</b>	<b>Significant observable inputs</b>	<b>Range</b>	<b>Sensitivity of fair value to the input</b>
Financial assets at fair value through profit or loss	Discounted cash flow method	Long term growth rate	3%	1% increase/(decrease) in growth rate would result in increase/(decrease) in fair value by RMB3,795,000
		Long term operating margin	18%-67%	1% increase/(decrease) in operating margin would result in increase/(decrease) in fair value by RMB1,338,000
		Weighted average cost of capital (WACC)	19%-22%	1% increase/(decrease) in WACC would result in (decrease)/increase in fair value by RMB7,509,000
	<b>Valuation technique</b>	<b>Significant observable inputs</b>	<b>Range</b>	<b>Sensitivity of fair value to the input</b>
Financial liabilities at fair value through profit or loss	Discounted cash flow method with Monte Carlo simulation model	Volatility	44%	1% increase/(decrease) in volatility would result in (decrease)/increase in fair value by RMB1,603,000
		Discount rate	4.9%	1% increase/(decrease) in discount rate would result in (decrease)/increase in fair value by RMB7,605,000

30 June 2019

	Valuation technique	Significant observable inputs	Range	Sensitivity of fair value to the input
Financial assets at fair value through profit or loss	Discounted cash flow method	Long term growth rate	3%	1% increase/(decrease) in growth rate would result in increase/(decrease) in fair value by RMB2,965,000
		Long term operating margin	17%-66%	1% increase/(decrease) in operating margin would result in increase/(decrease) in fair value by RMB1,148,000
		Weighted average cost of capital (WACC)	18%-22%	1% increase/(decrease) in WACC would result in (decrease)/increase in fair value by RMB5,362,000
Financial liabilities at fair value through profit or loss	Discounted cash flow method with Monte Carlo simulation model	Volatility	43%	1% increase/(decrease) in volatility would result in (decrease)/increase in fair value by RMB1,500,000
		Discount rate	4.9%	1% increase/(decrease) in discount rate would result in (decrease)/increase in fair value by RMB5,500,000

**39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise bank loans, financial assets at fair value through profit or loss investments and cash and cash equivalents. The Group has various other financial assets and liabilities such as amounts due from related parties, trade receivables, other receivables, amounts due to related parties, trade payables and other payables and accruals, lease liabilities, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

**Foreign currency risk**

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the foreign exchange rate due to changes in fair value of monetary assets and liabilities, with all other variables held constant, of the Group's profit before tax.

	<b>Year ended 31 December</b>			<b>Six months ended</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>30 June</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>RMB/HKD</b>				
Strengthened 5%	(7,880)	(8,253)	25,078	25,221
Weakened 5%	7,880	8,253	(25,078)	(25,221)
<b>RMB/USD</b>				
Strengthened 5%	(2,874)	(2,663)	8,869	9,114
Weakened 5%	2,874	2,663	(8,869)	(9,114)
<b>RMB/KRW</b>				
Strengthened 5%	266	347	357	367
Weakened 5%	(266)	(347)	(357)	(367)
<b>RMB/TWD</b>				
Strengthened 5%	(109)	(235)	(179)	(178)
Weakened 5%	109	235	179	178

**Credit risk**

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, trade receivables, prepayments, other receivables and other assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

**Cash and cash equivalents**

As disclosed in note 23 to the Historical Financial Information, most of the bank balances and time deposits are deposited with creditworthy banks with no recent history of default. The expected credit loss is close to zero.

**Trade receivables**

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than two years and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 21 to the Historical Financial Information. The Group does not hold collateral as security.

#### Other receivables

Other receivables were mainly loans to employees, loans to third parties and related parties and other receivables. The Group considers the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on ongoing basis during the Relevant Periods. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as the reporting date with the risk of default as at the date of initial recognition.

A default on a financial asset is when the counterparty fails to make contractual payments within 12 months of when they fail due. Financial assets are written-off when there is no reasonable expectation of recovery. The Group categorises a receivable for write off when a debtor fails to make contractual payments greater than 24 months past due.

#### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operation and bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

	As at 31 December 2016				
	On demand	Less than 3 months	3 to less than 12 months	1 to 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related parties	405,508	–	–	–	405,508
Trade payables	14,594	6,148	50,330	–	71,072
Financial instruments included in other payables and accruals	8,990	2,782	35,778	–	47,550
Lease liabilities	–	1,579	5,199	11,450	18,228
	<u>429,092</u>	<u>10,509</u>	<u>91,307</u>	<u>11,450</u>	<u>542,358</u>

	As at 31 December 2017				
	On demand	Less than 3 months	3 to less than 12 months	1 to 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related parties	11,715	–	–	–	11,715
Trade payables	8,080	19,314	73,816	–	101,210
Financial instruments included in other payables and accruals	5,929	168	13,358	–	19,455
Interest-bearing bank borrowings	–	10,000	–	–	10,000
Lease liabilities	–	3,439	9,444	12,455	25,338
	<u>25,724</u>	<u>32,921</u>	<u>96,618</u>	<u>12,455</u>	<u>167,718</u>

	As at 31 December 2018				
	On demand	Less than 3 months	3 to less than 12 months	1 to 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related parties	71,277	–	–	–	71,277
Trade payables	19,013	16,499	72,133	3,585	111,230
Contingent consideration for business combination	–	–	100,000	300,000	400,000
Financial instruments included in other payables and accruals	233,810	22,427	8,219	100,000	364,456
Interest-bearing bank borrowings	–	–	51,422	–	51,422
Lease liabilities	–	5,603	11,869	5,173	22,645
	<u>324,100</u>	<u>44,529</u>	<u>243,643</u>	<u>408,758</u>	<u>1,021,030</u>

	As at 30 June 2019				
	On demand	Less than 3 months	3 to less than 12 months	1 to 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related parties	48,156	–	–	–	48,156
Trade payables	28,580	44,574	71,092	3,663	147,909
Contingent consideration for business combination	–	–	–	400,000	400,000
Financial instruments included in other payables and accruals	40,000	10,921	23,226	100,000	174,147
Interest-bearing bank borrowings	–	–	187,105	–	187,105
Lease liabilities	–	5,002	10,961	19,284	35,247
	<u>116,736</u>	<u>60,497</u>	<u>292,384</u>	<u>522,947</u>	<u>992,564</u>

### Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of business.

The directors of the Company review the asset-liability ratio, which is total assets divided by total liability, on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the raising of new debts as well as the redemption of the existing debts, and manage the asset-liability ratios. The Group's overall strategy remained unchanged during the Relevant Periods.

The asset-liability ratios as at the end of each of the Relevant Periods are as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	<u>1,289,226</u>	<u>1,115,527</u>	<u>3,013,204</u>	<u>3,267,592</u>
Total liabilities	<u>599,607</u>	<u>207,874</u>	<u>1,150,475</u>	<u>1,154,486</u>
Asset-liability ratio	<u>47%</u>	<u>19%</u>	<u>38%</u>	<u>35%</u>

#### 40. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2019.



*The information set forth in this appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.*

*The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.*

#### **A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

The following unaudited pro forma adjusted consolidated net tangible assets has been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on our consolidated net tangible assets as of 30 June 2019 as if it had taken place on 30 June 2019.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of 30 June 2019 or any future dates. It is prepared based on our consolidated net tangible assets as of 30 June 2019 as set out in the Accountants' Report as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report as set out in Appendix I to this prospectus.

	Consolidated net tangible assets attributable to owners of the Company as of 30 June 2019 RMB'000 (note 1)	Estimated net proceeds from the Global Offering RMB'000 (note 2)	Unaudited pro forma adjusted consolidated net tangible assets RMB'000	Unaudited pro forma adjusted consolidated net tangible assets per Share RMB (note 3)		HKD (note 4)
Based on an Offer Price of HK\$1.98 per Share after a Downward Offer Price Adjustment of 10%	772,995	754,585	1,527,580	0.68		0.75
Based on an Offer Price of HK\$2.19 per Share	772,995	838,816	1,611,811	0.71		0.79
Based on an Offer Price of HK\$2.83 per Share	772,995	1,095,522	1,868,517	0.83		0.92

*Notes:*

- (1) The consolidated net tangible assets attributable to owners of the Company as of 30 June 2019 is extracted from “Appendix I – Accountants’ Report”, which is based on the audited consolidated equity attributable to owners of the Company as of 30 June 2019 of approximately RMB2,010,943,000 less intangible assets and goodwill as of 30 June 2019 of approximately RMB1,237,948,000.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.19 per Share or HK\$2.83 per Share and also based on Share Offer Price of HK\$1.98 per offer share after making a Downward Offer Price Adjustment of 10%, after deduction of the underwriting fees and other related expenses payable by the Company and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.0 to RMB0.9017 prevailing on October 9 2019.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 2,261,000,000 Shares in issue immediately following the completion of the Global Offering and does not take into account of any shares which may be issued upon the exercise of the Over-allotment Option.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.0 to RMB0.9017 prevailing on October 9 2019.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose for inclusion in this prospectus.*

22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

To the Directors of CMGE Technology Group Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of CMGE Technology Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 30 June 2019 and related notes as set out on pages II-1 and II-2 of the prospectus dated 19 October 2019 issued by the Company (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in the notes thereto.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Global Offering of shares of the Company on the Group's financial position as at 30 June 2019 as if the transaction had taken place at 30 June 2019. As part of this process, information about the Group's Pro Forma Financial Information has been extracted by the Directors from the Group's financial statements for the year ended 30 June 2019, on which an accountants' report has been published.

**Directors' responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Our independence and quality control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting accountants' responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the Global Offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

*Certified Public Accountants*  
Hong Kong

19 October 2019

**SUMMARY OF THE CONSTITUTION OF THE COMPANY****1 Memorandum of Association**

The Memorandum of Association of the Company was conditionally adopted on September 20, 2019 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix V to this prospectus.

**2 Articles of Association**

The Articles of Association of the Company were conditionally adopted on September 20, 2019 and include provisions to the following effect:

***2.1 Classes of Shares***

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US\$500,000 divided into 5,000,000,000 shares with par value of US\$0.0001 each.

***2.2 Directors******(a) Power to allot and issue Shares***

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

*(b) Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

*(c) Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

*(d) Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

*(e) Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).



*(f) Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
  - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
  - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

*(h) Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

### **2.3 *Alteration to constitutional documents***

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

### **2.4 *Variation of rights of existing shares or classes of shares***

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### *2.5 Alteration of capital*

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

## ***2.6 Special resolution – majority required***

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

## ***2.7 Voting rights***

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.



A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

## ***2.8 Annual general meetings and extraordinary general meetings***

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and signed by the requisitionist(s). If the Directors

do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company. If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

## ***2.9 Accounts and audit***

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as of the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as of the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

#### ***2.10 Notice of meetings and business to be conducted thereat***

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

#### ***2.11 Transfer of shares***

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

***2.12 Power of the Company to purchase its own shares***

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

***2.13 Power of any subsidiary of the Company to own shares***

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

***2.14 Dividends and other methods of distribution***

Subject to the Companies Law and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may

disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

### ***2.15 Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.



*2.16 Calls on shares and forfeiture of shares*

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

#### ***2.17 Inspection of register of members***

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

#### ***2.18 Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

#### ***2.19 Rights of minorities in relation to fraud or oppression***

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

#### ***2.20 Procedure on liquidation***

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

### *2.21 Untraceable members*

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

## **SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**

### **1 Introduction**

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

### **2 Incorporation**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on March 20, 2018 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

### 3 Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

#### **4 Dividends and Distributions**

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for further details).

#### **5 Shareholders' Suits**

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

**6 Protection of Minorities**

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

**7 Disposal of Assets**

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

**8 Accounting and Auditing Requirements**

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.



**9 Register of Members**

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**10 Inspection of Books and Records**

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**11 Special Resolutions**

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

**12 Subsidiary Owning Shares in Parent**

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

**13 Mergers and Consolidations**

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and

liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

#### **14 Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

#### **15 Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**16 Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**17 Liquidation**

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

**18 Stamp Duty on Transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**19 Taxation**

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
  - (i) on or in respect of the shares, debentures or other obligations of the Company;  
or
  - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

## **20 Exchange Control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

## **21 General**

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation**

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on March 20, 2018. Our Company's registered office address is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Accordingly, our Memorandum and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of the Memorandum and the Articles of Association is set out in Appendix III to this prospectus.

We established a place of business in Hong Kong at 13th Floor, 8 Wyndham Street, Central, Hong Kong and were registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on May 2, 2018. Mr. Sin has been appointed as the authorized representative of our Company for the acceptance of service of process in Hong Kong.

Our Company's head office is located at 10th Floor, Building No. 4, Zhuoyue Meilin Center Square, Zhongkang North Road, Futian District, Shenzhen, PRC.

**2. Changes in share capital of our Company**

Upon its incorporation, the authorized share capital of our Company was US\$50,000 divided into 500,000,000 Shares with a par value of US\$0.0001 each.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this prospectus:

- on the date of incorporation on March 20, 2018, one Share was allotted and issued at par, credited as fully paid, to the initial subscriber, who is an independent third party, and such Share was transferred at par to Ridgeview Well on the same date.
- on August 28, 2018, our Company issued and allotted 139,157,813 of our ordinary Shares to Ridgeview Well and Ridgeview Well made a pro rata distribution to its shareholders all of our ordinary Shares that Ridgeview Well owned by transferring 53,599,680 Shares, 26,801,280 Shares, 22,677,120 Shares, 5,885,880 Shares, 7,063,066 Shares, 3,972,974 Shares, 13,915,781 Shares, 1,270,963 Shares, 1,985,535 Shares and 1,985,535 Shares to Fairview Ridge, Zhike L.P., Pegasus HK, Yichong HK, Zhonghsouyou Brothers BVI, Silver Joyce, JW Holdings, Angel Partners, Big Achieve and Shengqu Technology, respectively, representing approximately 38.52%, 19.26%, 16.30%, 4.23%, 5.08%, 2.86%, 10.00%, 0.91%, 1.43% and 1.43% of our then total issued Shares.
- on September 20, 2019, the authorized share capital of our Company was increased from US\$50,000 to US\$500,000 divided into 5,000,000,000 Shares with par value of US\$0.0001 each by the creation of an additional 4,500,000,000 Shares with par value of US\$0.0001 each.

Assuming that the Global Offering becomes unconditional and the issue of Offer Shares as mentioned in this prospectus being made, the authorized share capital of our Company will be US\$500,000 divided into 5,000,000,000 Shares, of which 2,261,000,000 Shares will be issued fully paid or credited as fully paid, and 2,739,000,000 Shares will remain unissued.

Save as disclosed herein and in the paragraph headed “– A. Further Information about Our Company – 4. Written Resolutions of the shareholders passed on September 20, 2019” in this appendix to this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

### **3. Changes in share capital of our subsidiaries**

A summary of the corporate information and the particulars of our subsidiaries are set out in the Accountants’ Report in Appendix I to this prospectus.

The following sets out the changes in the share capital of our subsidiaries during the two years immediately preceding to the date of this prospectus:

#### **(1) *Beijing Softstar***

On May 28, 2018, our Company made a capital contribution of RMB213 million in Beijing Softstar, among which, RMB8.6 million had been used to increase the registered capital of Beijing Softstar. Upon completion, the registered capital of Beijing Softstar increased from RMB8.3 million to RMB16.9 million, and Beijing Softstar was owned as to 51% by our Company.

#### **(2) *Shanghai Softstar***

On May 3, 2017, the registered capital of Shanghai Softstar was increased from RMB6,875,625 to RMB7,875,625.

On September 25, 2017, the registered capital of Shanghai Softstar was increased from RMB7,875,625 to RMB12,875,625.

On March 1, 2018, the registered capital of Shanghai Softstar was increased from RMB12,875,625 to RMB15,875,625.

On April 2, 2018, the registered capital of Shanghai Softstar was increased from RMB15,875,625 to RMB18,375,625.

On May 30, 2018, the registered capital of Shanghai Softstar was increased from RMB18,375,625 to RMB20,875,625.

#### **(3) *Shenzhen Shengli Huyu***

On March 26, 2018, the registered capital of Shenzhen Shengli Huyu was increased from RMB100,000 to RMB15,000,000.

On April 9, 2018, Shenzhen Lanyue transferred its 99% equity interests in Shenzhen Shengli Huyu to Tianhu Software, for a consideration of RMB14,850,000.

On June 22, 2018, Mr. Sin transferred his 1% equity interest in Shenzhen Shengli Huyu to Tianhu Software, for a consideration of RMB150,000.

Save as disclosed above, there have been no alterations in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

#### **4. Written Resolutions of the shareholders passed on September 20, 2019**

Written resolutions of the shareholders were passed on September 20, 2019, pursuant to which, among other things:

- (a) subject to the conditions of the Global Offering as set out in this prospectus being fulfilled and the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) thereunder by the Joint Global Coordinators for themselves and on behalf of the Underwriters) and such obligations not having been terminated in accordance with their respective terms:
  - (i) the authorized share capital of our Company be increased to US\$500,000 divided into 5,000,000,000 Shares with par value of US\$0.0001 each by the creation of 4,500,000,000 Shares with par value of US\$0.0001 each;
  - (ii) the Memorandum and the Articles were adopted with effect from the Listing Date;
  - (iii) the Listing and the Global Offering were approved, subject to such modifications as our Directors (or any committee established by the Board) may in their sole discretion determine, and our Directors or any committee established by the Board were authorized to do all such things as they consider necessary to give effect to the Listing and the Global Offering; and
  - (iv) subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors were authorized to allot and issue a total of 1,660,842,186 Shares credited as fully paid at par to the holders of Shares on the register of members of our Company at the close of business on the date immediately preceding the date on which the Global Offering becoming unconditional (or as they may direct) in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalization of the sum of US\$166,084.22 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;



- (b) a general mandate was generally and unconditionally granted to our Directors to exercise all the powers of the Company to allot, issue and deal with any Shares or securities convertible into Shares, and to make or grant offers, agreements or options (including any warrants, options, bonds, notes, securities and debentures conferring any rights to subscribe for or otherwise receive Shares) which would or might require Shares to be allotted and issued or dealt with at any time subject to the requirement that the number of Shares so allotted and issued or dealt with or agreed conditionally or unconditionally to be allotted and issued or dealt with, shall not exceed the sum of (i) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Global Offering; and (ii) the aggregate nominal amount of the share capital of the Company repurchased by the Company (if any) pursuant to the authority granted to our Directors as referred to in paragraph (v) below.

This mandate does not cover Shares to be allotted, issued, or dealt with pursuant to or in consequence of the Global Offering, under a rights issue, scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants, or a special authority granted by the Shareholders. This general mandate to issue Shares will remain in effect until whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of our Company;
  - (2) the end of the period within which the next annual general meeting of our Company is required to be held under the applicable laws of the Cayman Islands or the Memorandum and the Articles; and
  - (3) when revoked or varied by an ordinary resolution of our Shareholders at a general meeting of our Company;
- (c) a general mandate was generally and unconditionally granted to our Directors to exercise all the powers of our Company to repurchase Shares of such number not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Capitalization Issue and the Global Offering.

This mandate only relates to repurchase made on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose) and made in accordance with all applicable laws and the requirements of the Listing Rules or equivalent rules or regulations of any other stock exchange as amended from time to time. Such mandate will expire whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of our Company;

- (2) the end of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the Memorandum and the Articles; and
- (3) when revoked or varied by an ordinary resolution of our Shareholders at a general meeting of our Company;
- (d) the general mandate as mentioned in paragraph (iii) above was extended by the addition to the aggregate nominal value of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (iv) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Capitalization Issue and the Global Offering). This extension will remain effective until whichever is the earliest of:
  - (1) the conclusion of the next annual general meeting of our Company following the passing of this resolution;
  - (2) the end of the period within which the next annual general meeting of our Company is required to be held under the applicable laws of the Cayman Islands or the Memorandum and the Articles; and
  - (3) when revoked or varied by an ordinary resolution of our Shareholders at a general meeting of our Company; and
- (e) the rules of the Pre-IPO RSU Schemes, the principal terms of which are set forth in “– E. Share Incentive Schemes – 1. Pre-IPO RSU Schemes” in this Appendix to the prospectus, were approved and adopted conditional on (1) the Listing Committee granting the listing of, and permission to deal in, the Shares held by JW Holdings and C&T Services on trust for the Pre-IPO RSU Schemes, and (2) the commencement of trading of the Shares on the Main Board of the Stock Exchange.
- (f) the Post-IPO Share Option Scheme was approved and adopted with effect from the Listing Date and our Directors were authorized to make such changes to the Post-IPO Share Option Scheme as may be required by the Stock Exchange and/or which they deem necessary and/or desirable and to grant options to eligible participants to acquire Shares thereunder and to allot, issue and deal with Shares pursuant thereto and to take all such actions as they consider necessary and/or desirable to implement or give effect to the Post-IPO Share Option Scheme and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same.

## **5. Corporate Reorganization**

For further details of the Reorganization which was effected in preparation for the Listing, see “History, Reorganization and Corporate Structure” in this prospectus.

**6. Summary of the material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the share subscription agreement dated April 25, 2018 and three supplement agreements dated May 28, 2018, January 30, 2019 and April 30, 2019, respectively, entered into among our Company, Taiwan Softstar, Softstar International Inc. and Beijing Softstar, pursuant to which our Company agreed to make a capital contribution of RMB213 million in Beijing Softstar;
- (b) the exclusive business cooperation agreement entered into between Shengyue Software and Chengdu Zhuoxing dated May 30, 2018, pursuant to which Chengdu Zhuoxing agreed to engage Shengyue Software as its exclusive service provider to provide Chengdu Zhuoxing with technical consultation and other services in return for service fees;
- (c) the exclusive option agreement entered into among Shengyue Software, Chengdu Zhuoxing and Shenzhen Lanyue dated May 30, 2018, pursuant to which Shenzhen Lanyue has granted to Shengyue Software irrevocable options to purchase by Shengyue Software or a third party designated by Shengyue Software, to the extent permitted by the PRC laws, its equity interests in Chengdu Zhuoxing, entirely or partially, at RMB1 or a minimum purchase price permitted under the then applicable PRC laws and regulations;
- (d) the power of attorney entered into among Shengyue Software, Chengdu Zhuoxing and Shenzhen Lanyue dated May 30, 2018, pursuant to which Shenzhen Lanyue has irrevocably authorized Shengyue Software and Shengyue Software's designated person(s) to exercise all of its powers and rights as the shareholder of Chengdu Zhuoxing;
- (e) the equity pledge agreement entered into among Shengyue Software, Chengdu Zhuoxing and Shenzhen Lanyue dated May 30, 2018, pursuant to which Shenzhen Lanyue agreed to pledge all of its equity interests and all existing and future rights and interests entitled based on such equity interests in Chengdu Zhuoxing to Shengyue Software;
- (f) the agreement entered into among Tianhu Software, Chengdu Zhuoxing and Shenzhen Lanyue dated May 30, 2018 to terminate the exclusive business cooperation agreement entered into between Tianhu Software and Chengdu Zhuoxing on April 9, 2018, and the exclusive option agreement, the power of attorney and the equity pledge agreement entered into among Tianhu Software, Chengdu Zhuoxing and Shenzhen Lanyue on April 9, 2018;

- (g) the exclusive business cooperation agreement entered into between Shengyue Software and Shenzhen Zhongshouyou dated May 30, 2018, pursuant to which Shenzhen Zhongshouyou agreed to engage Shengyue Software as its exclusive service provider to provide Shenzhen Zhongshouyou with technical consultation and other services in return for service fees;
- (h) the exclusive option agreement entered into among Shengyue Software, Shenzhen Zhongshouyou and Shenzhen Lanyue dated May 30, 2018, pursuant to which Shenzhen Lanyue has granted to Shengyue Software irrevocable options to purchase by Shengyue Software or a third party designated by Shengyue Software, to the extent permitted by the PRC laws, its equity interests in Shenzhen Zhongshouyou, entirely or partially, at RMB1 or a minimum purchase price permitted under the then applicable PRC laws and regulations;
- (i) the power of attorney entered into among Shengyue Software, Shenzhen Zhongshouyou and Shenzhen Lanyue dated May 30, 2018, pursuant to which Shenzhen Lanyue has irrevocably authorized Shengyue Software and Shengyue Software's designated person(s) to exercise all of its powers and rights as the shareholder of Shenzhen Zhongshouyou;
- (j) the equity pledge agreement entered into among Shengyue Software, Shenzhen Zhongshouyou and Shenzhen Lanyue dated May 30, 2018, pursuant to which Shenzhen Lanyue agreed to pledge all of its equity interests and all existing and future rights and interests entitled based on such equity interests in Shenzhen Zhongshouyou to Shengyue Software;
- (k) the agreement entered into among Tianhu Software, Shenzhen Zhongshouyou and Shenzhen Lanyue dated May 30, 2018 to terminate the exclusive business cooperation agreement entered into between Tianhu Software and Shenzhen Zhongshouyou on April 9, 2018, and the exclusive option agreement, the power of attorney and the equity pledge agreement entered into among Tianhu Software, Shenzhen Zhongshouyou and Shenzhen Lanyue on April 9, 2018;
- (l) the exclusive business cooperation agreement entered into between Shengyue Software and Shenzhen Douyue dated May 30, 2018, pursuant to which Shenzhen Douyue agreed to engage Shengyue Software as its exclusive service provider to provide Shenzhen Douyue with technical consultation and other services in return for service fees;
- (m) the exclusive option agreement entered into among Shengyue Software, Shenzhen Douyue and Shenzhen Lanyue dated May 30, 2018, pursuant to which Shenzhen Lanyue has granted to Shengyue Software irrevocable options to purchase by Shengyue Software or a third party designated by Shengyue Software, to the extent permitted by the PRC laws, its equity interests in Shenzhen Douyue, entirely or partially, at RMB1 or a minimum purchase price permitted under the then applicable PRC laws and regulations;

- (n) the power of attorney entered into among Shengyue Software, Shenzhen Douyue and Shenzhen Lanyue dated May 30, 2018, pursuant to which Shenzhen Lanyue has irrevocably authorized Shengyue Software and Shengyue Software's designated person(s) to exercise all of its powers and rights as the shareholder of Shenzhen Douyue;
- (o) the equity pledge agreement entered into among Shengyue Software, Shenzhen Douyue and Shenzhen Lanyue dated May 30, 2018, pursuant to which Shenzhen Lanyue agreed to pledge all of its equity interests and all existing and future rights and interests entitled based on such equity interests in Shenzhen Douyue to Shengyue Software;
- (p) the agreement entered into among Tianhu Software, Shenzhen Douyue and Shenzhen Lanyue dated May 30, 2018 to terminate the exclusive business cooperation agreement entered into between Tianhu Software and Shenzhen Douyue on April 9, 2018, and the exclusive option agreement, the power of attorney and the equity pledge agreement entered into among Tianhu Software, Shenzhen Douyue and Shenzhen Lanyue on April 9, 2018;
- (q) the equity transfer agreement dated May 31, 2018 and a supplemental agreement dated March 7, 2019 entered into among Fan Yingjie (樊英傑), Ningbo Qiku Investment Co., Ltd. (寧波七酷投資有限公司), Shenzhen Shengli Huyu and Wenmai Hudong, pursuant to which Fan Yingjie and Ningbo Qiku Investment Co., Ltd. (寧波七酷投資有限公司) agreed to respectively transfer their 49% and 51% equity interests in Wenmai Hudong to Shenzhen Shengli Huyu, for a consideration of RMB500 million and RMB300 million, respectively (subject to certain adjustments);
- (r) the equity transfer agreement entered into between Horgos Mobile Games Venture Capital Co., Ltd. (霍爾果斯中手游創業投資有限公司) and Shenzhen Shengli Huyu dated January 8, 2018, pursuant to which Horgos Mobile Games Venture Capital Co., Ltd. (霍爾果斯中手游創業投資有限公司) agreed to transfer RMB1.625 million of its equity interests in Beijing Qiwen Network Technology Co., Ltd. (北京奇文網絡科技有限公司) to Shenzhen Shengli Huyu for a consideration of RMB1.625 million;
- (s) the equity transfer agreement entered into between CMGE Mobile Tech and Shenzhen Shengli Huyu dated February 7, 2018, pursuant to which CMGE Mobile Tech agreed to transfer 100% equity interests in Tibet Jichuang (previously known as Tibet Yunyou Investment Management Co., Ltd. (西藏雲游投資管理有限公司)) to Shenzhen Shengli Huyu for a consideration of RMB30 million;
- (t) the equity transfer agreement entered into among Shenzhen Zhongshouyou, Shenzhen Shengli Huyu, Beijing Zhishang Binfen Technology Co., Ltd. (北京指上繽紛科技股份有限公司) and Tianjin Fenzhi Enterprise Management Consulting Center (Limited Partnership) (天津紛至企業管理諮詢中心(有限合夥)) dated February 28, 2018, pursuant to which Shenzhen Zhongshouyou agreed to transfer its 32% equity interests in Tianjin Fenzhi Huyu Technology Co., Ltd. (天津紛至互娛科技有限公司) to Shenzhen Shengli Huyu for a consideration of RMB6 million;

- (u) the equity transfer agreement entered into between Shenzhen Lanyue and Shenzhen Shengli Huyu dated March 31, 2018, pursuant to which Shenzhen Lanyue agreed to transfer 100% equity interests in Tianjin Suiyue Technology Co., Ltd. (天津隨悅科技有限公司) to Shenzhen Shengli Huyu for a consideration of RMB10 million;
- (v) the partnership interests transfer agreement entered into among Shenzhen Lanyue, Shenzhen Shengli Huyu, Shenzhen Zhichengqianli Investment Enterprise (Limited Partnership) (深圳市志成千里投資企業(有限合夥)) and other partners of Shenzhen Zhichengqianli Investment Enterprise (Limited Partnership) (深圳市志成千里投資企業(有限合夥)) dated May 13, 2018, pursuant to which Shenzhen Lanyue agreed to transfer 49.2611% equity interests in Shenzhen Zhichengqianli Investment Enterprise (Limited Partnership) (深圳市志成千里投資企業(有限合夥)) to Shenzhen Shengli Huyu for a consideration of RMB35 million;
- (w) the equity transfer agreement entered into among Shenzhen Lanyue, Shenzhen Zhongshouyou, Shenzhen Yunwa Technology Co., Ltd. (深圳雲蛙科技有限公司) and other equity owners of Shenzhen Yunwa Technology Co., Ltd. (深圳雲蛙科技有限公司) dated June 26, 2018, pursuant to which Shenzhen Lanyue agreed to transfer RMB1 million of its subscribed share capital in Shenzhen Yunwa Technology Co., Ltd. (深圳雲蛙科技有限公司) to Shenzhen Zhongshouyou for a consideration of RMB8 million;
- (x) the equity transfer agreement entered into among Tibet Jichuang, Shenzhen Zhongshouyou, Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司) and other equity owners of Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司) dated June 15, 2018, pursuant to which Tibet Jichuang agreed to transfer 20% equity interests in Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司) to Shenzhen Zhongshouyou for a consideration of RMB37 million;
- (y) the equity transfer agreement entered into among Tibet Jichuang, Shenzhen Zhongshouyou, Zhuhai Tianlang Interactive Technology Co., Ltd. (珠海天朗互動科技有限公司) and other equity owners of Zhuhai Tianlang Interactive Technology Co., Ltd. (珠海天朗互動科技有限公司) dated June 25, 2018, pursuant to which Tibet Jichuang agreed to transfer 12.5% equity interests in Zhuhai Tianlang Interactive Technology Co., Ltd. (珠海天朗互動科技有限公司) to Shenzhen Zhongshouyou for a consideration of RMB3.75 million;
- (z) the equity transfer agreement entered into between Tibet Jichuang and Shenzhen Zhongshouyou dated June 27, 2018, pursuant to which Tibet Jichuang agreed to transfer 16.5000% equity interests in Shanghai X-idea Info Tech Co., Ltd. (上海交叉點信息科技有限公司) to Shenzhen Zhongshouyou for a consideration of RMB8.24 million;



- (aa) the instrument of transfer and bought and sold notes entered into between CMGE Group and CMGE International BVI dated March 29, 2018, pursuant to which CMGE Group agreed to transfer 100 ordinary shares of China Mobile Game HK to CMGE International BVI for a consideration of HK\$100.00;
- (bb) the instrument of transfer entered into between CMGE Group and CMGE International BVI dated March 29, 2018, pursuant to which CMGE Group agreed to transfer 1 ordinary share of Blooming City Holding Limited to CMGE International BVI for a consideration of US\$1.00;
- (cc) the instrument of transfer and bought and sold notes entered into between CMGE Group and CMGE International BVI dated April 4, 2018, pursuant to which CMGE Group agreed to transfer 1 ordinary share of SuperNova Overseas Limited to CMGE International BVI for a consideration of HK\$1.00;
- (dd) the instrument of transfer and bought and sold notes entered into between CMGE Group and CMGE International BVI dated April 6, 2018, pursuant to which CMGE Group agreed to transfer 1 ordinary share of Majesty Enterprises Limited (萬捷企業有限公司) to CMGE International BVI for a consideration of HK\$1.00;
- (ee) the deed of assignment entered into between CMGE Group and CMGE Group BVI dated April 9, 2018, pursuant to which CMGE Group agreed to assign and transfer all rights and economic interests in its 25.65% of the limited partnership interests of CPC Fund to CMGE Group BVI for nil consideration;
- (ff) the instrument of transfer entered into between CMGE Group and Rocket Parade dated May 28, 2018, pursuant to which CMGE Group agreed to transfer 1 ordinary share of CMGE Group BVI to Rocket Parade for a consideration of US\$0.01;
- (gg) the instrument of transfer and bought and sold notes dated March 29, 2018 entered into between CMGE Group and Rocket Parade, pursuant to which CMGE Group agreed to transfer 1 ordinary share of CMGE Group HK to Rocket Parade for a consideration of HK\$1.00;
- (hh) the share swap agreement dated May 29, 2018 entered into between our Company and Angel Partners, pursuant to which Ridgeview Well Investment Limited agreed to issue a total of 1,270,963 shares to Angel Partners, and as an exchange, Angel Partners agreed to transfer 26% of issued shares (representing 13,000 shares) of Angel Fund to Rocket Parade;



- (ii) the equity transfer agreement entered into among Shanghai Yousu Investment Management Co., Ltd. (上海游素投資管理有限公司), Shenzhen Zhongshouyou, Bian Xiaojie (邊曉潔) and Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司) dated June 25, 2018, pursuant to which Shanghai Yousu Investment Management Co., Ltd. (上海游素投資管理有限公司) agreed to transfer 23.47% equity interests in Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司) to Shenzhen Zhongshouyou for a consideration of RMB50 million;
- (jj) the share purchase agreement dated June 11, 2018 and a supplemental agreement dated June 8, 2019 entered into between our Company and Angel Partners, pursuant to which our Company agreed to acquire 25% of the issued shares (representing 12,500 shares) of Angel Fund from Angel Partners for a consideration of an amount of USD equivalent to RMB101.84 million;
- (kk) the share purchase agreement dated September 21, 2018 and two supplemental agreements dated March 25, 2019 and June 30, 2019, respectively, entered into between our Company and Future Kemy Limited, pursuant to which our Company agreed to acquire 49% of the issued shares (representing 24,500 shares) of Angel Fund from Future Kemy Limited for a consideration of RMB199.6064 million;
- (ll) the business and assets transfer agreement entered into between Shenzhen Zhongshouyou and Shenzhen Lanyue dated December 2, 2017, pursuant to which Shenzhen Zhongshouyou agreed to transfer the Discontinued Operation to Shenzhen Lanyue for a consideration equivalent to the net book value of the relevant assets;
- (mm) the business and assets transfer agreement entered into between Shenzhen Douyue and Shenzhen Lanyue dated December 2, 2017, pursuant to which Shenzhen Douyue agreed to transfer the Discontinued Operation to Shenzhen Lanyue for a consideration equivalent to the net book value of the relevant assets;
- (nn) the cornerstone investment agreement dated October 12, 2019, entered into among the Company, Cosmic Blue Investments Limited, China International Capital Corporation Hong Kong Securities Limited and BNP Paribas Securities (Asia) Limited, pursuant to which Cosmic Blue Investments Limited agreed to subscribe for such number of Shares rounded down to the nearest whole board lot which may be purchased with US\$10 million at the Offer Price;
- (oo) the cornerstone investment agreement dated October 9, 2019, entered into among the Company, Successful Lotus Limited, China International Capital Corporation Hong Kong Securities Limited, BNP Paribas Securities (Asia) Limited and CMB International Capital Limited, pursuant to which Successful Lotus Limited agreed to subscribe for such number of Shares rounded down to the nearest whole board lot which may be purchased with HK\$45 million;
- (pp) the cornerstone investment agreement dated October 13, 2019, entered into among the Company, Bilibili Inc., China International Capital Corporation Hong Kong

Securities Limited and BNP Paribas Securities (Asia) Limited, pursuant to which Bilibili Inc. agreed to subscribe for such number of Shares rounded down to the nearest whole board lot which may be purchased with US\$5 million;

- (qq) the cornerstone investment agreement dated October 12, 2019, entered into among the Company, WB Online Investment Limited, China International Capital Corporation Hong Kong Securities Limited and BNP Paribas Securities (Asia) Limited, pursuant to which WB Online Investment Limited agreed to subscribe for such number of Shares rounded down to the nearest whole board lot which may be purchased with US\$5 million;
- (rr) the cornerstone investment agreement dated October 12, 2019, entered into among the Company, Cloudary Holdings Limited, China International Capital Corporation Hong Kong Securities Limited and BNP Paribas Securities (Asia) Limited, pursuant to which Cloudary Holdings Limited agreed to subscribe for such number of Shares rounded down to the nearest whole board lot which may be purchased with US\$2 million;
- (ss) the cornerstone investment agreement dated October 12, 2019, entered into among the Company, G-Mei Network Technology Co., Limited, China International Capital Corporation Hong Kong Securities Limited and BNP Paribas Securities (Asia) Limited, pursuant to which G-Mei Network Technology Co., Limited agreed to subscribe for such number of Shares rounded down to the nearest whole board lot which may be purchased with US\$2 million;
- (tt) the cornerstone investment agreement dated October 12, 2019, entered into among the Company, Gamenow Technology Limited, China International Capital Corporation Hong Kong Securities Limited and BNP Paribas Securities (Asia) Limited, pursuant to which Gamenow Technology Limited agreed to subscribe for such number of Shares rounded down to the nearest whole board lot which may be purchased with US\$2 million; and
- (uu) the Hong Kong Underwriting Agreement.

**B. PURCHASE BY THE COMPANY OF ITS OWN SECURITIES**

This section includes information required by the Stock Exchange to be included in this prospectus concerning the purchase by us of our own securities.

**1. Provisions of the Listing Rules**

The Listing Rules permit companies whose primary listing is on the Stock Exchange to purchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

***(a) Shareholders' approval***

The Listing Rules provide that all purchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval in relation to specific transactions.

***(b) Source of funds***

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Under Cayman Islands law, any par value of shares payable on purchase by the Company may be made out of profits of the Company, or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorized by the Articles of Association and subject to the Companies Law, out of capital. Any premium payable on a repurchase over the par value of the Shares to be repurchased must be provided for out of either or both of the profits or the share premium account of the Company or, if authorized by the Articles of Association and subject to the Companies Law, out of capital.

***(c) Status of repurchased shares***

The listing of all purchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relevant certificates must be cancelled and destroyed. Under Cayman Islands law, unless prior to the purchase, the Directors of the Company resolve to hold the Shares purchased by the Company as treasury shares, Shares purchased by the Company will be treated as cancelled and the amount of the Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of Shares shall not be taken as reducing the amount of the Company's authorized share capital under Cayman Islands law.

*(d) Core connected persons*

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a “core connected person”, that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their respective close associates (as defined in the Listing Rules) and a core connected person shall not knowingly sell his or her securities to the company.

**2. Reasons for repurchases**

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

**3. General**

- (a) To the best of our Directors’ knowledge having made all reasonable enquiries, none of our Directors or any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to our Company.
- (b) Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws and regulations of Hong Kong.
- (c) If, as a result of any repurchase of Shares, a Shareholder’s proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.
- (d) No core connected person (as defined in the Listing Rules) has notified our Company that he/she has a present intention to sell Shares to our Company, or that he/she has undertaken not to sell Shares to our Company, if the repurchase mandate is exercised.

## C. INTELLECTUAL PROPERTY RIGHTS OF OUR GROUP

As of the Latest Practicable Date, we had registered the following intellectual property rights which we believe are material to our business.

## 1. Trademarks

As of the Latest Practicable Date, the Group had registered the following trademarks which we believe are material to our business:

No.	Trademark	Place of Registration	Registered Owner	Class	Registration Number	Expiry Date (dd/mm/yyyy)
1		Hong Kong	China Mobile Game HK	9 28 41 42	303025205AB	08/06/2024
2		Hong Kong	China Mobile Game HK	9 28 41 42	303025205AA	08/06/2024
3		PRC	Shenzhen Zhongshouyou	28	18938776	27/02/2027
4		PRC	Shenzhen Zhongshouyou	45	18939018	27/02/2027
5		PRC	Shenzhen Zhongshouyou	39	18939155	27/02/2027
6		PRC	Shenzhen Douyue	41	19046696	06/03/2027
7		Hong Kong	China Mobile Game HK	9 28 41 42	304326381	06/11/2027
8		Hong Kong	China Mobile Game HK	9 28 41 42	304326363	06/11/2027
9		Hong Kong	China Mobile Game HK	9 28 41 42	304326372	06/11/2027
10		Hong Kong	China Mobile Game HK	9 28 41 42	304326345	06/11/2027
11		Hong Kong	China Mobile Game HK	9 16 28 41 42	304688173	02/10/2028

As of the Latest Practicable Date, the Group had not made any application for trademarks which we believe are material to our business.

## 2. Copyright

As of the Latest Practicable Date, we had registered the following copyrights in the PRC which we believe are material to our business:

No.	Copyright	Version	Registered Owner	Registration Number	Registration Date (dd/mm/yyyy)
1	<i>Superheroes All Stars</i> Game Software (超級英雄全民遊戲軟件)	1.0.0	Chengdu Zhuoxing	2014SR136976	12/09/2014
2	<i>Three Kingdoms – Dear Master</i> Game Software (三國之主公你好遊戲軟件)	1.0.0	Chengdu Zhuoxing	2014SR136973	12/9/2014
3	<i>New Legend of Sword and Fairy</i> 3D Remake Version Game Software (新仙劍奇俠傳3D重製版遊戲軟件)	1.0.0	Chengdu Zhuoxing, Chengdu Zhidian Century Network Technology Co., Ltd. (成都指點世紀網絡科技有限公司) and Beijing Softstar	2016SR026074	02/2/2016
4	<i>One Piece – the Road of the Strong</i> Game Software (強者航海王遊戲軟件)	1.0.0	Chengdu Zhuoxing	2016SR137948	12/06/2016
5	<i>Xuan Yuan Sword: the Origin</i> Game Software (iOS version) (軒轅劍:劍之源遊戲軟件(iOS版))	1.0.0	Chengdu Zhuoxing and Guangzhou Black Flag Network Technology Co., Ltd. (廣州黑旗網絡科技有限公司)	2016SR285322	09/10/2016
6	<i>Xuan Yuan Sword: the Origin</i> Game Software (Android version) (軒轅劍:劍之源遊戲軟件(安卓版))	1.0.0	Chengdu Zhuoxing and Guangzhou Black Flag Network Technology Co., Ltd. (廣州黑旗網絡科技有限公司)	2016SR285542	09/10/2016
7	<i>Wuji in Jiang Hu – Dragon Saber</i> Game Software (無忌江湖之寶刀屠龍遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2016SR221142	16/08/2016

No.	Copyright	Version	Registered Owner	Registration Number	Registration Date (dd/mm/yyyy)
8	<i>New Superheroes</i> Game Software (新超級英雄遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2016SR259223	13/09/2016
9	<i>Storm Warship</i> Game Software (暴風戰艦遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2016SR389008	23/12/2016
10	<i>Bei Mo Ting</i> Game Software (杯莫停遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2017SR013988	16/01/2017
11	<i>Sunpolis</i> Game Software (光之城遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2017SR061185	28/02/2017
12	CMGE “ <i>Eternal Myth</i> ” Game Software (中手游「神話永恆」遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2017SR078314	14/03/2017
13	<i>3DTD: Chicka Invasion</i> Game Software (攻堡雞兵遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2017SR162837	05/05/2017
14	<i>Egg X Egg</i> Game Software (蛋蛋萌寵軍團遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2017SR212509	26/05/2017
15	<i>Reborn of Fairyland</i> Game Software (仙境重生遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2017SR366863	12/07/2017
16	CMGE Mobile Terminal Mobile Payment SDK Software (中手游手機終端移動支付SDK軟件)	1.0.0	Shenzhen Zhongshouyou	2017SR415887	01/08/2017
17	<i>Bomb Battle</i> H5 Game Software (爆爆堂H5遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2017SR433107	10/06/2017
18	<i>Eternal Myth</i> H5 Game Software (神話永恆H5遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2017SR445741	14/08/2017
19	<i>Mimpo Dreams</i> Game Software (米皮大冒險夢境遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2017SR490932	05/09/2017
20	<i>Journey to Immortality</i> Game Software (凡人飛仙傳遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2017SR589086	26/10/2017
21	<i>Heaven Crush Project</i> Game Software (仙界毀滅計劃遊戲軟件)	1.0.0	Shenzhen Douyue	2016SR221428	16/08/2016



No.	Copyright	Version	Registered Owner	Registration Number	Registration Date (dd/mm/yyyy)
22	<i>Ancient War of God Mobile</i> Game Software (Android version) (洪荒戰神手機遊戲軟件(安卓版))	1.0.0	Shenzhen Douyue	2016SR282525	30/09/2016
23	<i>Ancient War of God Mobile</i> Game Software (iOS version) (洪荒戰神手機遊戲軟件(iOS版))	1.0.0	Shenzhen Douyue	2016SR282524	30/09/2016
24	<i>Infinity Blade</i> Game Software (曙光之境遊戲軟件)	1.0.0	Shenzhen Douyue	2016SR353200	29/12/2016
25	<i>Weapon and Soul: Reborn of Spirit Master</i> Game Software (器靈:御靈師重生遊戲軟件)	1.0.0	Shenzhen Douyue	2016SR375514	15/12/2016
26	<i>Weapon and Soul: Animism</i> Game Software (器靈:君子不器,萬物有靈遊戲軟件)	1.0.0	Shenzhen Douyue	2016SR375508	15/12/2016
27	<i>Weapon and Soul</i> Game Software (器靈遊戲軟件)	1.0.0	Shenzhen Douyue	2016SR389012	23/12/2016
28	<i>Wings of Glory</i> Game Software (覺醒之翼遊戲軟件)	1.0.0	Shenzhen Douyue	2017SR006450	06/01/2017
29	<i>Purified Soul</i> Game Software (淨化之靈遊戲軟件)	1.0.0	Shenzhen Douyue	2017SR212502	26/05/2017
30	Douyue Mobile Terminal Mobile Payment SDK Software (豆悅手機終端移動支付SDK軟件)	1.0.0	Shenzhen Douyue	2017SR415856	01/08/2017
31	<i>New Legend of Sword and Fairy H5</i> Game Software (新仙劍奇俠傳H5遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2017SR455332	17/08/2017
32	<i>Painting Lake of the Cup Stop</i> Mobile Game Software (畫江湖之杯莫停手機遊戲軟件)	1.0.0	Shenzhen Zhongshouyou and Beijing Miaoquhengsheng Network Technology Co., Ltd. (北京妙趣橫生網絡科技有限公司)	2018SR352424	17/05/2018

No.	Copyright	Version	Registered Owner	Registration Number	Registration Date (dd/mm/yyyy)
33	<i>Fairy Tail: The Strongest Guild</i> Mobile Game Software (妖精的尾巴-最強公會手機遊戲軟件)	1.0.0	Chengdu Zhuoxing	2018SR126677	26/02/2018
34	<i>Lighting Supremacy</i> Mobile Game Software (雷霆霸業手機遊戲軟件)	1.0.0	Shenzhen Douyue	2016SR329374	14/11/2016
35	<i>Whisper: Fall in Love for 48 Days</i> Game Software (蜜語戀愛48天遊戲軟件)	1.0.0	Chengdu Zhuoxing	2018SR105622	09/02/2018
36	<i>Zhu Xian Tactics</i> Game Software (誅仙訣遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2018SR034331	16/01/2018
37	<i>The Phantom of the Sword and Shadows</i> Game Software (影劍之幻遊戲軟件)	1.0.0	Shenzhen Zhongshouyou	2016SR159468	28/06/2016
38	<i>Conquer the Demons</i> Game Software (我欲降魔遊戲軟件)	1.0.0	Shenzhen Douyue	2017SR534298	21/09/2017
39	<i>Conquering the Demons on Journey to the West</i> Game Software (西天降魔遊戲軟件)	1.0.0	Shenzhen Douyue	2018SR113786	14/02/2018
40	<i>The Riddle of the Martial Arts</i> Game Software (武俠之謎遊戲軟件)	2.0.0	Shenzhen Douyue	2018SR546700	12/07/2018
41	<i>Naruto: Ninja Master</i> Game Software (火影忍者 – 忍者大師遊戲軟件)	2.0.0	Chengdu Zhuoxing	2018SR546894	12/07/2018

### 3. Domain names

As of the Latest Practicable Date, the Group had registered and maintained the following domain names which we believe are material to our business:

No.	Domain Name	Registered Owner	Expiry Date (dd/mm/yyyy)
1	cmge.com	Shenzhen Zhongshouyou	28/10/2020
2	cmge.hk	China Mobile Game HK	06/03/2020
3	cmge.com.hk	China Mobile Game HK	06/03/2020

Save as aforesaid, as of the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our Group's business.

**D. FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT, STAFF, SUBSTANTIAL SHAREHOLDER AND EXPERTS****1. Particulars of Directors' service contracts****(a) *Executive Directors***

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from the Listing Date or until the third annual general meeting of our Company since the Listing Date (whichever is earlier). Either party has the right to give not less than one month's written notice to terminate the agreement. Details of the Company's remuneration policy is described in the section headed "Directors and Senior Management – Directors' and Senior Management's Remuneration" in this prospectus.

**(b) *Non-executive Directors and Independent non-executive Directors***

Each of our non-executive Directors and independent non-executive Directors has entered into an appointment letter with our Company. The term of office of our non-executive Directors and independent non-executive Directors is three years or until the third annual general meeting of our Company since the Listing Date (whichever is earlier). Either party has the right to give not less than one month's written notice to terminate the agreement.

**2. Remuneration of Directors**

- (a) The aggregate amount of remuneration (including salaries, allowances and benefits in kind, equity-settled share-based payment expense and pension scheme contributions) paid to our Directors and senior management for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2018 and 2019 was approximately RMB3.8 million, RMB4.8 million, RMB6.0 million, RMB3.3 million and RMB4.0 million, respectively.
- (b) Under the arrangements currently in force, our Directors will be entitled to receive remuneration and benefits in kind which, for the year ending December 31, 2019, is expected to be approximately RMB1,571,000 in aggregate (excluding discretionary bonus).
- (c) Save as disclosed in this prospectus, none of our Directors has or is proposed to have a service contract with the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

### 3. Disclosure of interests

#### *Directors and Chief Executives*

- (a) *Disclosure of interest – interests and short positions of our Directors and chief executives in the share capital of the Company and its associated corporations following the completion of the Global Offering*

Immediately following completion of the Capitalization Issue and the Global Offering, the interests or short positions of our Directors and chief executives in the shares, underlying Shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

(i) Interest in the Shares

Name of Director/ Chief Executive	Nature of interest	Number of Shares held after the Capitalization Issue and the Global Offering	Approximate percentage of interest in our Company immediately after the Capitalization Issue and the Global Offering <sup>(4)</sup>
Mr. Xiao <sup>(1)</sup>	Founder of a discretionary trust and interest in a controlled corporation	784,669,857	34.70%
Mr. Sin <sup>(2)</sup>	Beneficial interest	70,826,000	3.13%
	Interest in a controlled corporation	744,699,663	32.94%
Mr. Ma <sup>(3)</sup>	Beneficial interest	72,360,000	3.20%
	Interest in a controlled corporation	346,673,339	15.33%

*Notes:*

- (1) Mr. Xiao, through Victory Aspire, a company wholly owned by Antopex Limited, which is nominated by CMB Wing Lung (Trustee) Limited, the trustee of the Xiao Family Trust, which is a discretionary trust established by Mr. Xiao (as settlor) for the benefit of Mr. Xiao and his spouse, (i) holds 91,360,432 Shares through his wholly-owned subsidiary, Zhongshouyou Brothers BVI, and (ii) is deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 64% by Zhongshouyou Brothers BVI). In addition, Mr. Xiao has been granted RSUs under the Pre-IPO RSU Scheme for our core connected persons entitling him to receive an aggregate of 70,826,000 Shares, among which, RSUs representing 27,000,000 Shares shall vest on the Listing Date and RSUs representing 43,826,000 Shares shall vest if the required performance targets are achieved.

- (2) Mr. Sin (i) is deemed to be interested in 51,390,238 Shares directly held by his wholly-owned subsidiary, Silver Joyce, and (ii) is deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 36% by Silver Joyce). In addition, Mr. Sin has been granted RSUs under the Pre-IPO RSU Scheme for our core connected persons entitling him to receive an aggregate of 72,360,000 Shares, among which, RSUs representing 27,000,000 Shares shall vest on the Listing Date and RSUs representing 45,360,000 Shares shall vest if the required performance targets are achieved.
- (3) Mr. Ma is deemed to be interested in 346,673,339 Shares indirectly held by Zhike L.P. through Beijing Orient L.P.
- (4) This percentage does not take into account any Shares which may be issued upon the exercise of the Over-allotment Options and the options which may be granted under the Post-IPO Share Option Scheme.

(ii) Interests in associated corporations

Name of Director	Name of associated corporation	Approximate percentage shareholding
Mr. Xiao	Chengdu Zhuoxing	9.20%
Mr. Xiao	Shenzhen Zhongshouyou	9.20%
Mr. Xiao	Shenzhen Douyue	9.20%

***Substantial Shareholders***

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering have an interest or short position in the Shares or the underlying Shares which are required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of our Company.

**4. Disclaimers**

Save as disclosed in this prospectus:

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation) between the Directors and any member of the Group;

- (b) none of the Directors or the experts named in the section headed “– F. Other Information – 10. Consents of experts” has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of the Company within the two years ended on the date of this prospectus;
- (d) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (e) taking no account of any Shares which may be taken up under the Capitalization Issue and the Global Offering, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the Global Offering, have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; and
- (f) none of the Directors or chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange once the Shares are listed thereon.

**E. SHARE INCENTIVE SCHEMES****1. Pre-IPO RSU Schemes***(a) Summary of Terms*

Our Company approved and adopted two Pre-IPO RSU Schemes on September 20, 2019 (the “**Adoption Date**”). One of the Pre-IPO RSU Schemes is for four grantees who are the core connected persons of our Company, namely, Mr. Xiao, Mr. Sin, Ms. Lai Yau Yan Gladys and Ms. Liang Yan. Another one of the Pre-IPO RSU Schemes is for the other grantees who are not the core connected persons of our Company. The rules of the two Pre-IPO RSU Schemes are substantially the same. Mr. Xiao and Mr. Sin are our core connected persons because they are our Directors. Ms. Lai Yau Yan Gladys and Ms. Liang Yan are our core connected persons because they are a director of some of our subsidiaries. The Pre-IPO RSU Schemes are not subject to the provisions of Chapter 17 of the Listing Rules as the Pre-IPO RSU Schemes do not involve the grant of options by our Company to subscribe for new Shares.

*(b) Purposes of the Pre-IPO RSU Schemes*

The purposes of the Pre-IPO RSU Schemes are:

- (i) to recognize the contributions by grantees and to give incentives thereto in order to retain them for the continual operation and development of the Group; and
- (ii) to attract suitable personnel for further development of the Group.

*(c) Awards*

An award of RSUs under the Pre-IPO RSU Schemes (“**Award**”) gives a selected person (as set out in paragraph (e) below) in the Pre-IPO RSU Schemes a conditional right when the granted RSUs vest to obtain Shares as determined by the Board in its absolute discretion.

*(d) Pre-IPO RSU Limit*

Unless otherwise duly approved by our Shareholders, the total number of Shares underlying RSUs under the Pre-IPO RSU Schemes shall not exceed 180,000,000 Shares (“**Pre-IPO RSU Limit**”).



*(e) Selected Persons of the Pre-IPO RSU Schemes*

Our Board may select the following persons to be granted with RSUs under the Pre-IPO RSU Schemes before the Listing:

- (i) existing employees, Directors or officers of the Group; and
- (ii) any other person selected by the Board at its sole discretion from time to time.

*(f) Duration of the Pre-IPO RSU Schemes*

Subject to the fulfillment of the conditions of the Pre-IPO RSU Schemes and the termination clause in paragraph (u), the Pre-IPO RSU Schemes shall be valid and effective for a term of ten years commencing on the Adoption Date (the “**Pre-IPO RSU Scheme Period**”), after which period no further RSUs shall be granted or accepted, but the provisions of the Pre-IPO RSU Schemes shall remain in full force and effect in order to give effect to the vesting of RSUs granted and accepted prior to the expiration of the Pre-IPO RSU Scheme Period.

*(g) Administration of the Pre-IPO RSU Schemes*

The Pre-IPO RSU Schemes shall be subject to the administration of the Board in accordance with the rules of such schemes. The Board has the power to construe and interpret the rules of the Pre-IPO RSU Schemes and the terms of the Awards granted thereunder. Any decision of the Board made in accordance with the rules of the Pre-IPO RSU Schemes shall be final and binding, provided in each case that such decision is made in accordance with the Articles and any applicable laws.

*(h) Appointment of Pre-IPO RSU Trustees*

Our Board has appointed C&T Services as the trustee in respect of the Pre-IPO RSU Scheme for grantees who are our core connected persons, and JW Holdings as the trustee in respect of the Pre-IPO RSU Scheme for grantees who are not our core connected persons. C&T Services and JW Holdings administer the granting and vesting of RSUs granted to the grantees pursuant to the Pre-IPO RSU Schemes.

*(i) Grant of RSUs*

After the Board has selected the grantees, it will inform the Pre-IPO RSU Trustees of the name(s) of the person(s) selected, the number of Shares underlying the RSUs to be granted to each of them, the vesting schedule and other terms and conditions (if any) that the RSUs are subject to as determined by the Board.

Subject to limitations and conditions of the Pre-IPO RSU Schemes, the Pre-IPO RSU Trustees shall, upon receipt of the notification from the Board, shall grant and deliver to each of the selected persons an offer of grant of Award(s) by way of a letter, which shall attach an acceptance notice, subject to the conditions that the Board thinks fit.

***(j) Acceptance of Awards***

If the selected person intends to accept the offer of grant of RSUs as specified in the grant letter, he or she is required to sign the acceptance notice and return it to the Company within the time period and in a manner prescribed in the grant letter. Upon the receipt from the selected person of a duly executed acceptance notice, the RSUs are granted to such person, who becomes a grantee pursuant to the Pre-IPO RSU Schemes.

To the extent that the offer of grant of RSUs is not accepted by any selected person within the time period or in a manner prescribed in the grant letter, it shall be deemed that such offer has been irrevocably declined and thus the RSUs has immediately lapsed.

***(k) Restrictions on grants***

Our Board shall not grant any RSUs to any selected person in any of the following circumstances:

- (i) the requisite approvals for such grant from any applicable regulatory authorities have not been obtained;
- (ii) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of RSUs or in respect of the Pre-IPO RSU Schemes, unless the Board determines otherwise;
- (iii) the grant would result in a breach by the Group or any of its Directors or senior management of any applicable laws, regulations or rules; or
- (iv) the grant would result in breach of the Pre-IPO RSU Limit or other rules of the Pre-IPO RSU Schemes.

***(l) Rights attached to Awards***

A grantee does not have any contingent interest in any Shares underlying Awards unless and until these Shares are actually transferred to the grantee from the Pre-IPO RSU Trustees. Furthermore, a grantee may not exercise any voting right in respect of the Shares underlying RSUs and, unless otherwise specified by the Board in its sole discretion in the grant letter to the grantee, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the Awards.

***(m) Rights attached to Shares***

Any Shares transferred to a grantee in respect of any RSUs shall be subject to the provisions of the Articles and will rank *pari passu* with the fully paid Shares in issue on the date of the transfer or, if that date falls on a day when the register of members of the Company is closed, the first day of the reopening of the register of members, and accordingly will entitle the grantee to participate in all dividends or other distributions paid or made on or after the date of transfer or, if that date falls on a day when the register of members of the Company closed, the first day of the reopening of the register of members.

***(n) Awards to be personal to grantees***

Awards granted pursuant to the Pre-IPO RSU Schemes shall be personal to each grantee and shall not be assignable or transferrable, except assignment or transfer from each grantee to a company wholly-owned by him or between two companies both of which are wholly-owned by him. Notwithstanding the above, the grantees are prohibited from selling, transferring, assigning, charging, mortgaging, encumbering, hedging or creating any interest in favor of any other person over or in relation to any property held by the Pre-IPO RSU Trustees on trust for the grantees, Awards, Shares underlying any Awards or any interest or benefits therein.

***(o) Vesting***

The Board has the sole discretion to determine the vesting schedule and vesting criteria (if any) for any grant of Award(s) to any grantee, which may also be adjusted and re-determined by the Board from time to time. The Pre-IPO RSU Trustees shall administer the vesting of Awards granted to each grantee pursuant to the vesting period and vesting criteria (if any) determined by the Board.

Upon fulfillment or waive of the vesting period and vesting criteria (if any) applicable to each of the grantees, a vesting notice will be sent to the grantee by the Board, or by the Pre-IPO RSU Trustees under the authorization and instruction by the Board confirming (a) the extent to which the vesting period and vesting criteria have been fulfilled or waived, and (b) the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of these Shares). The grantee is required to execute, after receiving the vesting notice, certain documents set out in the vesting notice that the Board considers necessary (which may include, without limitation, a certification to the Group that he or she has complied with all the terms and conditions set out in the Pre-IPO RSU Schemes and the grant letter).

Subject to the execution of documents by the grantee set out above, the Board may decide at its sole discretion to direct and procure the Pre-IPO RSU Trustees to transfer the Shares underlying the RSUs (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of these Shares) to the grantee or his or her wholly-owned entity.

In the event that the grantee fails to execute the required documents within fifteen (15) days after receiving the vesting notice, the vested RSUs will lapse.

*(p) Acceleration of vesting*

The Board has the sole discretion to determine, at any time, to accelerate the vesting of any Award granted to any grantee for various considerations as set out below.

*(i) Rights on a takeover*

In the event a general offer by way of takeover, merger or otherwise in a like manner (other than by way of scheme of arrangement set out as below) is made to all the shareholders of the Company (or shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and the general offer to acquire the Shares is approved and the offer becomes or is declared unconditional in all respects prior to the vesting, the Award(s) of the grantee will vest immediately to the extent specified in a notice given by the Company.

*(ii) Rights on a scheme of arrangement*

In the event a general offer for Shares by way of scheme of arrangement is made by any person to all the shareholders of the Company and has been approved by the necessary number of shareholders at the requisite meetings prior to the vesting, the Awards of the grantee will vest immediately to the extent specified in a notice given by the Company.

*(iii) Rights on a compromise or arrangement*

If a compromise or arrangement between the Company and its shareholders or creditors is proposed in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies and a notice is given by the Company to its shareholders to convene a general meeting to consider and if thought fit approve such compromise or arrangement prior to the vesting, the RSUs of the grantee will vest immediately to the extent specified in a notice given by the Company.

*(iv) Rights on a voluntary winding-up*

In the event that an effective resolution is passed during the Pre-IPO RSU Scheme Period for voluntarily winding-up of the Company (other than for the purposes of a reconstruction, amalgamation or scheme of arrangement as set out above), prior to the vesting, the RSUs of the grantee will vest immediately to the extent specified in a notice given by the Company provided that all unexercised RSUs must be exercised and effected by no later than one Business Day before the day of the proposed general meeting to be convened for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company (or to pass written resolutions of the shareholders to the same effect).

***(q) Lapse of Awards***

Subject to the rules under the Pre-IPO RSU Schemes, an Award will automatically lapse immediately upon the occurrence of the following:

- (i) termination of employment or service of any grantee for any reason prior to the vesting date of the granted Awards;
- (ii) the grantee knowingly performs any act that may confer any competitive benefit or advantage upon any competitor of the Group, or becomes an officer, director, employee, consultant, adviser, partner of, or a stockholder or other proprietor owning more than a 5% interest in any competitor of the Group;
- (iii) the grantee makes any attempt or takes any action to sell, transfer, assign, charge, mortgage, encumber, hedge or create any interest in favor of any other person over or in relation to any ordinary shares underlying the granted Awards or any interests or benefits in relation to the Awards; and
- (iv) commencement of winding-up of the Company.

If any event set out above occurs (other than sub-paragraph (iv)), the RSUs shall lapse on a proportional basis, i.e. based on the proportion of the time period commencing from the grant date of the RSUs through the occurrence of such event of the entire vesting period set out in the grant letter to the grantee provided that other vesting criteria (if any) have been fulfilled or waived as of the date of occurrence of such event.

***(r) Cancellation of RSUs***

Our Board may at its sole discretion cancel any RSU that has not vested or lapsed, provided that:

- (i) the Company or its appointees pay to the grantee an amount equal to the fair value of the RSUs at the date of the cancellation as determined by the Board, after consultation with an independent financial adviser appointed by the Board;
- (ii) the Company or its appointees provides to the grantee a replacement RSUs of equivalent value to the RSUs to be cancelled; or
- (iii) the Board makes any arrangement as the grantee may agree in order to compensate him for the cancellation of the RSUs.

***(s) Reorganization of Capital Structure***

In the event of any alteration in the capital structure of the Company, such as Capitalization Issue, rights issue, consolidation, sub-division and reduction of the share capital of the Company, the Board may make equitable adjustments that it considers appropriate, at its sole discretion, including:

- (i) make arrangements for the grant of substitute RSUs of equivalent fair value to an Award in the purchasing or surviving company;
- (ii) reach such accommodation with the grantee as it considers appropriate, including the payment of cash compensation to the grantee equivalent to the fair value to any RSU to the extent not vested;
- (iii) waive any conditions to vesting of any RSU to the extent not already vested;  
or
- (iv) permit the continuation of an Award in accordance with its original terms.

***(t) Alteration or Amendment of the Pre-IPO RSU Schemes***

The terms of the Pre-IPO RSU Schemes may be altered, amended or waived in any respect by the Board provided that such alteration, amendment or waiver shall not affect any subsisting rights of any grantee thereunder. Any alteration, amendment or waiver to the Pre-IPO RSU Schemes of a material nature shall be approved by the shareholders of the Company. The Board shall have the right to determine whether any proposed alteration, amendment or waiver is material and such determination shall be conclusive.

***(u) Termination of the Pre-IPO RSU Schemes***

This Scheme may be terminated at any time prior to the expiry of the Pre-IPO RSU Scheme Period by the Board provided that such termination shall not affect any subsisting rights of any grantee thereunder. For the avoidance of doubt, no further Awards shall be granted after the Listing. All Awards granted prior to the termination of the Pre-IPO RSU Schemes and not vested on the date of termination shall remain valid. In such event, the Board shall notify the Pre-IPO RSU Trustees and all grantees of such termination and how the Shares held by the Pre-IPO RSU Trustees on trust and other interests or benefits in relation to the outstanding RSUs shall be dealt with.

***(v) General***

The underlying Shares in respect of the RSUs granted under the Pre-IPO RSU Schemes shall not exceed 180,000,000 Shares immediately after the Capitalization Issue and before the Listing. These shares will be held by JW Holdings and C&T Services on trust for the purpose of the Pre-IPO RSU Schemes. An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares held by JW Holdings and C&T Services for the purpose of the Pre-IPO RSU Schemes.

*Details of the Pre-IPO RSUs granted by our Company under the Pre-IPO RSU Schemes*

The following table shows the full details of the Pre-IPO RSUs granted by our Company under the Pre-IPO RSU Schemes to, on an individual basis, the Directors, senior management members and other connected person of the Group.

Name of grantees of RSU	Position held within our Group	Address	Number of underlying shares represented by RSUs <sup>(1)</sup>	Date of Grant	Approximate percentage of shareholding immediately following the completion of the Capitalization Issue and the Global Offering <sup>(2)</sup>
Mr. Xiao <sup>(3)</sup>	Executive Director	Unit 13A, Building 1 Yujing East Dongdi Park Baishi Road North Nanshan District Shenzhen, Guangdong PRC	70,826,000	September 20, 2019	3.13%
Mr. Sin <sup>(3)</sup>	Executive Director	30B, The Albany, 1 Albany Road, Mid-levels, Hong Kong	72,360,000	September 20, 2019	3.20%
Ms. LIANG Yan <sup>(3)</sup>	Partner and Vice President	Room 15C, Building 9, Oriental Mansion, 2018 Luosha Road, Liantang, Luohu District, Shenzhen, the PRC	3,762,500	September 20, 2019	0.17%
Mr. WANG Ye <sup>(4)</sup>	Partner and Vice President	Room 1703, Unit 1, Unit 201, Baiziwan Homeland, Chaoyang District, Beijing, the PRC	3,000,000	September 20, 2019	0.13%
Mr. WANG Xiaolin <sup>(4)</sup>	Partner and Vice President	Block 20E, West Sea Pearl, No. 1 Taoyuan Road, Nanshan, Shenzhen, the PRC	3,750,000	September 20, 2019	0.17%
Mr. YANG Rongjie <sup>(4)</sup>	Partner and Vice President	4th Unit 6B, Building 8, Sunshine Palm Park, Qianhai Road, Nanshan, Shenzhen, the PRC	3,000,000	September 20, 2019	0.13%
Mr. YUAN Yu <sup>(4)</sup>	Partner and Vice President	1-12-3, No. 9-1 Yingchang Street, Tiexi, Shenyang, the PRC	3,000,000	September 20, 2019	0.13%
Mr. WANG Tao <sup>(4)</sup>	Partner and Vice President	Flat 407, Block 4, Shuangyushu, Haidian, Beijing, the PRC	1,500,000	September 20, 2019	0.07%
Ms. LAI Yau Yan Gladys <sup>(3)</sup>	Financial Controller and Company Secretary	Flat C, 12/F, Tower 2 Island Harbourview, 11 Hoi Fai Road, Tai Kok Tsui, Hong Kong	125,000	September 20, 2019	0.01%
<b>Subtotal</b>	<b>Nine grantees</b>		<b>161,323,500</b>		<b>7.14%</b>



*Notes:*

- (1) These figures reflect the post adjusted amount of Shares as a result of the completion of the Capitalization Issue.
- (2) This percentage does not take into account any Shares which may be issued upon the exercise of the Over-allotment Options and the options which may be granted under the Post-IPO Share Option Scheme.
- (3) Our core connected persons. Mr. Xiao and Mr. Sin are our core connected persons because they are our Directors. Ms. Lai Yau Yan Gladys and Ms. Liang Yan are our core connected persons because they are a director of some of our subsidiaries.
- (4) Not our core connected persons.

The following is a summary table showing details of the Pre-IPO RSUs granted by our Company under the Pre-IPO RSU Schemes to individuals who are neither a Director, senior management member nor a connected person of the Group.

		<b>Number of underlying Shares represented by RSUs<sup>(1)</sup></b>	<b>Date of Grant</b>	<b>Approximate percentage of shareholding immediately following the completion of the Capitalization Issue and the Global Offering<sup>(2)</sup></b>
Subtotal	118 grantees	22,545,000	September 20, 2019	1.00%

*Notes:*

- (1) These figures reflect the post adjusted amount of Shares as a result of the completion of the Capitalization Issue.
- (2) This percentage does not take into account any Shares which may be issued upon the exercise of the Over-allotment Options and the options which may be granted under the Post-IPO Share Option Scheme.

*Consideration paid for the grant of Pre-IPO RSUs and the vesting period of the RSUs granted under the Pre-IPO RSU Schemes*

The grantees of the Pre-IPO RSUs granted under the Pre-IPO RSU Schemes as referred to in the table above are not required to pay for the grant of any Pre-IPO RSU under the Pre-IPO RSU Schemes.

For the Pre-IPO RSUs that have already been granted, 30% shall vest on the Listing Date, and 70% shall vest if the required performance targets are achieved.

## 2. Post-IPO Share Option Scheme

The following is a summary of the principal terms of the Post-IPO Share Option Scheme conditionally approved and adopted by our Shareholders on September 20, 2019 and its implementation is conditional on the Listing.

### *(a) Purpose*

The purpose of the Post-IPO Share Option Scheme is to incentivize and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

### *(b) Who may participate*

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Post-IPO Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to an employee (whether full time or part-time) or a director of a member of our Group or associated companies of our Company (“**Eligible Persons**”).

### *(c) Maximum number of Shares in respect of which options may be granted*

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme of our Company must not in aggregate exceed 10% of the total number of Shares in issue as of the Listing Date, i.e. 226,100,000 (the “**Scheme Mandate Limit**”). Options lapsed in accordance with the terms of the Post-IPO Share Option Scheme and any other schemes of our Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Board may, with the approval of the Shareholders in general meeting refresh, the Scheme Mandate Limit provided that the total number of Shares which may be issued upon the exercise of all options to be granted under the Post-IPO Share Option Scheme and any other schemes of our Company under the Scheme Mandate Limit as refreshed must not exceed 10% of the Shares in issue as of the date of on which the Shareholders approve the refreshment of the Scheme Mandate Limit. Options previously granted under the Post-IPO Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the Scheme Mandate Limit as “refreshed”. The Board may, with the approval of the Shareholders in general meeting, grant options to any Eligible Person specifically identified by them which would cause the Scheme Mandate Limit to be exceeded. Our Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

At any time, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Post-IPO Share Option Scheme and any other schemes of our Company to Eligible Persons must not exceed 30% of the total number of Shares in issue from time to time.

The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or independent financial adviser appointed by the Board shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of our Company whether by way of capitalization of profits or reserves, rights issue, consolidation or subdivision of shares, or reduction of the share capital of our Company provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transaction.

***(d) Maximum entitlement of each individual***

No options shall be granted to any Eligible Person under the Post-IPO Share Option Scheme and any other schemes of our Company which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date.

Any further grant of options to an Eligible Person in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such Eligible Person and his or her associates abstaining from voting. Our Company must send a circular to the Shareholders disclosing the identity of the Eligible Person in question, the number and terms of the options to be granted (and options previously granted to such Eligible Person) and such other information required under the Listing Rules.

The number and terms (including the exercise price) of the options to be granted to such Eligible Person must be fixed before the Shareholders' approval and the date of the Board meeting approving such further grant shall be taken as the date of grant for the purpose of determining the exercise price of the options.

***(e) Grant of options to connected persons***

Each grant of options to a Director (including an Independent Non-executive Director) of any member of our Group or associated company of our Company, chief executive or substantial shareholder of our Company, or any of their respective associates, under the Post-IPO Share Option Scheme must be approved by the Independent Non-executive Directors (excluding any Independent Non-executive Director who is the proposed grantee of the options).

Where any grant of options to a substantial shareholder or an Independent Non-executive Director of our Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Post-IPO Share Option Scheme (including options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million,

such further grant of options by the Board must be approved by the Shareholders in general meeting. Any Shareholder who is a connected person of our Company must abstain from voting on the resolution to approve such further grant of options, except that such a connected person may vote against such resolution subject to the requirements of the Listing Rules. Our Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

***(f) Acceptance of an offer of options***

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Post-IPO Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of RMB1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

***(g) Performance Targets***

Unless our Directors otherwise determined and stated in the relevant option grant notice to a grantee, a grantee is not required to achieve any performance targets before any Post-IPO Share Option can be exercised.

***(h) Exercise price***

Subject to any adjustment made as described in sub-paragraph (u) below, the exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;
- (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and
- (iii) the nominal value of the Shares.

*(i) Duration of Post-IPO Share Option Scheme*

The Post-IPO Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date, after which period no further options will be granted but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any option granted prior thereto which are at that time or become thereafter capable of exercise under the Post-IPO Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Post-IPO Share Option Scheme.

*(j) Time of vesting and exercise of options*

Any option shall be vested on an option-holder immediately upon his or her acceptance of the offer of options provided that if any vesting schedule and/or conditions are specified in the offer of the option, such option shall only be vested on an option-holder according to such vesting schedule and/or upon the fulfilment of the vesting conditions (as the case may be). Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remain unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option (the “**Option Period**”).

No option may be exercised in circumstances where such exercise would, in the opinion of the Board, be in breach of a statutory or regulatory requirement.

*(k) Restriction on the time of grant of options*

A grant of options may not be made after inside information has come to our knowledge until such inside information has been announced as required under the Listing Rules. In particular, no option may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company’s results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of the results for any year, or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

***(l) Ranking of the Shares***

No dividends (including distributions made upon the liquidation of our Company) will be payable and no voting rights will be exercisable in relation to an option that has not been exercised. Shares allotted and issued on the exercise of an option will rank equally in all respects with the Shares in issue on the date of allotment. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

***(m) Restrictions on transfer***

Except for the transmission of an option on the death of an option-holder to his or her personal representatives, neither the option nor any rights in respect of it may be transferred, assigned or otherwise disposed of by any option-holder to any other person or entity. If an option-holder transfers, assigns or disposes of any such option or rights, whether voluntarily or involuntarily, then the relevant option will immediately lapse.

***(n) Rights on voluntary resignation***

If an option-holder ceases to be an Eligible Person by reason of his or her voluntary resignation (other than in circumstances where he is constructively dismissed), any outstanding offer of options shall continue to be open for acceptance for such period as determined by the Board at its absolute discretion and notified to such Eligible Person, and all options (to the extent vested but not already exercised) will continue to be exercisable for such period as the Board may determine at its absolute discretion and notify to such Eligible Person on the date of cessation of employment of such Eligible Person.

***(o) Rights on termination of employment***

If an option-holder ceases to be an Eligible Person by reason of (i) his or her employer terminating his or her contract of employment in accordance with its terms or any right conferred on his or her employer by law, or (ii) his or her contract of employment, being a contract for a fixed term, expiring and not being renewed, or (iii) his or her employer terminating his or her contract for serious or gross misconduct, then any outstanding offer of an option and all options, vested or unvested, will lapse on the date the option-holder ceases to be an Eligible Person.

*(p) Rights on death, disability, retirement and transfer*

If an option-holder ceases to be an Eligible Person by reason of:

- (i) his or her death; or
- (ii) his or her serious illness or injury which in the opinion of the Board renders the option-holder concerned unfit to perform the duties of his or her employment and which in the normal course would render the option-holder unfit to continue performing the duties under his or her contract of employment for the following 12 months provided such illness or injury is not self-inflicted; or
- (iii) his or her retirement in accordance with the terms of an option-holder's contract of employment; or
- (iv) his or her early retirement by agreement with the option-holder's employer; or
- (v) his or her employer terminating his or her contract of employment by reason of redundancy; or
- (vi) his or her employer ceasing to be a member of our Group or an associated company of our Company or under the control of our Company; or
- (vii) a transfer of the business, or the part of the business, in which the option-holder works to a person who is neither under the control of our Company nor a member of our Group or associated companies of our Company; or
- (viii) if the Board determines in its absolute discretion that circumstances exist which mean that it is appropriate and consistent with the purpose of the Post-IPO Share Option Scheme to treat an option-holder whose options would otherwise lapse so that such options do not lapse but continue to subsist in accordance with (and subject to) the provisions of the Post-IPO Share Option Scheme,

then, any outstanding offer of an option which has not been accepted and any unvested option will lapse and the option-holder or his or her personal representatives (if appropriate) may exercise all his or her options (to the extent vested but not already exercised) within a period of three months of the date of cessation of employment. Any option not exercised prior to the expiry of this period shall lapse.



If the Board determines that an option-holder who ceases to be an Eligible Person in circumstances such that his or her options continue to subsist in accordance with (viii) above:

- (a) is guilty of any misconduct which would have justified the termination of his or her contract of employment for cause but which does not become known to our Company until after he has ceased employment with any member of our Group or associated companies; or
- (b) is in breach of any material term of contract of employment (or other contract or agreement related to his or her contract of employment), without limitation, any confidentiality agreement or agreement containing non-competition or non-solicitation restrictions between him and any member of our Group or associated companies; or
- (c) has disclosed trade secrets or confidential information of any member of our Group or associated companies; or
- (d) has entered into competition with any member of our Group or associated companies or breached any non-solicitation provisions in his or her contract of employment,

then it may, in its absolute discretion, determine that any unexercised options, vested or not vested, held by the option-holder shall immediately lapse upon the Board resolving to make such determination (whether or not the option-holder has been notified of the determination).

***(q) Rights on cessation to be a director***

In the event that any director ceases to be a director of any member of our Group or associated companies, our Company shall, as soon as practicable thereafter, give notice to the relevant option-holder who as a result ceases to be an Eligible Person. Any outstanding offer of an option which has not been accepted and any unvested option will lapse on the date the option-holder ceases to be an Eligible Person. The option-holder (or his or her personal representative) may exercise all his or her options (to the extent vested but not already exercised) within a period of three months of the date of the notification by the Board. Any option not exercised prior to the expiry of this period shall lapse.

***(r) Rights on a general offer***

In as a result of any general offer made to the holders of Shares, the Board becomes aware that the right to cast more than 50% of the votes which may ordinarily be cast on a poll at a general meeting of our Company has or will become vested in the offeror, any company controlled by the offeror and any person associated with or acting in concert with the offeror (a “**Change of Control**”), the Board will notify every option-holder of

this within 14 days of becoming so aware or as soon as practicable after any legal or regulatory restriction on such disclosure no longer applies. Each option-holder will be entitled to exercise his or her options (to the extent vested but not already exercised) during the period of one month starting on the date of the Board's notification to the option-holders. All options, vested or unvested, not exercised before the end of such period will lapse.

**(s) *Rights on company reconstructions***

In the event of a compromise or arrangement, our Company shall give notice to all option-holders on the same date as it gives notice of the meeting to the Shareholders or creditors to consider such a compromise or arrangement and each option-holder (or his or her personal representative) may at any time thereafter, but before such time as shall be notified by our Company, exercise all or any of his or her options (to the extent vested but not already exercised), and subject to our Company receiving the exercise notice and the exercise price, our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options, vested or not unvested, not so exercised will lapse.

**(t) *Rights on winding up***

In the event a notice is given by our Company to the Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall on the same date as or soon after we dispatch such notice to the Shareholders give notice thereof to all option-holders and each option-holder shall be entitled to exercise all or any of his or her options (to the extent vested but not already exercised) at any time no later than seven days prior to the proposed general meeting of our Company, and subject to our Company receiving the exercise notice and the exercise price, our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options, vested or not unvested, not so exercised will lapse.

**(u) *Lapse of option***

An option will lapse on the earlier of:

- (i) the expiry of the option period as determined by the Board;
- (ii) the date on which an option-holder is in breach of sub-paragraph (l); or
- (iii) the expiry of the time provided for in the applicable rule where any of the circumstances provided in sub-paragraphs (m) to (s) above apply.

(v) *Effect of alteration to share capital*

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, further rights issues of Shares, consolidation or subdivision of shares, or reduction of the share capital of our Company in accordance with applicable laws and regulatory requirements (other than an issue of any share capital as consideration in respect of a transaction), such corresponding adjustments (if any) shall be made to the number of Shares, the subject matter of the option (insofar as it is unexercised) and/or the price at which the options are exercisable, as the auditors of our Company or an independent financial adviser appointed by the Board shall certify in writing to the Board to be in their opinion fair and reasonable. Notice of any adjustments shall be given by our Company to an option-holder.

Any such adjustments shall be made on the basis that an option-holder shall have the same proportion of the issued share capital of our Company as that to which he was entitled before such adjustment. No such adjustment shall be made the effect of which would be to enable any Share to be issued at less than its nominal value, or to increase the proportion of the issued share capital of our Company for which any option-holder would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustments.

The auditors of our Company or the independent financial adviser selected by the Board (as appropriate) must confirm to the Board in writing that the adjustment satisfies the requirements of the Note to paragraph 17.03(13) of the Listing Rules and such applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange (including, without limitation, the “Supplemental Guidance on Main Board Listing Rule 17.03(13) and the Notice immediately after the Rule” attached to the letter of the Stock Exchange dated September 5, 2005 to all issuers relating to share option schemes), except where such adjustment is made on a Capitalization Issue.

The capacity of the auditors or independent financial advisors is that of experts and not of arbitrators and their certification shall be final and binding on our Company and the option-holders in the absence of fraud or manifest error. The costs of the auditors or independent financial advisors shall be borne by our Company.

(w) *Cancellation of option*

Unless the option-holder agrees, the Board may only cancel an option (which has been granted but not yet exercised) if, at the election of the Board, either:

- (i) our Company pays to the option-holder an amount equal to the fair market value of the option at the date of cancellation as determined by the Board at its absolute discretion, after consultation with the auditors of our Company or an independent financial adviser appointed by the Board; or

- (ii) the Board offers to grant to the option-holder replacement options (or options under any other share option scheme of any member of our Group) or makes such arrangements as the option-holder may agree to compensate him for the loss of the option; or
- (iii) the Board makes such arrangements as the option-holder may agree to compensate him for the cancellation of the option.

***(x) Termination of the Post-IPO Share Option Scheme***

The Post-IPO Share Option Scheme will expire automatically on the day immediately preceding the tenth anniversary of the Listing Date. The Board may terminate the Post-IPO Share Option Scheme at any time without Shareholders' approval by resolving that no further options shall be granted under the Post-IPO Share Option Scheme and in such case, no new offers to grant options under the Post-IPO Share Option Scheme will be made and any options which have been granted but not yet exercised shall either (i) continue subject to the Post-IPO Share Option Scheme, or (ii) be cancelled in accordance with sub-paragraph (v).

***(y) Amendments to the Post-IPO Share Option Scheme***

The Board may amend any of the provisions of the Post-IPO Share Option Scheme (including amendments in order to comply with changes in legal or regulatory requirements) at any time (but not so as to affect adversely any rights which have accrued to any option-holder at that date), except that amendments which are to the advantage of present or future option-holders in respect of matters contained in Rule 17.03 of the Listing Rules must be approved by the Shareholders in general meeting.

Any amendments to the terms and conditions of the Post-IPO Share Option Scheme which are of a material nature or any amendments to the terms of any options granted may only be made with the approval of the shareholders of our Company save where the amendments take effect automatically under the existing terms of the Post-IPO Share Option Scheme.

Any amendments to the terms of options granted to an option-holder who is a substantial shareholder of our Company or an independent non-executive Director, or any of their respective associates, must be approved by the Shareholders in general meeting. The resolution to approve the amendment must be taken on a poll and any connected person of our Company must abstain from voting on the resolution to approve such amendment, except that such a connected person may vote against such resolution.

Any change to the authority of the Board in relation to any amendment of the rules of the Post-IPO Share Option Scheme may only be made with the approval of the Shareholders in general meeting.

***(z) Conditions of the Post-IPO Share Option Scheme***

The adoption of the Post-IPO Share Option Scheme is conditional on:

- (i) the Listing Committee granting (or agreeing to grant) approval (subject to such conditions as the Stock Exchange may impose) for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Post-IPO Share Option Scheme; and
- (ii) the commencement of the dealings in the Shares on the Stock Exchange.

If the conditions above are not satisfied on or before the date following six months after the date the Post-IPO Share Option Scheme was conditionally adopted:

- (a) the Post-IPO Share Option Scheme shall forthwith terminate;
- (b) any option granted or agreed to be granted pursuant to the Post-IPO Share Option Scheme and any offer of such a grant shall be of no effect; and
- (c) no person shall be entitled to any rights or benefits or be under any obligation under or in respect of the Post-IPO Share Option Scheme or any option.

***(aa) General***

An application has been made to the Listing Committee to the Stock Exchange for the listing of, and permission to deal in, the new Shares which may be issued pursuant to the exercise of the options which may be granted pursuant to the Post-IPO Share Option Scheme.

As of the Latest Practicable Date, no option had been granted or agreed to be granted by our Company pursuant to the Post-IPO Share Option Scheme.

Details of the Post-IPO Share Option Scheme, including particulars and movements of the options granted during each financial year of our Company, and our employee costs arising from the grant of the options will be disclosed in our annual report.

**F. OTHER INFORMATION****1. Litigation**

Save as disclosed in the section headed “Business – Legal Proceedings and Compliance” in this prospectus, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company that would have a material adverse effect on our Company’s results of operations or financial condition.

**2. Preliminary listing expenses**

For details, please see the section headed “Financial Information – Listing Expenses” in this prospectus.

**3. Agency fees or commissions**

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries.

**4. Joint Sponsors**

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein and any Shares falling to be issued pursuant to the Global Offering and the exercise of the Post-IPO Share Options that may be granted under the Post-IPO Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS. Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors’ fee in relation to the Listing is US\$0.8 million.

**5. No Selling Shareholders**

The Global Offering does not involve any offering of Shares by our Shareholders.

**6. No material adverse change**

Our Directors believe that there has been no material adverse change in the financial or trading position since June 30, 2019 (being the date on which the latest audited consolidated financial statements of the Group were made up).

**7. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**8. Miscellaneous**

- (a) Save as disclosed in this prospectus:
  - (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash; and
  - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (b) Our Company has no founder shares, management shares or deferred shares in the capital of the Company.
- (c) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (d) None of the equity and debt securities of our Company is listed or dealt in on any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

**9. Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

<b>Name</b>	<b>Qualification</b>
China International Capital Corporation Hong Kong Securities Limited	A licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) of the regulated activities (as defined in the SFO)
BNP Paribas Securities (Asia) Limited	A licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities (as defined in the SFO)
Ernst & Young	Certified Public Accountants
Analysys	Industry consultant
Maples and Calder (Hong Kong) LLP	Legal adviser as to Cayman Islands law
Guantao Law Firm	Legal adviser as to PRC law



**10. Consents of experts**

Each of the experts listed in the paragraph headed “– F. Other Information – 9. Qualifications of experts” in this appendix to the prospectus has given and has not withdrawn their respective consents to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it appears.

As of the Latest Practicable Date, none of the experts named in the paragraph headed “– F. Other Information – 9. Qualifications of experts” in this appendix to the prospectus had any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

**11. Promoter**

We do not have any promoter. No cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus within the two years immediately preceding the date of this prospectus.

**G. GENERAL****1. Taxation of Holder of our Shares*****(a) Hong Kong***

Dealings in Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. Our Directors have been advised that no material liability for estate duty under the laws of China or Hong Kong would be likely to fall upon any member of our Group.

***(b) 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.

*(c) Consultation with professional advisors*

Potential investors in the Global Offering should consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and disposing of, or dealing in Shares. It is emphasized that none of us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors and the Underwriters and their respective directors or any other parties involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, persons resulting from the application for, or purchasing, holding and disposal of, or dealing in Shares.

**2. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

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## **APPENDIX V    DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION**

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### **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the section headed “Statutory and General Information – F. Other Information – 10. Consents of experts” in Appendix IV to this prospectus; and
- (c) copies of the material contracts referred to in the section headed “Statutory and General Information – A. Further Information about Our Company – 6. Summary of the material contracts” in Appendix IV to this prospectus.

### **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Kirkland & Ellis at 26th Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Articles of Association;
- (b) the Accountants’ Report prepared by Ernst & Young, the text of which are set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Company for the Track Record Period;
- (d) the report from Ernst & Young on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal adviser on Cayman Islands law, summarizing certain aspects of Cayman Islands company law referred to in Appendix III to the prospectus;
- (f) the Companies Law;
- (g) the material contracts referred to in the section headed “Statutory and General Information – A. Further Information About Our Company – 6. Summary of the material contracts” in Appendix IV to this prospectus;

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**APPENDIX V    DOCUMENTS DELIVERED TO THE REGISTRAR OF  
COMPANIES AND AVAILABLE FOR INSPECTION**

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- (h) the service contracts and letters of appointments with our Directors, referred to in the section headed “Statutory and General Information – D. Further Information about the Directors, Management, Staff, Substantial Shareholders and Experts – 1. Particulars of Directors’ service contracts” in Appendix IV to this prospectus;
- (i) the written consents referred to in the section headed “Statutory and General Information – F. Other Information – 10. Consents of experts” in Appendix IV to this prospectus;
- (j) the PRC legal opinions prepared by Guantao Law Firm, our legal adviser as to PRC law, in respect of certain aspects of our Group;
- (k) the report issued by Analysys, the summary of which is set forth in the section headed “Industry Overview” in this prospectus; and
- (l) the rules of the Pre-IPO RSU Schemes and the Post-IPO Share Option Scheme.

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